OFFICIAL STATEMENT
Dated July 10, 2023

NEW ISSUE – BOOK ENTRY ONLY

Enhanced/Unenhanced Ratings:
Moody's: "Aaa" / "A1"
PSF: "Conditionally Approved"
(See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein)

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

$49,340,000
ROYAL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Waller County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

Dated Date: August 1, 2023 **Due: February 15, as shown on page ii herein**
Interest to Accrue from Date of Delivery (defined below)

AUTHORITY FOR ISSUANCE AND SECURITY … The Royal Independent School District (the "District") is issuing Unlimited Tax School Building Bonds, Series 2023 (the "Bonds") pursuant to the Constitution and general laws of the State of Texas (the "State"), including, particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on May 6, 2023 (the "Election") that authorized the issuance of unlimited tax bonds and a bond order that has been adopted by the Board of Trustees (the "Board") of the District on July 10, 2023 (the "Order" or "Bond Order"). The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from an annual ad valorem tax levied, without legal limit as to the rate or amount, against all taxable property within the District (see "THE BONDS - Authority for Issuance"). The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

PAYMENT TERMS … Interest on the Bonds will accrue from the Date of Delivery (defined below) and will be payable on February 15 and August 15 of each year, commencing February 15, 2024, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. Accrued interest will also be paid to holders of the Bonds maturing on August 25, 2023 in connection with payment of the principal thereof. The Bonds will be issued as fully registered obligations in the principal denominations of $5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. No physical delivery of the bonds will be made to the beneficial owners thereof. The principal and interest of the Bonds will be payable by the registrar to Cede & Co., which will make distributing of the amounts paid to participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein. The initial paying agent/registrar is the BOKF, NA, Dallas, Texas. See "REGISTRATION, TRANSFER, AND EXCHANGE" herein.

PURPOSE … Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings in the District (including, but not limited to, a new ag science expo center, CTE additions for culinary arts and welding, and high school renovations to relocate junior ROTC and cosmetology programs to the CTE facility) and the purchase of the necessary sites for school buildings, and (ii) paying the costs of issuance related to the Bonds. See "PLAN OF FINANCING – Sources and Uses of Funds" herein.

For Stated Maturities and Redemption for the Bonds, see page ii herein

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The Bonds are offered for delivery when, as and if issued and received by the underwriters of the Bonds (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the opinions of Leon Alcala, PLLC, Austin, Texas, Bond Counsel and Greenberg Traurig, LLP, Houston, Texas, Special Tax Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" and "APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION" hereto). Certain matters will be passed upon for the Underwriters by their counsel, Cantu Harden Montoya LLP, Houston, Texas. It is expected that the Bonds will be available for delivery through DTC on or about August 10, 2023 (the "Date of Delivery").

RBC CAPITAL MARKETS **HUNTINGTON CAPITAL MARKETS**
ESTRADA HINOJOSA **STEPHENS INC.**

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

$49,340,000
ROYAL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Waller County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

CUSIP No. Prefix 780699[1]

Maturity Date (2/15)	Principal ($)	Interest Rate (%)	Initial Yield[2] (%)	CUSIP No. Suffix[1]
8/25/2023	5,000	5.000	3.300	TH7
2024	4,750,000	5.000	3.260	SK1
2025	1,650,000	5.000	3.210	SL9
2026	505,000	5.000	3.090	SM7
2027	555,000	5.000	3.020	SN5
2028	610,000	5.000	2.990	SP0
2029	670,000	5.000	3.000	SQ8
2030	735,000	5.000	2.990	SR6
2031	770,000	5.000	3.000	SS4
2032	810,000	5.000	3.010	ST2
2033	850,000	5.000	3.060	SU9
2034	895,000	5.000	3.100	SV7
2035	940,000	5.000	3.180	SW5
2036	990,000	5.000	3.310	SX3
2037	1,040,000	5.000	3.470	SY1
2038	1,095,000	5.000	3.560	SZ8
2039	1,570,000	5.000	3.610	TA2
2040	1,650,000	5.000	3.660	TB0
2041	1,730,000	5.000	3.730	TC8
2042	1,815,000	5.000	3.790	TD6
2043	1,895,000	5.000	3.820	TE4

$23,810,000 Term Bonds

$10,710,000.00, at 4.000% Term Bond, due February 15, 2048, Priced to Yield 4.360%[2] CUSIP No. Suffix: TF1
$13,100,000.00, at 4.250% Term Bond, due February 15, 2053, Priced to Yield 4.440%[2] CUSIP No. Suffix: TG9

(Interest to accrue from the initial Date of Delivery)

The District reserves the option to redeem the Bonds maturing on and after February 15, 2033 in whole or in part before their respective scheduled maturity dates, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2032, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption Provisions." The Bonds issued as term Bonds ("Term Bonds") are subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order. See "THE BONDS – Mandatory Sinking Fund Redemption."

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

(2) The initial yields at which Bonds are priced are established by and are the sole responsibility of the Underwriters and may be changed at any time at the discretion of the Underwriters. Yield reflects the lesser of yield to maturity and yield to the first optional redemption date.

ROYAL INDEPENDENT SCHOOL DISTRICT
3714 FM 359
Pattison, Texas 77466

BOARD OF TRUSTEES

Name	Position	Term Expiration
Scott Hartman	President	November 2026
Rose Jones	Vice President	November 2024
Cori Vahalik	Secretary	November 2026
Jimmy Meader	Trustee	November 2026
Melissa Woods	Trustee	November 2024
Elton Foster	Trustee	November 2024
Perla Aguilar	Trustee	November 2026

ADMINISTRATION – FINANCE CONNECTED

Name	Position
Rick Kershner	Superintendent of Schools
Hector Herrera	Chief Financial Officer

CONSULTANTS AND ADVISORS

Bond Counsel	Leon Alcala, PLLC, Austin, Texas
Special Tax Counsel	Greenberg Traurig, LLP, Houston, Texas
Financial Advisor	Frost Bank, Round Rock, Texas
Auditors	Belt Harris Pechacek, LLLP, Houston, Texas

For Additional Information Contact:

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Dallas, Texas 75201
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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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

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

Neither the District, Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of TEA described under the caption "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", as such information has been provided by DTC and TEA, respectively.

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

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT THAN THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE "OTHER PERTINENT INFORMATION-Forward Looking Statements" HEREIN.

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for any purpose.

TABLE OF CONTENTS

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT............................... The Royal Independent School District (the "District") is a political subdivision located in Waller County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Board trustees serve four-year terms with elections being held in November every four years. 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.

AUTHORITY FOR ISSUANCE The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on May 6, 2023, and a Bond Order adopted by the Board on July 10, 2023.

THE BONDS.................................. The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "PLAN OF FINANCING – Description of the Bonds").

DATED DATE................................ August 1, 2023.

PAYMENT OF INTEREST........ Interest on the Bonds will accrue from the Date of Delivery and will be payable until stated maturity or prior to redemption on February 15 and August 15 of each year, commencing February 15, 2024 (see "THE BONDS – Description of the Bonds"). Accrued interest will also be paid to holders of the Bonds maturing on August 25, 2023 in connection with payment of the principal thereof.

OPTIONAL REDEMPTION ……. The District reserves the right to redeem the bonds maturing on and after February 15, 2033, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof, on February 15, 2032 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption Provisions" herein.

MANDATORY SINKING FUND REDEMPTION .... The Bonds issued as term Bonds ("Term Bonds") are subject to mandatory sinking fund redemption in accordance with the provisions of the Bond Order. See "THE BONDS – Mandatory Sinking Fund Redemption."

SECURITY FOR THE BONDS The Bonds constitute direct obligations of the District payable from a continuing and direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. See "THE BONDS -Security and Source of Payment".

PERMANENT SCHOOL FUND GUARANTEE .... The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

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

PAYING AGENT/REGISTRAR The initial Paying Agent/Registrar is the BOKF, NA, Dallas, Texas.

MUNICIPAL BOND RATING … The presently outstanding unlimited tax-supported debt of the District, including the Bonds, is rated "A1" by Moody's Investors Service ("Moody's") without regard to credit enhancement. The Bonds have been rated "Aaa" by Moody's by virtue of the guarantee of the Permanent School Fund of the State (see "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.)

USE OF PROCEEDS …………. The Bonds are being issued to pay for (i) the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings in the District (including, but not limited to, a new ag science expo center, CTE additions for culinary arts and welding, and high school renovations to relocate junior ROTC and cosmetology programs to the CTE facility) and the purchase of the necessary sites for school buildings, and (ii) the costs of issuance of the Bonds from the sale of the Bonds. (See "PLAN OF FINANCING – Purpose" and "—Sources and Uses of Funds").

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

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

DELIVERY..................................... When issued, anticipated to occur on or about August 10, 2023.

LEGALITY .... The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Bond Counsel and Special Tax Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" and "APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION" herein).

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OFFICIAL STATEMENT

Relating to

$49,340,000
ROYAL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Waller County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, C, D, and E hereto, provides certain information regarding the issuance of the $49,340,000 Royal Independent School District (the "District") Unlimited Tax School Building Bonds, Series 2023 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on May 6, 2023, and a bond order adopted by the Board on July 10, 2023 (the "Order" or the "Bond Order"). The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS – Authority for Issuance").

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

Included in this Official Statement are descriptions of the Bonds, the Order and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, Frost Bank, 2710 La Frontera Blvd, Round Rock, Texas 78681, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

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

PLAN OF FINANCING

Purpose

The Bonds are being issued to pay for the: (i) the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings in the District (including, but not limited to, a new ag science expo center, CTE additions for culinary arts and welding, and high school renovations to relocate JROTC and cosmetology programs) and the purchase of the necessary sites for school buildings, and (ii) the costs of issuance of the Bonds from the sale of the Bonds.

Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	$49,340,000.00
Net Reoffering Premium on the Bonds	1,117,307.00
TOTAL SOURCES	$50,457,307.00
<u>Uses of Funds</u>:	
Deposit to Construction Fund	$50,000,000.00
Underwriters' Discount	260,279.85
Costs of Issuance	192,976.98
Additional Proceeds	4,050.17
TOTAL USES	50,457,307.00

Includes legal fees of the District, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, contingency, and other costs of issuance.

THE BONDS

Description of the Bonds

The Bonds will be dated August 1, 2023 (the "Dated Date") and mature on February 15 in each of the years and in the amounts shown on the inside cover page. Interest on the Bonds will accrue from the date of initial delivery to the Underwriters (the "Delivery Date"), will be payable on February 15, 2024, and each February 15 and August 15 thereafter until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Accrued interest will also be paid to holders of the Bonds maturing on August 25, 2023 in connection with payment of the principal thereof. The Bonds will be issued only in fully registered form in the principal denominations of $5,000 or any integral multiple thereof within a stated maturity.

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

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

Authority for Issuance

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

Security and Source of Payment

The Bonds constitute direct obligations of the District payable from a continuing and direct annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). Additionally, the payment of the Bonds have been guaranteed by the corpus of the Permanent School Fund of the State of Texas.

Permanent School Fund Guarantee

The District has submitted an application to the Texas Education Agency, in connection with the sale of the Bonds, and has received conditional approval from the Commissioner of Education for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program pursuant to Chapter 45, Subchapter C of the Texas Education Code.

Subject to 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.

The Permanent School Fund Guarantee will terminate with respect to Bonds that are defeased.

Optional Redemption Provisions

The Bonds maturing on and after February 15, 2033 are subject to redemption prior to maturity, at the option of the District, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2032 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the District shall determine the principal amount and maturities (or mandatory sinking fund redemption amounts within a maturity with respect to Term Bonds) to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof within a maturity (or mandatory sinking fund redemption amounts within a maturity with respect to Term Bonds), to be redeemed.

Mandatory Sinking Fund Redemption

The Bonds having stated maturities on February 15, 2048 and February 15, 2053 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to maturity on February 15 in each of the years and respective principal amounts set forth below at a redemption price equal to 100% of the principal amount, without premium, plus accrued interest to the date of redemption:

Term Bonds Stated to
Mature on February 15, 2048

Year	Principal Amount ($)
2044	1,975,000
2045	2,055,000
2046	2,140,000
2047	2,225,000
2048**	2,315,000

Term Bonds Stated to
Mature on February 15, 2053

Year	Principal Amount ($)
2049	2,410,000
2050	2,515,000
2051	2,625,000
2052	2,740,000
2053**	2,810,000

** Stated maturity

The Paying Agent/Registrar will select by lot or by any other customary method that results in a random selection of a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed by mandatory redemption.

The principal amount of Term Bonds required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions of the Order and not previously credited to a mandatory sinking fund redemption.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the Paying Agent/Registrar, at the direction of the District, shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds 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.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

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

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices 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 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 selected for redemption (see “BOOK-ENTRY-ONLY SYSTEM”).

Defeasance

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

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

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

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Order and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as “sue and be sued”, in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any State court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in Tooke, and it is unclear whether Tooke will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by State courts. In general, State courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. State courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). As a result, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. (See “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 opinions of Bond Counsel and Special Tax Counsel will be qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District’s Bond Counsel and Special Tax Counsel.

Delivery

When issued; anticipated to occur on or about August 10, 2023.

Future Issues

On May 6, 2023, the District’s voters authorized the District to issue $138,069,530 in unlimited ad valorem tax bonds (the “Election”). The District will apply proceeds of the bonds (principal and allocated premium) in the aggregate amount of $50,000,000 toward voter authorized purposes, leaving $88,069,530 in authorized but unissued bonds. Aside from the Bonds, the District does not anticipate the issuance of additional ad valorem tax-supported debt in the next twelve months.

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is the BOKF, NA, Dallas, Texas. The Order provides for the District's right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any changes in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Record Date for Interest Payment

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Waller 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 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 May 7, 2022, a constitutional amendment was approved by voters of the State, increasing the exemption of the appraised value of all homesteads from $25,000 to $40,000 effective immediately, applying retroactively to the tax year beginning January 1, 2022. Senate Bill 1, 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 related to certain eligible bonds outstanding as of September 1, 2021 (as well as bonds refunding such bonds).

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

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

Personal Property

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

Freeport Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. 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. Under Section 11.35, Property Tax Code, property is only "damaged" if it has sustained physical damage. For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts"). The State did not take action during the 2021 Legislative Session to extend this program, which expired by its terms on December 31, 2022.

During the Regular Session of the 88th Texas Legislature, House Bill 5 ("HB 5") was enacted into law. HB 5 is intended as a replacement of former Chapter 313, Texas Tax Code, but it contains significantly different provisions than the prior program under Chapter 313, Texas Tax Code. The District is still in the process of reviewing HB 5 and cannot make any representations as to what impact, if any, HB 5 will have on its finances or operations.

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

District and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

District’s Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

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

The District does not allow split payments of taxes.

The District does not give discounts for early payment of taxes.

The District does not participate in a TIRZ.

The District does not tax non-business personal property.

The District does not tax freeport property.

The District does tax “goods in transit” without exemption.

The District has granted a tax abatement under the Chapter 313 Property Value Limitations with Goya Foods, Inc. that expired as of the 2022 tax year.

The District grants a state mandated homestead exemption of $40,000 for taxpayers with general homesteads.

The District has not granted the local homestead exemption of up to 20% of the market value of residence homesteads with a minimum exemption of $5,000.

The District grants a state mandated additional exemption of $10,000 for taxpayers who are at least 65 years of age or disabled.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

During the 2019 Legislative Session, the State Legislature made numerous changes to the Finance System, the levy and collection of ad valorem taxes, and the calculation of defined tax rates, including particularly those contained in House Bill 3 ("HB 3") and Senate Bill 2 ("SB 2"). During the 2021 Legislative Session, the 87th Texas Legislature introduced House Bill 1525 ("HB 1525"), which was originally intended as a "HB 3 cleanup" bill, but covered many school finance and education-related matters. The continues to monitor the ongoing guidance provided by TEA in connect with recent legislation. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding based on information available to the District as of the date of this Official Statement. Prospective investors are encouraged to review HB 3, SB 2, HB 1525 and the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes, the calculation of the defined tax rates, and the administration of the current public school finance system.

Overview

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

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to $1.50 per $100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed $0.50 per $100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

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

2023 Legislative Session

On January 10, 2023, the 88th Texas Legislature convened in general session and such general session adjourned on May 29, 2023. Immediately after the conclusion of the regular session, the Texas Governor called a 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, which began on June 27, 2023 and adjourned sine die on July 13, 2023. The call for the 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;" and (ii) "Legislation to put Texas on a pathway to eliminate school district maintenance and operations property taxes." During this time, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that: (a) reduce the maximum M&O tax compression rate by $0.107 (causing MCRs for the 2023/24 school year to range from $0.6880 to $0.6192), (b) increase the school district mandatory homestead exemption from $40,000 to $100,000 (subject to State-wide voter approval of a related constitutional amendment), (c) prohibits a school district that had a general optional homestead exemption in tax year 2022 from repealing or reducing the optional exemption until tax year 2028, and (d) place further limitations on increases in appraised values on certain classes of properties. 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: (1) certain eligible bonds that are outstanding as of the effective date of SB 2, and (2) bonds that have been voter-approved but not yet issued as of the effective date of SB 2. The provision increasing the residential homestead exemption to $100,000 will be submitted to voters of the State on November 7, 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 has two distinct parts: the "Tier One Tax Rate," which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as "Tier One") under the Foundation School Program, as further described below, and the "Enrichment Tax Rate", which is any local M&O tax effort in excess of its Tier One Tax Rate. Formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding For School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement" herein.

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

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

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR for such year. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

State Funding for School Districts

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as amended, as discussed herein), and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations"), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

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

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

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

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

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96^{th}) 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 certain legislation passed during the 86^{th} Texas Legislature are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year. Additionally, school districts and open-enrollment charter schools may be entitled to receive an allotment in the form of a formula transition grant, but they will not be entitled to an allotment beginning with the 2024-2025 school year. This grant is meant to ensure a smooth transition into the funding formulas enacted by the 86th Texas Legislature. Notwithstanding the foregoing, beginning with the 2020-2021 school year, if the total amount of allotments to which school districts and open-enrollment charter schools are entitled for a school year exceeds $400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

Local Revenue Level in Excess of Entitlement

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2022-2023 fiscal year, the District was designated as an "excess local revenue" district by the TEA. Accordingly, the District has been required to exercise one of the wealth equalization options permitted under applicable State law.

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

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

For the State fiscal year ending in 2023 (the 2022-2023 school year), the State Compression Percentage was set at $0.8941 per $100 of taxable value. The District's Local Compressed rate was lower than the State Compressed rate resulting in the application of a MCR of $0.8046 per $100 of taxable value for the District. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts" herein.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on December 4, 1965 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes, as amended.

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the 50-cent Test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the 50-cent Test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as "new money bonds" and are subject to the 50-cent Test. The District has not utilized projected values to satisfy the 50-cent Test.

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "NOTES TO THE FINANCIAL STATEMENTS - C. 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 B hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the System. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the System. See "NOTES TO THE FINANCIAL STATEMENTS – D. Defined Other Postemployment Benefits Plan" in the audited financial statements of the District for the year ended August 31, 2022 as set forth in APPENDIX B hereto.

Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions,* which requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to other post-employment benefits or TRS-Care related liabilities. At the gconclusion of the 2021-22 fiscal year, the District had a net pension liability as set forth in APPENDIX B hereto.

See the audited financial statements of the District for the year ended August 31, 2022 as set forth in APPENDIX B hereto for information related to the District's adoption of Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and the related prior period adjustment.

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

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to 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 directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the "SEC") and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United

States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution.

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

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

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

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

Additional Provisions

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

LEGAL MATTERS

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinions of Leon Alcala PLLC, Bond Counsel, and Greenberg Traurig, LLP, Special Tax Counsel, in substantially the forms attached hereto as APPENDIX C and APPENDIX D. The legal fees to be paid to Bond Counsel and Special Tax Counsel are contingent upon the sale and delivery of the Bonds.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "Default and Remedies," "Payment Record," and "Future Issues," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (excluding the last sentence under "- I&S Tax Rate Limitations", "LEGAL MATTERS" (insofar as such section relates to the legal opinion of Bond Counsel only and specifically excluding the information under the subcaption "Litigation," as to which no opinion is expressed), "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions are correct as to matters of law and, with respect to the Bonds, such information fairly and accurately reflects the provisions of the Bond Order. Special Tax Counsel 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 Special Tax Counsel, such firm has reviewed the information appearing under the following captions or subcaptions, as applicable: "TAX MATTERS", and "LEGAL MATTERS" (insofar as such section relates to the legal opinion of Special Tax Counsel only) and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein. Bond Counsel and Special Tax Counsel have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement.

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

Litigation

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

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

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds**.**

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

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

Except as described above, Special Tax Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the interest on the Bonds, or the ownership or disposition of the Bonds. Prospective purchasers of Bonds should be aware that the ownership of Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by the applicable statutory percentage of certain items, including the interest on the Bonds, (iii) the inclusion of the interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of the interest on the Bonds in the passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year and (v) the inclusion of interest on the Bonds in the determination of the taxability of certain Social Security and Railroad Retirement benefits to certain recipients of such benefits. The nature and extent of the other tax consequences described above will depend on the particular tax status and situation of each owner of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors as to the impact of these other tax consequences.

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

Original Issue Premium and Discount

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

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

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

Changes in Tax Law

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

Information Reporting and Backup Withholding

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256, as amended), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of Texas (the "State"). On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency (including TEA) that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. Under executive orders in effect as of the date of this Official Statement, there are no COVID-19 related operating limits for any business or other establishments. The Governor retains the right to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

During the 2021-2022 school year, District funding generally returned to ADA-based funding. Pursuant to Texas Education Code, §25.081(b), the State Commissioner of Education approved a reduction in the minimum number of required minutes of operation for all school districts during the first through fourth six-week attendance reporting periods of the 2021–2022 school year. This adjustment ensured stabilized percentage attendance rates comparable to a more typical school year, rather than the low percentage attendance rates caused by the ongoing COVID-19 pandemic. This is a one-time adjustment for 2021-2022 school year offered solely for funding purposes. The funding adjustment did not relieve districts from the statutory operational minutes requirement to operate schools and make schools available for students to attend in person. This adjustment did not hold a district harmless for losses of ADA due to enrollment declines. The return to funding based on actual attendance as districts transition back from Pandemic operations may have a negative impact on revenues available to districts for operations and maintenance.

In 2020 and 2021, Congress passed three stimulus bills, the Elementary and Secondary Emergency Education Relief Fund ("ESSER I"), the Elementary and Secondary School Emergency Relief Fund ("ESSER II") and the American Rescue Plan Elementary and Secondary School Emergency Relief Fund ("ESSER III"), that provided funding focused on school districts reopening and operating safely, as well as, addressing the impact of the coronavirus pandemic on students.

The full extent of the ongoing impact of COVID-19 on the District's longer-term operational and financial performance will depend on future developments, many of which are outside of its control, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The continued outbreak of COVID-19 could have an adverse effect on the District's operations and financial condition or its ratings. See "OTHER PERTINENT INFORMATION – Municipal Bond Rating."

The Pandemic negatively affected travel, commerce, and financial markets globally, and may continue to negatively affect economic growth and financial markets worldwide. While the District has experienced growth in its taxable assessed valuation during the Pandemic, a resurgence of the Pandemic and the economic impact of the Pandemic could in the future reduce or negatively affect property values within the District. With the changes made to the Finance System in HB 3, school funding is increasingly tied to ADA. As a result, student enrollment and attendance will be an important factor for M&O funding for the District going forward. A continuation of the Pandemic could negatively affect enrollment. See "APPENDIX A – SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT." The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

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

CYBERSECURITY

The District, like other school districts in the State, utilizes technology in conducting its operations. As a user of technology, the District potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the District may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the District. The District employs a multi-layered approach to combating cybersecurity threats. While the District deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the District's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the District to litigation and other legal risks, which could cause the District to incur other costs related to such legal claims or proceedings.

CONTINUING DISCLOSURE

In the 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 an "obligated person" with respect to the Bonds, within the meaning of the United States Securities and Exchange Commission's Rule 15c2-12, as amended ("Rule 15c2-12"). Under the agreement, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the MSRB. This information will be publicly available on the MSRB's EMMA system at www.emma.msrb.org. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District shall provide annually to the MSRB, within six (6) months after the end of each fiscal year of the District, financial information and operating data with respect to the District of the general type included in the "APPENDIX A – SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT" (Tables 1 through 11) and if not provided as part of such financial information and operating data, audited financial statements of the District, within 12 months after the end of the fiscal year when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The District may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the SEC.

The District's current fiscal year end is August 31. Accordingly, it must provide the portion of the updated information that is due within six (6) months after the end of the fiscal year end by the last day of February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notices of Certain Events

The District will provide to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Bonds: (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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a financial obligation of the District, 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 other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide annual financial information, in accordance with its agreement described above under "- Annual Reports," above.

For these purposes, (A) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, (B) as used in clauses (15) and (16) in the immediately preceding paragraph, "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) guarantee of a debt obligation or any such derivative instrument; provided that "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, and (C) the District intends the words used in clauses (15) and (16) and the definition of financial obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

Availability of Information from MSRB

The District has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

Limitations, Disclaimers and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above and only for so long as the District remains an "obligated person" with respect to the Bonds within the meaning of Rule 15c2-12. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results, operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders 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 securities laws.

The District may amend its continuing disclosure agreement 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 District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds 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 (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The District may also repeal or amend the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or any court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, and the District also may amend the provisions of its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the

Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of Rule 15c2-12. If the District so amends the continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its continuing disclosure 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 financial information and operating data so provided.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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

Registration and Qualification of Bonds for Sale

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

Municipal Bond Rating

The Bonds have been rated "Aaa" by Moody's Investors Service ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The presently outstanding debt of the District, including the Bonds, is rated "A1" by Moody's without regard to credit enhancement.

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

Financial Advisor

Frost Bank (the "Financial Advisor") is employed as the Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Frost Bank, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

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

Audited Financial Statements

The report of Belt Harris Pechacek, LLLP relating to the District's audited financial statements for the fiscal year ended August 31, 2022 is included in this Official Statement in APPENDIX B; however, Belt Harris Pechacek, LLLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District contained in this Official Statement.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, plus a net reoffering premium of $1,117,307.00, less an Underwriters' discount of $260,279.85 (and no accrued interest). The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the District and to persons and entities with relationships with the District, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

RBC Capital Markets, LLC ("RBCCM") has provided the following information for inclusion in this Official Statement: RBCCM and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. RBCCM and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBCCM and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

Huntington Capital Markets is a trade name under which securities and investment banking products and services of Huntington Bancshares Incorporated and its subsidiaries, including Huntington Securities, Inc. ("HSI"), are marketed. Municipal sales, trading and underwriting services are provided through HSI, which is a broker-dealer registered with the Securities and Exchange Commission.

Miscellaneous

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

Forward Looking Statements

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

Authorization of the Official Statement

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

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

/s/ Scott Hartman
President, Board of Trustees

ATTEST:

/s/ Cori Vahalik
Secretary, Board of Trustees

APPENDIX A

SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2022 Certified Net Taxable Valuation[(1)] (100% of Estimated Market Value)	$2,708,900,768
Outstanding Debt - August 31, 2022 [(2)]	$60,027,994
Plus: The Bonds	49,340,000
Less: The Refunded Bonds	-
Total Direct Debt	$109,367,994
As a % of Assessed Valuation	4.04%

(1) Source: Waller County Appraisal District

(2) Includes the maintenance tax notes

TABLE 2 - ASSESSED VALUATION BY CATEGORY [(1)]

	Tax Year 2022	Tax Year 2021	Tax Year 2020	Tax Year 2019	Tax Year 2018
Real Property	$4,409,487,722	$3,355,286,531	$2,745,376,342	$2,271,244,047	$1,929,594,400
Personal Property	609,594,186	560,455,549	592,536,662	522,285,745	363,058,330
Mineral Property	7,052,852	3,541,564	3,844,764	8,414,569	11,505,833
All Other	6,785,430	5,887,080	5,912,820	4,342,670	4,465,670
Gross Value	$5,032,920,190	$3,925,170,724	$3,347,670,588	$2,806,287,031	$2,308,624,233
Less Adjustments[(2)]	2,324,019,422	1,871,084,418	1,622,541,721	1,358,195,708	1,127,549,638
Net Taxable Value	$2,708,900,768	$2,054,086,306	$1,725,128,867	$1,448,091,323	$1,181,074,595

(1) Source: Waller County Appraisal District

(2) Includes exemptions, productivity loss and freeze adjustments

TABLE 3 - TAX RATE DISTRIBUTION [(1)]

	2022	2021	2020	2019	2018
Maintenance	$ 0.9429	$ 0.9603 [(2)]	$ 0.9630 [(2)]	$ 1.0684 [(2)]	$ 1.1700
Debt Service	0.3588	0.3588	0.3588	0.3588	0.3588
Total	$ 1.3017	$ 1.3191	$ 1.3218	$ 1.4272	$ 1.5288

(1) Source: District’s Audited Financial Statements.

(2) The decline in the District’s Maintenance & Operations Tax from the 2018/2019 fiscal year to the 2019/2020 and 2020/21 fiscal years is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” herein.

TABLE 4 - TAX LEVY AND COLLECTION HISTORY [(1)]

Fiscal Year End	Tax Year	Taxable Assessed Valuation	Tax Rate	Tax Levy	Percent Collected	
					Current	Total[(2)]
2019	2018	$1,181,074,595	$1.5288	$18,253,109	97.64%	100.96%
2020	2019	1,448,091,323	1.4272	20,683,222	97.79%	103.12%
2021	2020	1,725,128,867	1.3218	22,756,175	98.20%	100.16%
2022	2021	2,054,086,306	1.3191	27,095,452	98.53%	99.73%
2023	2022	2,708,900,768	1.3017	35,261,761	In Process	

(1) Source: The District's Annual Financial Reports and Waller County Appraisal District

(2) Excludes penalties and interest

TABLE 5 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Date Authorized	Prop	Amount Authorized	Heretofore Issued	The Bonds	Authorized but Unissued
05/06/2023	A	$ 138,069,530	$ -	$ 50,000,000	$ 88,069,530

TABLE 6 - DEBT SERVICE REQUIREMENTS

FYE	Existing	The Bonds		Estimated
08/31	Debt Service	Principal	Interest	Debt Service
2023	$ 4,370,317	$ 5,000	$ 10	$ 4,375,328
2024	4,365,840	4,750,000	2,174,058	11,289,898
2025	4,360,953	1,650,000	1,982,650	7,993,603
2026	4,372,028	505,000	1,928,775	6,805,803
2027	4,357,000	555,000	1,902,275	6,814,275
2028	4,355,295	610,000	1,873,150	6,838,445
2029	4,361,693	670,000	1,841,150	6,872,843
2030	4,353,328	735,000	1,806,025	6,894,353
2031	4,363,415	770,000	1,768,400	6,901,815
2032	3,686,405	810,000	1,728,900	6,225,305
2033	3,686,671	850,000	1,687,400	6,224,071
2034	3,901,253	895,000	1,643,775	6,440,028
2035	3,903,835	940,000	1,597,900	6,441,735
2036	3,611,656	990,000	1,549,650	6,151,306
2037	3,617,422	1,040,000	1,498,900	6,156,322
2038	3,264,909	1,095,000	1,445,525	5,805,434
2039		1,570,000	1,378,900	2,948,900
2040		1,650,000	1,298,400	2,948,400
2041		1,730,000	1,213,900	2,943,900
2042		1,815,000	1,125,275	2,940,275
2043		1,895,000	1,032,525	2,927,525
2044		1,975,000	945,650	2,920,650
2045		2,055,000	865,050	2,920,050
2046		2,140,000	781,150	2,921,150
2047		2,225,000	693,850	2,918,850
2048		2,315,000	603,050	2,918,050
2049		2,410,000	505,538	2,915,538
2050		2,515,000	400,881	2,915,881
2051		2,625,000	291,656	2,916,656
2052		2,740,000	177,650	2,917,650
2053		2,810,000	59,713	2,869,713
Total	**$ 64,932,018**	**$ 49,340,000**	**$ 37,801,731**	**$ 152,073,749**

Estimated Average Annual Debt Service Requirement	$4,905,605
Estimated Maximum Debt Service Requirement (2024)	$11,289,898

I would remove “Estimated” from d/s table and AADS/MADS.

TABLE 7 - LIMITED TAX DEBT

Period Ending 8/31	Principal	Interest	Total
2023	$ 622,000	$ 213,344	$ 835,344
2024	632,000	199,567	831,567
2025	651,000	184,496	835,496
2026	666,000	168,539	834,539
2027	682,000	152,212	834,212
2028	697,000	135,493	832,493
2029	713,000	118,404	831,404
2030	734,000	100,566	834,566
2031	520,000	85,712	605,712
2032	532,000	74,272	606,272
2033	543,000	62,568	605,568
2034	555,000	50,622	605,622
2035	567,000	38,412	605,412
2036	580,000	25,938	605,938
2037	599,000	6,589	605,589
Total	$ 9,293,000	$ 1,616,731	$ 10,909,731

Average Annual Debt Service Requirements	$ 727,315
Maximum Annual Debt Service Requirements (2025)	$ 835,496

TABLE 8 - TAX ADEQUACY

Average Annual Principal and Interest Requirements, 2023 - 2053	$4,905,605
0.1848 Tax Rate at 98.00% Collections Produces	$4,905,928
Maximum Principal and Interest Requirements, 2024	$11,289,898
0.4253 Tax Rate at 98.00% Collections Produces	$11,290,536

TABLE 9 - TEN LARGEST TAXPAYERS [1][2]

Name of Taxpayer	TAV 2022	% of Total
Ross Dress for Less Inc	$326,998,530	12.07%
Lois Houston Associates LLC	78,485,990	2.90%
Mirabaud Re Katy Logistics LLC	70,891,670	2.62%
Costco Wholesale Corporation	66,475,269	2.45%
SRPF B/Spartan West X LP	63,661,200	2.35%
Igloo Partners #11 LP	62,822,529	2.32%
Amazon Services Inc	55,198,821	2.04%
Cole IG Katy TX LLC	50,000,000	1.85%
Exeter Twinwood Land LP	43,866,220	1.62%
SRPF B/Empire West Phase II LP	42,773,520	1.58%
	$861,173,749	31.79%

[1] Source: Waller County Appraisal District.

[2] As shown in the table above, the ten largest taxpayers in the District currently account for over 31% of the District's tax base. Adverse developments in economic conditions could adversely impact the businesses that own such properties in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever.

TABLE 10 - INTEREST AND SINKING FUND BUDGET PROJECTION [1]

Tax Supported Debt Service Requirements for FYE 2023		$9,380,734
Debt Service Fund, 9/1/2022	$3,224,307	
Additional State Aid for Homestead Exemption (ASAHE) [2]	42,403	
Projected Interest & Sinking Fund Tax Levy @ 95% collection	9,622,341	$12,889,051
Projected Interest & Sinking Fund Balance, 08/31/23		**$3,508,316**

[1] The District's Audited Financial Statements

[2] Texas Education Agency

TABLE 11 - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

FOR FISCAL YEAR ENDED AUGUST 31,	**2022**	**2021**	**2020**	**2019**	**2018**
REVENUES:					
Local Sources	$ 20,935,340	$ 17,390,404	$ 16,438,794	$ 14,862,506	$ 13,379,934
State Sources	8,986,123	11,896,229	12,013,191	9,242,214	10,141,674
Federal Sources	499,977	605,461	316,723	906,735	667,872
Total Revenues	$ 30,421,440	$ 29,892,094	$ 28,768,708	$ 25,011,455	$ 24,189,480
EXPENDITURES:					
Instruction	$ 12,475,149	$ 15,286,803	$ 13,542,231	$ 13,254,657	$ 12,881,592
Instructional Resources and Media Svcs.	176,134	154,338	171,964	117,581	187,073
Curriculum and Staff Development	477,179	433,991	535,614	620,396	811,092
Instructional Leadership	599,624	410,462	471,253	516,280	576,203
School Leadership	1,793,949	1,764,300	1,484,407	1,421,962	1,322,352
Guidance, Counseling & Evaluation Svcs.	741,056	678,022	615,406	602,840	521,826
Social Work Services	127,740	88,314	72,612	63,036	58,799
Health Services	295,994	307,353	300,608	247,918	248,718
Student Transportation	1,363,404	1,419,615	1,591,168	1,207,794	1,166,077
Food Services	72	365	196	169	4,598
Cocurricular/Extracurricular Activities	1,172,658	970,660	860,261	841,365	878,152
General Administration	1,551,994	1,205,195	1,160,407	957,561	963,380
Facilities Maintenance and Operations	6,664,560	3,678,820	2,739,334	2,632,151	2,287,333
Security and Monitoring Services	263,720	142,437	104,857	203,629	88,215
Data Processing Services	605,586	583,698	602,918	439,931	479,213
Capital Outlay	-	855,215	1,112	95,500	34,866
Community Services	12,558	2,459	-	3,692	7,194
Principal on Long-Term Debt	842,096	175,000	175,000	160,000	105,000
Interest on Long-Term Debt	139,898	51,738	55,238	58,483	60,844
Bond Issuance Costs and Fees	70,870	1,900	400	400	400
Payments to Fiscal Agent SSA	-	-	-	-	-
Other Intergovernmental Charges	387,769	343,553	338,521	294,401	293,036
Total Expenditures	$ 29,762,010	$ 28,554,238	$ 24,823,507	$ 23,739,746	$ 22,975,963
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 659,430	$ 1,337,856	$ 3,945,201	$ 1,271,709	$ 1,213,517
Operating Transfers In	-	-	4,785	-	-
Operating Transfers Out	-	-	(49,845)	-	-
Capital-Related Debt Issued	8,200,000	-	-	-	-
Issuance on Non-Current Debt	-	-	-	-	-
Premium or Discount on Issuance of Bonds	-	-	-	-	-
Other Resources and (Uses)	(27,813)	-	(26,696)	-	-
Net Change in Fund Balances	8,831,617	1,337,856	3,873,445	1,271,709	1,213,517
Fund Balance, Beginning	11,726,103	10,388,247	6,514,802	5,243,093	4,029,576
Fund Balance, Ending	$ 20,557,720	$ 11,726,103	$ 10,388,247	$ 6,514,802	$ 5,243,093

Source: District's Audited Financial Statements

TABLE 12 - ESTIMATED OVERLAPPING DEBT[1]

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	Total Debt	As of	% Overlapping	Overlapping Debt
Brookshire Municipal Water District	$605,000	5/31/2023	98.95%	$ 598,648
Waller County	71,955,000	5/31/2023	30.39%	21,867,125
Waller Co MUD #9B	10,295,000	5/31/2023	100.00%	10,295,000
Waller Co MUD #18	7,315,000	5/31/2023	100.00%	7,315,000
Waller County Road Improvement District #1	53,625,000	5/31/2023	84.41%	45,264,863
Estimated (Net) Overlapping Debt				85,340,635
Royal ISD [2]		5/31/2023		106,447,994
Total Direct & Estimated Overlapping Debt				$ 189,538,629

Total Direct and Overlapping Debt % of the 2022 Certified Assessed Valuation	7.00%
Total Direct and Overlapping Debt Per Capita	$ 12,931

[1] Source: The Municipal Advisory Council of Texas.

[2] Includes the Bonds and the District's maintenance tax notes, which are currently outstanding in the aggregate principal amount of $9,293,000.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Royal Independent School District Audited Financial Statements (the “Report”) for the fiscal year ended August 31, 2022.

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

ROYAL
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2022

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Royal Independent School District
Annual Financial Report
For The Year Ended August 31, 2022

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Introductory Section

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CERTIFICATE OF BOARD

Royal Independent School District	Waller	237-905
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ✓ approved ______ disapproved for the year ended August 31, 2022, at a meeting of the board of trustees of such school district on the 17 day of January, 2023.

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)

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Financial Section

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Royal Independent School District:

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Royal Independent School District (the "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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2022, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Change in Accounting Principle

As described in Note I. F. 17. to the financial statements, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*, in fiscal year 2022. Our opinion is not modified with respect to this matter.

Responsibility 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.

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In preparing the financial statements, management is required to evaluate whether 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 twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control 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 judgement, 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, budgetary comparison information, schedules of the District's proportionate share of the net pension and other postemployment benefits liability, and schedules of District contributions, identified as Required Supplementary Information on the table of contents, 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.

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 accompanying combining statements and schedules and schedule of expenditures of federal awards, 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 required parts 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 and schedules and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and the schedule of required responses to selected school first indicators, but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 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.

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 13, 2023

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Management's Discussion and Analysis

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This discussion and analysis of Royal Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2022. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2022 was $2,329,501.
- For the fiscal year ended August 31, 2022, the District's general fund reported a total fund balance of $20,557,720 of which $5,978,782 which is restricted for long-term debt and $14,578,938, which is unassigned. The debt service fund reported a fund balance of $3,224,307, which is restricted.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds and the debt service fund) reported combined ending fund balances of $24,521,666.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

The government-wide financial statements of the District include the *governmental activities*. The District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operations and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

FUND FINANCIAL STATEMENTS

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

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.

- The Board of Trustees (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.

- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

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

- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was $2,329,501 at August 31, 2022. Table 1 focuses on net position while Table 2 shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2021. The District reported an increase of $8,112,158 in net position from the prior year. Current assets increased due to an increase in cash as a result of operations. Capital assets increased slightly due to current year additions purchased during the year. Deferred outflows of resources increased for the pension plan due to changes in actuarial assumptions and increased for the other postemployment benefits (OPEB) plan due to changes in actuarial assumptions, changes in proportion and difference between the District's contributions, and the proportionate share of contributions. Current liabilities increased due to an increase in unearned revenue from state foundation payments. Long-term liabilities decreased due to decreases in the pension liability. Deferred inflows increased for the pension plan due to changes in actuarial assumptions, differences between expected and actual economic experience, and differences between the employers' contributions and the proportionate share of contributions.

Table 1
Net Position

Description	Governmental Activities 2022	Governmental Activities 2021	Total Change 2022-2021
Current assets	$ 28,406,744	$ 16,873,750	$ 11,532,994
Capital assets	55,299,885	55,106,185	193,700
Total Assets	83,706,629	71,979,935	11,726,694
Deferred charges on refunding	1,080,344	1,318,522	(238,178)
Deferred outflows related to pensions	3,086,100	2,572,003	514,097
Deferred outflows related to OPEB	2,357,735	1,866,606	491,129
Total Deferred Outflows of Resources	6,524,179	5,757,131	767,048
Current liabilities	2,955,347	1,223,228	1,732,119
Long-term liabilities	74,779,942	75,027,969	(248,027)
Total Liabilities	77,735,289	76,251,197	1,484,092
Deferred inflows related to pensions	4,673,196	1,690,971	2,982,225
Deferred inflows related to OPEB	5,492,822	5,577,555	(84,733)
Total Deferred Inflows of Resources	10,166,018	7,268,526	2,897,492
Net Position:			
Net invested in capital assets	(989,701)	(4,797,470)	3,807,769
Restricted	3,958,349	2,929,896	1,028,453
Unrestricted	(639,147)	(3,915,083)	3,275,936
Total Net Position	$ 2,329,501	$ (5,782,657)	$ 8,112,158

Table 2

Changes in Net Position

	Governmental Activities		Total Change
	2022	2021	2022-2021
Revenues			
Program revenues:			
Charges for services	$ 176,495	$ 89,153	$ 87,342
Operating grants and contributions	9,112,073	5,928,542	3,183,531
General revenues:			
Property taxes	28,161,530	23,081,639	5,079,891
Grants and contributions not restricted	7,649,339	10,774,022	(3,124,683)
Investment earnings	167,939	15,435	152,504
Miscellaneous	253,641	603,009	(349,368)
Total Revenue	45,521,017	40,491,800	5,029,217
Expenses			
Instruction	16,932,518	18,581,618	(1,649,100)
Instructional resources and media services	362,187	354,576	7,611
Curriculum and staff development	1,003,183	682,440	320,743
Instructional leadership	774,342	492,346	281,996
School leadership	1,793,239	1,833,277	(40,038)
Guidance, counseling, and evaluation services	1,013,792	928,032	85,760
Social work/health services	499,916	484,267	15,649
Student transportation	1,510,340	1,403,504	106,836
Food services	1,890,501	1,526,529	363,972
Cocurricular/extracurricular activities	1,536,189	1,298,210	237,979
General administration	1,562,757	1,309,474	253,283
Plant maintenance and operations	5,342,912	3,798,133	1,544,779
Security and monitoring	248,464	197,257	51,207
Data processing services	582,233	577,984	4,249
Community services	13,831	16,550	(2,719)
Interest on long-term debt	1,849,175	1,947,654	(98,479)
Bond issuance costs	90,217	151,269	(61,052)
Payments related to shared services arrangements	15,294	61,839	(46,545)
Other intergovernmental charges	387,769	343,553	44,216
Total Expenses	37,408,859	35,988,512	1,420,347
Change in Net Position	8,112,158	4,503,288	3,608,870
Beginning net position	(5,782,657)	(10,285,945)	4,503,288
Ending Net Position	$ 2,329,501	$ (5,782,657)	$ 8,112,158

Revenues for the District increased significantly in property tax, as a result of an increase in the assessed values of properties within the District and; operating grants and contributions due to receiving federal grant money, specifically Elementary and Secondary School Emergency Relief (ESSER) II and ESSER III grants. Expenses experienced a net increase form the prior year as a result of an increase in plant maintenance and operations due to the start of projects throughout the District and a decrease in instruction cost due to payroll cost related to COVID-19 retention bonuses and salary increase reported in the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2022, the District's governmental funds reported a combined fund balance of $24,521,666. This compares to a combined fund balance of $14,655,999 at August 31, 2021. The fund balance in the general fund increased primarily due to an increase in local revenues, as a result of additional property tax revenues due to an increase in appraised values within the District. The fund balance in the debt service fund increased due to the partial cash defeasance of Series 2015 Unlimited Tax Refunding Bonds. The District's combined governmental funds revenue increased by $6,553,815. This consisted of an increase in local revenue due to an increase in property tax revenue due to an increase in appraised values within the District and an increase in federal revenues due to an increase in ESSER related grants. The total combined revenue was $46,550,208 this year, compared to $39,996,393 last year. The District's combined governmental funds expenditures increased by $4,708,919. This increase is primarily due to increases in facilities maintenance and operations for ongoing construction projects for HVAC improvements, electric system upgrades, and building automation systems (BAS) upgrades.The total combined expenditures were $42,936,902 compared to $38,227,983. There was an increase in total revenues and expenditures for the American Recovery Plan (ARP) ESSER III grants which netted against expenditures causing no fund balance at fiscal year end.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting principles, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2022, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were material changes between the original budget and the final amended budget. There was a significant increase for plant maintenance and operations. The general fund's budgeted revenues exceeded actual revenues by $55,840 primarily due to receiving less state funding than anticipated. Budgeted expenditures exceeded actual expenditures by $9,384,694 primarily due to spending less in instruction and plant maintenance and operations.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost of an amount determined by the Board. Donated capital assets are recorded at acquisition value at the date of donation. During the fiscal year ended August 31, 2022, the District used a capitalization threshold of $5,000, which means that all capital type assets, including library books, with a cost or initial value of less than $5,000 were not included in the capital assets inventory.

At August 31, 2022, the District had a total of $55,299,885 invested in capital assets (net of accumulated depreciation) such as land, vehicles, buildings, and District equipment. This total includes $306,468 invested in vehicles and equipment, and $2,110,736 in construction in progress during the fiscal year ended August 31, 2022.

Major capital asset events during the year included the following:

- Purchase of two 77-passenger buses for $221,348
- Purchase of a playground structure for $23,183
- Purchase of a police vehicle for $40,589
- Construction in progress of HVAC improvements, electric system upgrades, and BAS upgrades $2,110,736

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At August 31, 2022, the District had $60,326,894 in general obligation bonds, tax notes, and leases payable outstanding versus $58,248,990 last year. The District issued Maintenance Tax Notes, Series 2022 of $8,200,000 during the year.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The District's management takes into consideration all aspects that influence school district budgets during the budget development process. This includes instructional improvements, student enrollment, property values, facility needs, economy, location, and new legislative mandates. The District encompasses 161 square miles located 35 miles west of Houston in southern Waller County along the West I-10 Corridor.

The prime location of commercial land along and near I-10 and the District's approved freeport exemption attracts major manufacturing and distribution centers such as Amazon, Costco, Goya Foods, Grundfos, Houston Executive Airport, Igloo, Man Diesel & Turbo SE's North American headquarters, Rooms-to-Go, Ross Distribution, and Twinwood business park that provide additional jobs, extend the tax base, and attract housing developments.

- The District has seven subdivisions actively under construction that include Freeman Ranch with 1,124 total lots, Bluestem – Signorelli with 1,300 potential lots, Riverway Farms with 1,000 potential lots, Sandell MH Park with 175 potential lots, Sunterra with 2,000 potential lots, Sports Flyer Estates with 85 lots, and Oak Meadows with 45 lots. We are also anticipating developments from Woodmore – Pattison Farms, Maple Grove, Rosebrook Holding Tract, Bold Fox, Sofi Lakes, Greenland Tract – Ersa Grae, LGI, Sun Lantana Ranch South, Gamal Enterprise, Jasek Tract, and a local developer. When fully developed, we anticipate around 22,000 homes.

- Since 2014-15, the total student population increased 16.9% from 2,202 to 2,575 in 2021-22, averaging 2.4% per year during this period. In October of the 2022-23 school year, enrollment increased to 2,648. The District anticipates an enrollment increase through 2024-25 as the housing developments continue to build homes.

- Since tax year 2015, the assessed certified property values of $1,028,343,859, after freeze, increased 102.168%, averaging 14.595% per year. From tax year 2020 to 2021, values increased by 20.512% from $1,725,128,867 to $2,078,979,264. At the beginning of 2022-23, values again increased by 31.615% to $2,736,256,448. These spikes are mainly contributed to the commercial growth along I-10. Royal ISD Education Foundation (the "Foundation") was established to supplement the District's programs and activities. The Foundation received its 501(c)(3) exemption status in November 2016. The District utilized $57,440 in awarded grants during 2021-22.

- The District continues its partnership with the Boys and Girls Club of Greater Houston with its location on the District's premises, to provide sports and quality after school programs and activities for the students. Except during the altered COVID-19 schedule, the average daily attendance for the Royal Boys and Girls Club is typically 150 students.

- In 2022, the District authorized the issuance, sale, and delivery of Maintenance Tax Note, Series 2022 (the "Note") in the amount of $8,200,000. The proceeds from the Note are for HVAC improvement projects and for energy efficiency improvements. This includes HVAC system upgrades at all five campus locations, electrical system upgrades at the high school, and building automation system (BAS) upgrades at all five campuses, the field house, administration, and DAEP location.

- The District used $1,933,098 in Interest and Sinking funds for a Series 2022 defeasance to pay down outstanding debt, saving taxpayers $3,099,750 in principal and interest. The Board also approved a resolution in August 2022, expressing the intention to apply approximately $5,600,000 in lawfully available funds for another defeasance in 2022-23.The I&S tax rate for 2021-22 was $.0358817, as well as for 2022-23.

COVID-19

In March 2020, COVID-19 was recognized as a pandemic both worldwide and in the United States with local stay-at-home orders going into effect. The District suspended in-classroom learning for the remainder of the school year. While changes to operations caused a significant hardship, the overall impact to the financial operations for the 2020-2021 and 2021-22 school years, of the overall budget, was nominal. Areas impacted the most were teaching and learning, technology, and facilities. Under the federal CARES Act, the District was awarded multiple year ESSER Grants, which helped to offset Foundation School Program hold harmless funding from the State, to mitigate the financial impact of school closure. These grants include:

ESSER I, $606,929, grant period 7/20/2020 to 9/30/2022
CRRSA ESSER II, $2,474,932, grant period 9/10/2021 to 9/30/2023
ARP ESSER III, $5,560,142, grant period 7/26/2021 to 9/30/2023
TCLAS-ESSER III, $850,700, grant period 11/12/2021 to 8/31/2024
TCLAS-GR, $725,526, grant period 11/12/2021 to 5/31/2024

The District used these funds to pay teacher salaries during virtual learning in 2020; provided staff raises to help compete with neighboring districts to help retain employees; to mitigate learning loss by addressing the social, emotional, mental health, and academic needs of students; for HVAC renovations and repairs to improve ventilation and air quality at all the campuses; and to purchase additional buses for social distancing.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, 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 P.O. Box 489, Pattison, Texas 77466 or by calling (281) 934-1330.

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Basic Financial Statements

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ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION
AUGUST 31, 2022

Data Control Codes		1 Governmental Activities
	ASSETS:	
1110	Cash and Cash Equivalents	$ 1,367,521
1120	Current Investments	24,500,428
1220	Property Taxes Receivable	1,666,058
1230	Allowance for Uncollectible Taxes	(653,441)
1240	Due from Other Governments	1,484,167
1290	Other Receivables (Net)	36,414
1300	Inventories	5,597
	Capital Assets:	
1510	Land	816,227
1520	Buildings and Improvements, Net	51,208,074
1530	Furniture and Equipment, Net	210,698
1530	Vehicles, Net	659,079
1550	Right to Use Assets, Net	295,071
1580	Construction in Progress	2,110,736
1000	Total Assets	83,706,629
	DEFERRED OUTFLOWS OF RESOURCES:	
1700	Deferred Charges on Refunding	1,080,344
1705	Deferred Outflows Related to Pensions	3,086,100
1706	Deferred Outflows Related to OPEB	2,357,735
1700	Total Deferred Outflows of Resources	6,524,179
	LIABILITIES:	
2110	Accounts Payable	830,492
2140	Interest Payable	82,886
2165	Accrued Liabilities	12,719
2180	Due to Other Governments	23,831
2300	Unearned Revenue	2,005,419
	Noncurrent Liabilities:	
2501	Due Within One Year	3,497,214
2502	Due in More Than One Year	59,851,498
2540	Net Pension Liability	3,744,897
2545	Net OPEB Liability	7,686,333
2000	Total Liabilities	77,735,289
	DEFERRED INFLOWS OF RESOURCES:	
2605	Deferred Inflows Related to Pensions	4,673,196
2606	Deferred Inflows Related to OPEB	5,492,822
2600	Total Deferred Inflows of Resources	10,166,018
	NET POSITION:	
3200	Net Investment in Capital Assets	(989,701)
	Restricted For:	
3820	Federal and State Programs	703,456
3850	Debt Service	3,224,307
3890	Other Purposes	30,586
3900	Unrestricted	(639,147)
3000	Total Net Position	$ 2,329,501

The accompanying notes are an integral part of this statement.

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ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues Charges for Services	4 Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
	Governmental Activities:				
11	Instruction	$ 16,932,518	$ --	$ 4,484,154	$ (12,448,364)
12	Instructional Resources and Media Services	362,187	--	6,286	(355,901)
13	Curriculum and Staff Development	1,003,183	--	697,218	(305,965)
21	Instructional Leadership	774,342	--	274,100	(500,242)
23	School Leadership	1,793,239	--	99,565	(1,693,674)
31	Guidance, Counseling, and Evaluation Services	1,013,792	--	342,957	(670,835)
32	Social Work Services	156,168	--	4,954	(151,214)
33	Health Services	343,748	--	31,043	(312,705)
34	Student Transportation	1,510,340	--	303,893	(1,206,447)
35	Food Service	1,890,501	111,317	2,142,689	363,505
36	Cocurricular/Extracurricular Activities	1,536,189	65,178	18,720	(1,452,291)
41	General Administration	1,562,757	--	93,712	(1,469,045)
51	Facilities Maintenance and Operations	5,342,912	--	512,268	(4,830,644)
52	Security and Monitoring Services	248,464	--	28,866	(219,598)
53	Data Processing Services	582,233	--	15,541	(566,692)
61	Community Services	13,831	--	1,514	(12,317)
72	Interest on Long-term Debt	1,849,175	--	39,316	(1,809,859)
73	Bond Issuance Costs and Fees	90,217	--	--	(90,217)
93	Payments Related to Shared Services Arrangements	15,294	--	15,277	(17)
99	Other Intergovernmental Charges	387,769	--	--	(387,769)
TG	Total Governmental Activities	37,408,859	176,495	9,112,073	(28,120,291)
TP	Total Primary Government	$ 37,408,859	$ 176,495	$ 9,112,073	(28,120,291)

Data Control Codes		
	General Revenues:	
MT	Property Taxes, Levied for General Purposes	20,501,568
DT	Property Taxes, Levied for Debt Service	7,659,962
IE	Investment Earnings	167,939
GC	Grants and Contributions Not Restricted to Specific Programs	7,649,339
MI	Miscellaneous	253,641
TR	Total General Revenues	36,232,449
CN	Change in Net Position	8,112,158
NB	Net Position - Beginning	(5,782,657)
NE	Net Position - Ending	$ 2,329,501

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2022

Data Control Codes		10 General Fund	American Rescue Plan (ESSER III)
	ASSETS:		
1110	Cash and Cash Equivalents	$ 567,594	$ --
1120	Current Investments	21,392,516	--
1220	Property Taxes Receivable	1,189,704	--
1230	Allowance for Uncollectible Taxes	(454,311)	--
1240	Due from Other Governments	135,330	907,288
1260	Due from Other Funds	1,023,440	--
1290	Other Receivables	20	--
1300	Inventories	--	--
1000	Total Assets	$ 23,854,293	$ 907,288
	LIABILITIES:		
	Current Liabilities:		
2110	Accounts Payable	$ 526,725	$ 292,472
2150	Payroll Deductions and Withholdings	12,694	--
2170	Due to Other Funds	91,677	614,816
2180	Due to Other Governments	--	--
2300	Unearned Revenue	1,930,084	--
2000	Total Liabilities	2,561,180	907,288
	DEFERRED INFLOWS OF RESOURCES:		
2600	Unavailable Revenue for Property Taxes	735,393	--
2600	Total Deferred Inflows of Resources	735,393	--
	FUND BALANCES:		
	Nonspendable Fund Balances:		
3410	Inventories	--	--
	Restricted Fund Balances:		
3450	Federal/State Funds Grant Restrictions	--	--
3470	Capital Acquisitions and Contractual Obligations	5,978,782	--
3480	Retirement of Long-Term Debt	--	--
3490	Other Restrictions of Fund Balance	--	--
3600	Unassigned	14,578,938	--
3000	Total Fund Balances	20,557,720	--
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	$ 23,854,293	$ 907,288

The accompanying notes are an integral part of this statement.

50 Debt Service Fund	Nonmajor Governmental Funds	98 Total Governmental Funds
$ 45,940	$ 753,987	$ 1,367,521
3,107,912	--	24,500,428
476,354	--	1,666,058
(199,130)	--	(653,441)
34,305	407,244	1,484,167
--	91,677	1,115,117
36,150	244	36,414
--	5,597	5,597
$ 3,501,531	$ 1,258,749	$ 29,521,861
$ --	$ 11,295	$ 830,492
--	25	12,719
--	408,624	1,115,117
--	23,831	23,831
--	75,335	2,005,419
--	519,110	3,987,578
277,224	--	1,012,617
277,224	--	1,012,617
--	5,597	5,597
--	703,456	703,456
--	--	5,978,782
3,224,307	--	3,224,307
--	30,586	30,586
--	--	14,578,938
3,224,307	739,639	24,521,666
$ 3,501,531	$ 1,258,749	$ 29,521,861

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ROYAL INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
AUGUST 31, 2022

Total fund balances - governmental funds balance sheet	$ 24,521,666
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	55,299,885
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,012,617
Payables for bond principal which are not due in the current period are not reported in the funds.	(50,734,994)
Payables for leases which are not due in the current period are not reported in the funds.	(298,901)
Payables for debt interest which are not due in the current period are not reported in the funds.	(82,886)
Payables for notes which are not due in the current period are not reported in the funds.	(9,293,000)
The accumulated accretion of interest on capital appreciation bonds is not reported in the funds.	(603,235)
Payables for premiums which are not due in the current period are not reported in the funds.	(2,418,582)
Recognition of deferred charges on refunding is not reported in the funds.	1,080,344
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(3,744,897)
Deferred outflows of resources related to the pension plan are not reported in the funds.	3,086,100
Deferred inflows of resources related to the pension plan are not reported in the funds.	(4,673,196)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(7,686,333)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	2,357,735
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	(5,492,822)
Net position of governmental activities - Statement of Net Position	$ 2,329,501

The accompanying notes are an integral part of this statement.

ROYAL 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	American Rescue Plan (ESSER III)
	REVENUES:		
5700	Local and Intermediate Sources	$ 20,935,340	$ --
5800	State Program Revenues	8,986,123	--
5900	Federal Program Revenues	499,977	1,697,389
5020	Total Revenues	30,421,440	1,697,389
	EXPENDITURES:		
	Current:		
0011	Instruction	12,475,149	190,521
0012	Instructional Resources and Media Services	176,134	--
0013	Curriculum and Staff Development	477,179	459,238
0021	Instructional Leadership	599,624	170,416
0023	School Leadership	1,793,949	--
0031	Guidance, Counseling, and Evaluation Services	741,056	67,612
0032	Social Work Services	127,740	--
0033	Health Services	295,994	--
0034	Student Transportation	1,363,404	221,348
0035	Food Service	72	--
0036	Cocurricular/Extracurricular Activities	1,172,658	--
0041	General Administration	1,551,994	--
0051	Facilities Maintenance and Operations	6,664,560	588,254
0052	Security and Monitoring Services	263,720	--
0053	Data Processing Services	605,586	--
0061	Community Services	12,558	--
0071	Principal on Long-term Debt	842,096	--
0072	Interest on Long-term Debt	139,898	--
0073	Bond Issuance Costs and Fees	70,870	--
0093	Payments to Shared Services Arrangements	--	--
0099	Other Intergovernmental Charges	387,769	--
6030	Total Expenditures	29,762,010	1,697,389
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	659,430	--
	Other Financing Sources and (Uses):		
7911	Capital-Related Debt Issued (Regular Bonds)	8,200,000	--
8949	Other Uses	(27,813)	--
7080	Total Other Financing Sources and (Uses)	8,172,187	--
1200	Net Change in Fund Balances	8,831,617	--
0100	Fund Balances - Beginning	11,726,103	--
3000	Fund Balances - Ending	$ 20,557,720	$ --

The accompanying notes are an integral part of this statement.

50 Debt Service Fund	Nonmajor Governmental Funds	98 Total Governmental Funds
$ 7,697,270	$ 220,347	$ 28,852,957
39,316	354,139	9,379,578
--	6,120,307	8,317,673
7,736,586	6,694,793	46,550,208
--	3,926,447	16,592,117
--	427	176,561
--	89,516	1,025,933
--	46,501	816,541
--	34,900	1,828,849
--	233,350	1,042,018
--	--	127,740
--	20,069	316,063
--	--	1,584,752
--	1,660,879	1,660,951
--	53,585	1,226,243
--	9,739	1,561,733
--	122,085	7,374,899
--	21,705	285,425
--	5,000	610,586
--	1,273	13,831
3,435,000	--	4,277,096
1,782,386	--	1,922,284
19,347	--	90,217
--	15,294	15,294
--	--	387,769
5,236,733	6,240,770	42,936,902
2,499,853	454,023	3,613,306
--	--	8,200,000
(1,919,826)	--	(1,947,639)
(1,919,826)	--	6,252,361
580,027	454,023	9,865,667
2,644,280	285,616	14,655,999
$ 3,224,307	$ 739,639	$ 24,521,666

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ROYAL INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2022

Net change in fund balances - total governmental funds	$	9,865,667
Amounts reported for governmental activities in the Statement of Activities (SOA) are different because:		
Capital outlays are not reported as expenses in the SOA.		2,417,204
The depreciation of capital assets used in governmental activities is not reported in the funds.		(2,657,500)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		(65,540)
Reversal of on-behalf revenues reported in the funds but not in the SOA.		(1,339,743)
Reversal of on-behalf expenditures reported in the funds but not in the SOA.		1,339,743
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		3,435,000
Repayment of note principal is an expenditure in the funds but is not an expense in the SOA.		707,000
Repayment of lease principal is an expenditure in the funds but is not an expense in the SOA.		135,096
Bond issuance costs and similar items are amortized in the SOA but not in the funds.		109,144
The accretion of interest on capital appreciation bonds is not reported in the funds.		(36,781)
(Increase) decrease in accrued interest from beginning of period to end of period.		748
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.		(8,200,000)
Payment to escrow agent is not an expense in the SOA.		1,919,826
GASB 68 on-behalf revenues are reported with governmental activities.		23,831
The District's share of the net pension expense is reported with governmental activities.		185,345
GASB 75 on-behalf revenues are reported with governmental activities.		380,074
The District's share of the net OPEB expense is reported with governmental activities.		(106,954)
Rounding difference		(2)
Change in net position of governmental activities - Statement of Activities	$	8,112,158

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
AUGUST 31, 2022

Data Control Codes		Custodial Fund Student Activity
	ASSETS:	
1110	Cash and Cash Equivalents	$ 43,150
1000	Total Assets	43,150
	LIABILITIES:	
2000	Total Liabilities	--
	NET POSITION:	
3800	Restricted for Individuals and Organizations	43,150
3000	Total Net Position	$ 43,150

The accompanying notes are an integral part of this statement.

ROYAL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED AUGUST 31, 2022

	Custodial Fund
	Student Activity
ADDITIONS:	
Concession Stand Sales	$ 14,225
Student Fees and Dues	29,210
Fundraising Activities	105,083
Miscellanous Revenues	3,243
Gifts and Bequests	58,581
Investment Income	185
Total Additions	210,527
DEDUCTIONS:	
Fees and Dues	8,657
Fundraising Expenses	120,751
Student Activities	43,154
Scholarships	32,600
Total Deductions	205,162
Change in Fiduciary Net Position	5,365
Net Position-Beginning of the Year	37,785
Net Position-End of the Year	$ 43,150

The accompanying notes are an integral part of this statement.

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Royal Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas (the “State”). It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and it complies with the requirements of the appropriate version of Texas Education Agency’s (TEA) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State governed by a board elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District’s financial reporting entity. No other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary fund. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following governmental funds:

General Fund

The general fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes other than debt service or capital projects. The restricted proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund. American Rescue Plan (ARP) ESSER III, is a special revenue fund used to account for revenues and expenditures related to the ESSER III grant awards and entitlements. This fund is primarily on a reimbursement basis and has a program year that does not coincide with the District's fiscal year. This special revenue fund is considered a major fund for reporting purposes.

Fiduciary Fund

The fiduciary fund accounts for assets held by the District in a trustee capacity or as a custodial on behalf of others. The fiduciary fund is not reflected in the government-wide financial statements because the resources of this fund are not available to support the District's own programs.

The District has the following types of fiduciary fund:

Custodial Fund

The custodial fund reports resources, not in a trust, that are held by the District for other parties outside of the District. The custodial fund is accounted for using the accrual basis of accounting. This fund is used to account for the District's student activity funds.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for the revenue source (within 60 days of year end). All other revenue items are considered measurable and available only when cash is received by the District.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit are reported at cost.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the District is authorized to invest in the following:

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Government investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) are recognized as expenditures when utilized.

4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

5. Capital Assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government 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 acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful lives:

Asset Description	Estimated Useful Life
Buildings and improvements	7 to 39 years
Vehicles	5 years
Equipment	1 to 7 years

6. Deferred Outflows/Inflows 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(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. 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.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

7. Receivable and Payables Balances

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

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

8. Interfund Activity

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

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest are reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

10. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The District's Board is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The District's Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

11. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

12. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

13. Estimates

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, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

14. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

15. 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.

16. Other Postemployment Benefits

The fiduciary net position of the TRS Texas Public School Retired Employees Group Insurance Program ("TRS-Care") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, 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.

17. Leases

The District is a lessee for various noncancellable leases of equipment. The District recognizes a lease liability and an intangible, right-to-use lease asset (the "lease asset") in the government-wide financial statements. At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the lease term.

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.

- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and the purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the Statement of Net Position.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

1. Cash Deposits

At August 31, 2022, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $1,410,672 and the bank balance was $2,837,308. The District's cash deposits at August 31, 2022 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments

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

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

As of August 31, 2022, the District had the following investments:

Investments	Amount	Rating	Weighted Average Maturity (Years)
TexSTAR	$ 3,306,269	AAAm*	0.07
TexPool	3,777,541	AAAm*	0.07
TexasCLASS	13,910,654	AAAm*	0.09
LOGIC	3,505,964	AAA*	0.08
	$ 24,500,428		
Portfolio weighted average maturity			0.08

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit risk. The District's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the nationally recognized rating agencies. As of August 31, 2022, the District's investments in investment pools were rated 'AAAm' or 'AAA' by Standard and Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that the District's deposits may not be returned in the event of a bank failure. The District's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of August 31, 2022, fair market values of pledged securities and FDIC coverage exceeded bank balances.

Custodial credit risk – investments. For an investment, this is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The District's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

TexSTAR

The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity.

TexPool

TexPool was established as a trust company with the Treasurer of the State as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard and Poor's rates TexPool 'AAAm'. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard and Poor's, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, TexPool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of $1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

Texas CLASS

The Texas Cooperative Liquid Assets Securities System Trust – Texas (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), amount certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program director and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State. Under the Agreement, however, CLASS is administered and supervised by a seven-member Board of Trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com.

LOGIC

The District invests in the Local Government Investment Cooperative (LOGIC), which is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC's governing body is a five-member Board of Directors comprised of employees, officers, or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represent the co-administrators of LOGIC. The co-administrators of the day-to-day administration of LOGIC are First Southwest Company and J.P. Morgan Investment Management, Inc. LOGIC is rated at 'AAA' or equivalent rating from at least one nationally recognized rating agency and operates in a manner consistent with the SEC's Rule 2A7 of the Investment Company Act of 1940. LOGIC seeks to maintain a net asset value of $1.00 per unit and is designated to be used for investment of funds which may be needed at any time.

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

Governmental Activities:	*Beginning Balance	Increases	(Decreases)	Ending Balance
Capital assets not being depreciated:				
Land	$ 816,227	$ -	$ -	$ 816,227
Construction in Progress	-	2,110,736	-	2,110,736
Total capital assets not being depreciated	816,227	2,110,736	-	2,926,963
Capital assets being depreciated:				
Buildings and improvements	99,904,004	-	-	99,904,004
Equipment	1,644,569	44,531	-	1,689,100
Vehicles	3,368,295	261,937	(218,327)	3,411,905
Right-to-use assets - equipment	433,996	-	-	433,996
Total capital assets being depreciated:	105,350,864	306,468	(218,327)	105,439,005
Less accumulated depreciation for:				
Buildings and improvements	(46,474,468)	(2,221,462)	-	(48,695,930)
Equipment	(1,417,387)	(61,015)	-	(1,478,402)
Vehicles	(2,735,055)	(236,098)	218,327	(2,752,826)
Right-to-use assets - equipment	-	(138,925)	-	(138,925)
Total accumulated depreciation	(50,626,910)	(2,657,500)	218,327	(53,066,083)
Total capital assets being depreciated, net	54,723,954	(2,351,032)	-	52,372,922
Governmental Activities Capital Assets, Net	$ 55,540,181	$ (240,296)	$ -	55,299,885
*Beginning balance has been restated for implementation of GASB 87			Less associated debt	(63,348,712)
			Plus unspent bond proceeds	5,978,782
			Plus deferred charge on refunding	1,080,344
			Net Investment in Capital Assets	$ (989,701)

Depreciation was charged to governmental functions as follows:

		Governmental Activities
11	Instruction	$ 1,206,820
12	Instructional resources/media services	196,173
13	Curriculum and staff development	18,268
21	Instructional leadership	4,565
23	School leadership	73,743
31	Guidance, counseling, and evaluation services	22,359
32	Social work services	37,517
33	Health services	45,420
34	Student (pupil) transportation	216,240
35	Food service	229,550
36	Extracurricular activities	342,656
41	General administration	72,343
51	Plant maintenance and operations	176,979
52	Security and monitoring services	14,867
	Total Depreciation Expense	$ 2,657,500

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities.

Governmental Activities:	**Beginning Balance	Additions	(Reductions)	Ending Balance		Amounts Due Within One Year
Bonds payable:						
Refunding Bonds, Series 2013	$ 764,994	$ -	$ (55,000)	$ 709,994		$ 55,000
Refunding Bonds, Series 2014	1,995,000	-	(485,000)	1,510,000		495,000
Refunding Bonds, Series 2015	5,265,000	-	(1,845,000)	3,420,000		-
Maintenance Tax Notes, 2015	1,800,000	-	(180,000)	1,620,000		185,000
Refunding Bonds, Series 2016	8,185,000	-	(240,000)	7,945,000		240,000
Refunding Bonds, Series 2017	31,255,000	-	(1,235,000)	30,020,000		1,305,000
Refunding Bonds, Series 2018	2,300,000	-	(415,000)	1,885,000		445,000
Refunding Bonds, Series 2021	6,250,000	-	(1,005,000)	5,245,000		195,000
Direct Borrowings/Placements						
Maintenance Tax Notes, 2022	-	8,200,000	(527,000)	7,673,000		437,000
Leases payable	433,997	-	(135,096)	298,901		140,214
	58,248,991	8,200,000	(6,122,096)	60,326,895	*	3,497,214
Other liabilities:						
Issuance premiums/discount	2,840,729	-	(422,147)	2,418,582	*	-
Accreted interest	566,454	36,781	-	603,235	*	-
Net pension liability	6,422,201	-	(2,677,304)	3,744,897		-
Net OPEB liability	7,383,591	302,742	-	7,686,333		-
Total Governmental Activities	$ 75,461,966	$ 8,539,523	$ (9,221,547)	$ 74,779,942		$ 3,497,214

**Beginning balance has been restated for implementation of GASB 87

Long-term liabilities due in more than one year	$ 71,282,728
***Debt associated with capital assets**	$ 63,348,712

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Current requirements for principal and interest expenditures are accounted for in the general fund and the debt service fund. These bonds were issued as refunding bonds and maintenance tax notes. Interest rates on the Series 2013 bonds are 2.00% to 4.00%, Series 2014 bonds are 2.50% to 3.00%, Series 2015 bonds are 3.00% to 4.00%, Series 2015 notes are 2.00% to 3.250%, Series 2016 bonds are 1.60% to 4.00%, Series 2017 bonds are 3.00% to 5.00%, Series 2018 bonds are 1.90% to 2.65%, and Series 2021 bonds are 0.150% to 1.80%. Interest expense was $1,830,574 for the year ended August 31, 2022.

<u>Cash Defeasance</u>

During the fiscal year, the District made a partial cash defeasance of the Unlimited Tax Refunding Bonds, Series 2015, in the amount of $1,845,000 with a call date of February 15, 2025 by placing funds with an escrow agent. As a result, that portion of the bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The reacquisition price exceeded the net carrying amount of the old debt by $27,417, and had a present value savings of $1,166,651.

<u>Direct Borrowing and Placement</u>

The Maintenance Tax Note, Series 2022 principal and interest payments are accounted for in the general fund. The interest rate is 2.20%. Interest expense was $78,674 for the year ended August 31, 2022.

Maintenance Tax Notes, Series 2022

The District issued Royal Independent School District Maintenance Tax Notes, Series 2022, dated March 8, 2022, in the amount of $8,200,000. Proceeds from the sale of these notes are for HVAC improvement projects at all five campuses, electrical system upgrades at the high school, building automation systems (BAS) upgrades at all five campuses, the field house, administration, and DAEP location.

The annual requirements to amortize debt issues outstanding at year end were as follows:

Fiscal Year Ended August 31	Bonds Payable Principal	Interest	Total Requirements
2023	$ 2,735,000	$ 1,635,317	$ 4,370,317
2024	2,845,000	1,520,840	4,365,840
2025	2,960,000	1,400,953	4,360,953
2026	3,100,000	1,272,028	4,372,028
2027	2,806,328	1,550,672	4,357,000
2028-2032	16,343,666	4,776,469	21,120,135
2033-2037	16,735,000	1,985,837	18,720,837
2038-2040	3,210,000	54,909	3,264,909
Totals	$ 50,734,994	$ 14,197,025	$ 64,932,019

Fiscal Year Ended August 31	Maintenance Tax Notes - Series 2015 Principal	Interest	Total Requirements
2023	$ 185,000	$ 44,538	$ 229,538
2024	185,000	40,375	225,375
2025	195,000	35,138	230,138
2026	200,000	29,213	229,213
2027	205,000	23,138	228,138
2028-2032	650,000	31,106	681,106
Totals	$ 1,620,000	$ 203,506	$ 1,823,506

The debt service requirements for direct borrowings/private placements are as follows:

Fiscal Year Ended August 31	Maintenance Tax Notes - Series 2022 Principal	Interest	Total Requirements
2023	$ 437,000	$ 168,806	$ 605,806
2024	447,000	159,192	606,192
2025	456,000	149,358	605,358
2026	466,000	139,326	605,326
2027	477,000	129,074	606,074
2028-2032	2,546,000	483,340	3,029,340
2033-2038	2,844,000	184,129	3,028,129
Totals	$ 7,673,000	$ 1,413,225	$ 9,086,225

D. Leases

During the prior fiscal years, the District entered into copier and printer lease agreements with three to four year terms. An initial lease liability was recorded in the amount of $433,997. As of August 31, 2022, the value of the lease liability was $298,901. The District is required to make monthly principal and interest payments ranging from $2,474 to $9,870. An estimated borrowing rate of 3.50% was used by the District. The value of the right-to-use lease assets as of the end of the current fiscal year was $433,996 and had accumulated amortization of $138,925.

Fiscal Year Ended August 31	Principal	Interest	Total Requirements
2023	$ 140,214	$ 7,918	$ 148,132
2024	120,142	3,248	123,390
2025	38,545	172	38,717
Totals	$ 298,901	$ 11,338	$ 310,239

E. Interfund Transactions

The interfund balances and transfers at August 31, 2022 were as follows:

Due To Fund	Due From Fund	Amount	Reason
General Fund	Nonmajor Governmental Funds	$ 408,624	Short-term loans
General Fund	American Rescue Plan ESSER III	614,816	Short-term loans
Nonmajor Governmental Funds	General Fund	91,677	Short-term loans
	Total	$ 1,115,117	

IV. OTHER INFORMATION

A. 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; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Grants

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Claims and Judgements

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Defined Benefit Pension Plan

Teacher Retirement System

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

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

Contributions

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

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

Contribution Rates			
Fiscal Year	State	Public Education Employer*	Active Employee
2021	7.50%	1.60%	7.70%
2022	7.75%	1.70%	8.00%
2023	8.00%	1.80%	8.00%
2024	8.25%	1.90%	8.25%
2025	8.25%	2.00%	8.25%

	Contribution Rates	
	2021	2022
Member	7.70%	8.00%
NECE (State)	7.50%	7.75%
Employer	7.50%	7.50%

	Measurement Year (2021)	Fiscal Year (2022)
Employer contributions	$ 627,541	$ 642,713
Member contributions	$ 1,429,472	$ 1,546,261
NECE on-behalf contributions	$ 998,885	$ 1,076,496

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

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

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

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

- When employing a retiree of the TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- All public schools, charter schools, and regional educational service centers must contribute 1.6% of the member's salary beginning in the fiscal year 2021, gradually increasing to 2.0% in fiscal year 2025.

Actuarial Assumptions

The total pension liability (TPL) in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2020 rolled forward to August 31, 2021
Actuarial cost method	Individual entry age normal
Asset valuation method	Fair value
Single discount rate	7.25%
Long-term expected rate	7.25%
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."
Inflation	2.30%
Salary increases	3.05% to 9.05%, including inflation
Benefit changes during the year	None
Ad hoc postemployment benefit changes	None

The actuarial methods and assumptions used in the determination of the TPL are the same assumptions used in the actuarial valuation as of ending 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% was used to measure the TPL. The single discount rate was based on the expected rate of return on plan investments of 7.25%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers, and the NECE will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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

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

Best estimates of geometric real rates of return for each major asset class included in TRS' target asset allocation as of August 31, 2021 are summarized below:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Returns
August 31, 2021

Asset Class	Target Allocation (1)	Long-Term Expected Geometric Real Rate of Return (2)	Expected Contributions to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	3.60%	0.94%
Non-U.S. Developed	13.00%	4.40%	0.83%
Emerging Markets	9.00%	4.60%	0.74%
Private Equity	14.00%	6.30%	1.36%
Stable Value			
Government Bonds	16.00%	-0.20%	0.01%
Absolute Value	-	1.10%	-
Stable Value Hedge Funds	5.00%	2.20%	0.12%
Real Return			
Real Estate	15.00%	4.50%	1.00%
Energy, Natural Resources, and Infrastructure	6.00%	4.70%	0.35%
Commodities	-	1.70%	-
Risk Parity			
Risk Parity	8.00%	2.80%	0.28%
Leverage			
Cash	2.00%	-0.70%	-0.01%
Asset Allocation Leverage	-6.00%	-0.50%	0.03%
Inflation Expectation			2.20%
Volatility Drag (3)			-0.95%
Total	100.00%	34.50%	6.90%

(1) Target allocations are based on the FY 2021 policy model.
(2) Capital Market Assumptions come from Aon Hewitt (as of 08/31/2021).
(3) The volatility drag results from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

The following table shows the impact of the net pension liability (NPL) of TRS using the discount rate of 7.25% and what the NPL would be if it was calculated using a discount rate that is 1% lower (6.25%) or 1% higher (8.25%) than the current year rate:

	1% Decrease in Discount Rate (6.25%)	Current Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
District's proportionate share of the NPL	$ 8,183,195	$ 3,744,897	$ 144,901

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At August 31, 2022, the District reported a liability of $3,744,897 for its proportionate share of the TRS's NPL. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$	3,744,897
State's proportionate share that is associated with the District		5,960,916
Total	$	9,705,813

The NPL was measured as of August 31, 2020 and rolled forward to August 31, 2021 and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date. The District's proportion of the NPL was based on the District's contributions to TRS relative to the contributions of all employers to TRS for the period September 1, 2020 through August 31, 2021.

At August 31, 2022, the District's proportion of the collective NPL was 0.0147052%, which was an increase of 0.0027141% from its proportion measured as of August 31, 2021.

Changes Since the Prior Actuarial Valuation

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

For the year ended August 31, 2022, the District recognized pension expense of $23,831 and revenue of $23,831 for support provided by the State.

At August 31, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 6,267	$ (263,644)
Changes in actuarial assumptions	1,323,748	(577,041)
Difference between projected and actual investment earnings	-	(3,140,048)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,113,372	(692,463)
Contributions paid to TRS subsequent to the measurement date	642,713	-
Total	$ 3,086,100	$ (4,673,196)

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

Fiscal Year Ended August 31	Pension Expense
2023	$ (409,310)
2024	(449,812)
2025	(719,379)
2026	(857,288)
2027	151,214
Thereafter	54,766
Total	$ (2,229,809)

D. Defined Other Postemployment Benefits Plan

Plan Description

The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined benefit OPEB plan with a special funding situation. TRS-Care was established in 1986 by the Texas Legislature.

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

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at https://www.trs.texas.gov/Pages/about_publications.aspx; 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 TRS-Care as of August 31, 2021 are as follows:

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

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

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

TRS-Care Plan Premium Rates

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

Texas Insurance Code, section 1575.202 establishes the State's contribution rate, which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate, which is 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the GAA.

Th following table shows contribution rates to TRS-Care by type of contributor:

Contribution Rates

	Fiscal Year	
	2021	**2022**
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

	Measurement Year (2021)	Fiscal Year (2022)
Employer contributions	$ 155,667	$ 160,361
Member contributions	$ 49,897	$ 62,817
NECE on-behalf contributions	$ 208,559	$ 241,603

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

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

Actuarial Assumptions

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

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for TRS pension plan, except that the OPEB valuation is more complex. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2020 TRS pension actuarial valuation that was rolled forward to August 31, 2021:

1. Rates of Mortality	4. Rates of Disability Incidence
2. Rates of Retirement	5. General Inflation
3. Rates of Termination	6. Wage Inflation

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

Additional actuarial methods and assumptions are as follows:

Valuation date	8/31/2020 rolled forward to 8/31/2021
Actuarial cost method	Individual entry age normal
Inflation	2.30%
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 healthcare benefits are included in the age-adjusted claims costs
Projected salary increases	3.05% to 9.05%, including inflation
Healthcare trend rates	Medical trend rates: 8.50% (Medicare retirees) and 7.10% (non-Medicare retirees) prescription drug trend rate: 8.50%
Election rates	Normal retirement: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65
Ad hoc postemployment benefit changes	None

<u>Discount Rate</u>

A single discount rate of 1.95% was used to measure the total OPEB liability. There was a decrease of 0.38% in the discount rate since the previous year. Because TRS-Care is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, TRS-Care’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

<u>Sensitivity of the Net OPEB Liability</u>

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

	1% Decrease in Discount Rate (0.95%)	Current Single Discount Rate (1.95%)	1% Increase in Discount Rate (2.95%)
District's proportionate share of net OPEB liability	$ 9,271,489	$ 7,686,333	$ 6,438,764

Healthcare Cost Trend Rates Sensitivity Analysis – The following presents the net OPEB liability of TRS-Care 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 1% less than or 1% higher than the assumed healthcare cost trend rate:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	$ 6,225,675	$ 7,686,333	$ 9,646,173

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

At August 31, 2022, the District reported a liability of $7,686,333 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	$	7,686,333
State's proportionate share that is associated with the District		10,297,973
Total	$	17,984,306

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

At August 31, 2022, the employer's proportion of the collective net OPEB liability was 0.0199260%, compared to 0.0194231% as of August 31, 2021.

Changes Since the Prior Actuarial Valuation

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

- The rate was changed from 2.33% as of August 31, 2020 to 1.95% as of August 31, 2021. This change increased the total OPEB liability.

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

For the year ended August 31, 2022, the District recognized OPEB expense of $380,074 and revenue of $380,074 for support provided by the State.

At August 31, 2022, the District reported its proportionate share of TRS-Care's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 330,933	$ (3,720,723)
Changes in actuarial assumptions	851,352	(1,625,517)
Differences between projected and actual investment earnings	8,345	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	1,006,744	(146,582)
Contributions paid to TRS subsequent to the measurement date	160,361	-
Total	$ 2,357,735	$ (5,492,822)

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

Fiscal Year Ended August 31		OPEB Expense
2023	$	(665,962)
2024		(666,150)
2025		(666,099)
2026		(463,775)
2027		(189,861)
Thereafter		(643,601)
Total	$	(3,295,448)

Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2022, 2021, and 2020, the subsidy payments received by TRS-Care on behalf of the District were $81,974, $83,099, and $74,932, respectively.

E. Employee Health Care Coverage

During the year ended August 31, 2022, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of $225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2022 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation

During the year ended August 31, 2022, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperative Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of $2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2021, the Fund carries a discount reserve of $44,985,187 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2022, the Fund anticipated no additional liability to members beyond their contractual obligation 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.

G. Unemployment Compensation

During the year ended August 31, 2022, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2022, the Fund anticipates that the District has no additional liability beyond the contractual obligation or payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan 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 at the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

H. Tax Abatements

The District has entered into a property tax abatement (the "Agreement") with a food manufacturing company (the "Company") for a limitation on appraised value of property for school district maintenance and operation (M&O) taxes pursuant to Chapter 313 of the Texas Tax Code, the Texas Economic Development Act (the "Act") as of December 10, 2012. The original Agreement has been amended several times, with the most recent effective as of March 20, 2017.

Under the Act, a taxpayer agrees to build or install property and create jobs in exchange for a 10-year limitation on the taxable property value for school district M&O tax purposes. The minimum value varies by school district.

The District has granted the Company a tax limitation of $20,000,000 for the period beginning January 1, 2015 through December 31, 2022. In order to be eligible to receive the limitation, the Company must have completed a qualified investment of $50,000,000 during the time period beginning December 10, 2012 and ending December 31, 2014. The qualified investment consists of a new canned food manufacturing plant in Waller County. Additionally, the Company must have created and maintained, subject to the provisions of Section 313.021 of the Texas Tax Code, new qualifying jobs as required by the Act and pay an average weekly wage of at least $1,079 for all qualifying jobs created.

In order for the Company to receive and maintain the tax limitation, the Company must:

- Provide payments to the District sufficient to protect the future revenues through payment of revenue offsets;
- Provide payments to the District that protect the District from the payment of extraordinary education-related expenses related to the project;
- Provide such supplemental payments;
- Create and maintain a viable presence on or with the qualified property beginning January 1, 2023 through December 31, 2025.

For the fiscal year ended August 31, 2022, the District abated property taxes totaling $236,858 under the Agreement.

I. Restatement

During the fiscal year, the District restated beginning net position for the implementation of Governmental Accounting Standards Board Statement, No. 87, *Leases.*

		Governmental Activities
Beginning net position - as reported	$	(5,782,657)
Right-to-use assets		433,996
Lease liability		(433,996)
Beginning net position - as restated	$	(5,782,657)

J. Subsequent Event

The District entered into a lease agreement with Huntington National Bank for the purchase of a scoreboard in the amount of $249,000 to be paid over the next five years with annual payment of $49,800. The first payment will be paid on December 13, 2022.

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

ROYAL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	Local and Intermediate Sources	$ 19,913,629	$ 19,975,362	$ 20,935,340	$ 959,978
5800	State Program Revenues	10,101,918	10,101,918	8,986,123	(1,115,795)
5900	Federal Program Revenues	400,000	400,000	499,977	99,977
5020	Total Revenues	30,415,547	30,477,280	30,421,440	(55,840)
	EXPENDITURES:				
	Current:				
	Instruction and Instructional Related Services:				
0011	Instruction	16,864,454	14,617,869	12,475,149	2,142,720
0012	Instructional Resources and Media Services	206,823	207,823	176,134	31,689
0013	Curriculum and Staff Development	753,879	796,079	477,179	318,900
	Total Instruction and Instr. Related Services	17,825,156	15,621,771	13,128,462	2,493,309
	Instructional and School Leadership:				
0021	Instructional Leadership	670,911	746,912	599,624	147,288
0023	School Leadership	1,864,956	1,821,506	1,793,949	27,557
	Total Instructional and School Leadership	2,535,867	2,568,418	2,393,573	174,845
	Support Services - Student (Pupil):				
0031	Guidance, Counseling, and Evaluation Services	703,352	743,702	741,056	2,646
0032	Social Work Services	153,056	146,406	127,740	18,666
0033	Health Services	327,859	323,637	295,994	27,643
0034	Student (Pupil) Transportation	1,561,116	1,560,366	1,363,404	196,962
0035	Food Services	500	500	72	428
0036	Cocurricular/Extracurricular Activities	1,311,817	1,299,960	1,172,658	127,302
	Total Support Services - Student (Pupil)	4,057,700	4,074,571	3,700,924	373,647
	Administrative Support Services:				
0041	General Administration	1,569,043	1,599,439	1,551,994	47,445
	Total Administrative Support Services	1,569,043	1,599,439	1,551,994	47,445
	Support Services - Nonstudent Based:				
0051	Plant Maintenance and Operations	3,240,207	12,807,119	6,664,560	6,142,559
0052	Security and Monitoring Services	223,196	285,596	263,720	21,876
0053	Data Processing Services	716,205	683,605	605,586	78,019
	Total Support Services - Nonstudent Based	4,179,608	13,776,320	7,533,866	6,242,454
	Ancillary Services:				
0061	Community Services	8,800	14,800	12,558	2,242
	Total Ancillary Services	8,800	14,800	12,558	2,242
	Debt Service:				
0071	Principal on Long-Term Debt	180,000	845,419	842,096	3,323
0072	Interest on Long-Term Debt	48,188	187,226	139,898	47,328
0073	Bond Issuance Costs and Fees	500	70,970	70,870	100
	Total Debt Service	228,688	1,103,615	1,052,864	50,751
0099	Other Intergovernmental Charges	340,109	387,770	387,769	1
	Total Intergovernmental Charges	340,109	387,770	387,769	1
6030	Total Expenditures	30,744,971	39,146,704	29,762,010	9,384,694

Data Control Codes		1 Budgeted Amounts Original	2 Final	3 Actual	Variance with Final Budget Positive (Negative)
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	$ 329,424	$ (8,669,424)	$ 659,430	$ 9,328,854
	Other Financing Sources (Uses):				
7911	Capital-Related Debt Issued	--	8,200,000	8,200,000	--
8949	Other Uses	--	--	(27,813)	(27,813)
7080	Total Other Financing Sources and (Uses)	--	8,200,000	8,172,187	(27,813)
1200	Net Change in Fund Balance	329,424	(469,424)	8,831,617	9,301,041
0100	Fund Balance - Beginning	11,726,103	11,726,103	11,726,103	--
3000	Fund Balance - Ending	$ 12,055,527	$ 11,256,679	$ 20,557,720	$ 9,301,041

Notes to the Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
FOR THE YEAR ENDED AUGUST 31, 2022

	Measurement Year*			
	2021	2020	2019	2018
District's proportion of the net pension liability (asset)	0.0147052%	0.0119911%	0.0131901%	0.0146931%
District's proportionate share of the net pension liability (asset)	$ 3,744,897	$ 6,422,201	$ 6,856,606	$ 8,087,433
State's proportionate share of the net pension liability (asset) associated wit the District	5,960,916	13,625,370	12,455,632	13,462,697
Total	$ 9,705,813	$ 20,047,571	$ 19,312,238	$ 21,550,130
District's covered payroll**	$ 18,564,577	$ 17,515,113	$ 16,319,256	$ 16,629,322
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	20.17%	36.67%	42.02%	48.63%
Plan fiduciary net position as a percentage of the total pension liability	88.79%	75.54%	75.24%	73.74%

* Only eight years' worth of information is currently available.
** As of the measurement date.

Notes to Required Supplementary Information:

Changes in Assumptions:

There were no changes of assumptions that affected measurement of the total pension liability (TPL) during the measurement period.

Changes in Benefits:

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

EXHIBIT G-2

	Measurement Year*			
	2017	2016	2015	2014
	0.0149381%	0.0146559%	0.049568%	0.0084990%
	$ 4,776,402	$ 5,538,234	$ 5,287,030	$ 2,270,201
	7,522,370	8,993,528	8,215,895	6,515,686
	$ 12,298,772	$ 14,531,762	$ 13,502,925	$ 8,785,887
	$ 15,755,024	$ 15,174,769	$ 12,983,588	$ 12,027,683
	30.32%	36.50%	40.72%	18.87%
	82.17%	78.00%	78.43%	83.25%

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
FOR THE YEAR ENDED AUGUST 31, 2022

	Fiscal Year				
	2022	2021	2020	2019	2018
Contractually required contribution	$ 642,713	$ 627,424	$ 494,779	$ 461,668	$ 494,030
Contributions in relation to the contractually required contribution	642,713	627,424	494,779	461,668	494,030
Contribution deficiency (excess)	$ --	$ --	$ --	$ --	$ --
District's covered payroll	$ 19,328,266	$ 18,564,577	$ 17,515,113	$ 16,319,256	$ 16,629,322
Contributions as a percentage of covered payroll	3.33%	3.38%	2.82%	2.83%	2.97%

	Fiscal Year				
	2017	2016	2015	2014	2013
	$ 489,585	$ 465,654	$ 420,813	$ 215,472	$ 186,739
	489,585	465,654	420,813	215,472	186,739
	$ --	$ --	$ --	$ --	$ --
	$ 15,755,024	$ 15,174,769	$ 12,983,588	$ 12,027,683	$ 12,190,150
	3.11%	3.07%	3.24%	1.79%	1.53%

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE)
FOR THE YEAR ENDED AUGUST 31, 2022

	Measurement Year*			
	2021	2020	2019	2018
District's proportion of the collective collective net OPEB liability (asset)	0.0199260%	0.0194231%	0.0190759%	0.0194284%
District's proportionate share of the collective net OPEB liability (asset)	$ 7,686,333	$ 7,383,591	$ 9,021,220	$ 9,700,764
State proportionate share of the collective net OPEB liability (asset) associated with the District	10,297,973	9,921,776	11,987,185	14,443,974
Total	$ 17,984,306	$ 17,305,367	$ 21,008,405	$ 24,144,738
District's covered payroll**	$ 18,564,577	$ 17,515,113	$ 16,319,256	$ 16,629,322
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	41.40%	42.18%	55.28%	58.34%
Plan fiduciary net position as a percentage of the total OPEB liability	6.18%	4.99%	2.66%	1.57%

*Only five year's worth of information is currently available.
**As of the measurement date.

Notes to Required Supplementary Information:

Changes in Assumptions:

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

Changes in Benefits:

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

Measurement Year*
2017
0.0177955%
$ 7,738,595
12,618,457
$ 20,357,052
$ 15,755,024
49.12%
0.91%

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE)
FOR THE YEAR ENDED AUGUST 31, 2022

	Fiscal Year*			
	2022	2021	2020	2019
Statutorily or contractually required District contribution	$ 160,361	$ 155,667	$ 147,629	$ 135,386
Contributions recognized by OPEB in relation to statutorily or contractually required contribution	160,361	155,667	147,629	135,386
Contribution deficiency (excess)	$ --	$ --	$ --	$ --
District's covered payroll	$ 19,328,266	$ 18,564,577	$ 17,515,113	$ 16,319,256
Contributions as a percentage covered payroll	0.83%	0.84%	0.84%	0.83%

*Only five years' worth of information is currently available.

Fiscal Year*
2018
$ 133,465
133,465
$ --
$ 16,629,322
0.80%

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Combining Statements as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

ROYAL INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2022

Data Control Codes		211 Title I, Part A- Improving Basic Programs	224 IDEA-B Formula	225 IDEA-B Preschool	240 National School Breakfast/Lunch Program
	ASSETS:				
1110	Cash and Cash Equivalents	$ --	$ 12,361	$ --	$ 680,965
1240	Due from Other Governments	84,443	63,512	--	8,559
1260	Due from Other Funds	--	--	--	91,677
1290	Other Receivables	--	--	--	244
1300	Inventories	--	--	--	5,597
1000	Total Assets	$ 84,443	$ 75,873	$ --	$ 787,042
	LIABILITIES:				
	Current Liabilities:				
2110	Accounts Payable	$ --	$ 4,012	$ --	$ 19
2150	Payroll Deductions and Withholdings	--	16	--	--
2170	Due to Other Funds	84,443	71,845	--	--
2180	Due to Other Governments	--	--	--	3,135
2300	Unearned Revenue	--	--	--	75,335
2000	Total Liabilities	84,443	75,873	--	78,489
	FUND BALANCES:				
	Nonspendable Fund Balances:				
3410	Inventories	--	--	--	5,597
	Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	--	--	702,956
3490	Other Restrictions of Fund Balance	--	--	--	--
3000	Total Fund Balances	--	--	--	708,553
4000	Total Liabilities and Fund Balances	$ 84,443	$ 75,873	$ --	$ 787,042

	244 Perkins V: Strengthen. CTE for 21st Century	255 Title II, Part A- Supp. Effective Instruction	263 Title III, Part A-ELA	266 Education Stabilization Fund (ESSER)	281 CRRSA ESSER II
	$ --	$ --	$ 8,879	$ --	$ --
	34,361	4,640	2,530	--	--
	--	--	--	--	--
	--	--	--	--	--
	--	--	--	--	--
	$ 34,361	$ 4,640	$ 11,409	$ --	$ --
	$ --	$ --	$ --	$ --	$ --
	--	9	--	--	--
	34,361	4,631	11,409	--	--
	--	--	--	--	--
	--	--	--	--	--
	34,361	4,640	11,409	--	--
	--	--	--	--	--
	--	--	--	--	--
	--	--	--	--	--
	--	--	--	--	--
	$ 34,361	$ 4,640	$ 11,409	$ --	$ --

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2022

Data Control Codes		284 IDEA-B Formula - ARP	289 Title IV, Part A, Subpart 1	397 Advanced Placement Incentives
	ASSETS:			
1110	Cash and Cash Equivalents	$ --	$ --	$ --
1240	Due from Other Governments	59,460	27,654	--
1260	Due from Other Funds	--	--	--
1290	Other Receivables	--	--	--
1300	Inventories	--	--	--
1000	Total Assets	$ 59,460	$ 27,654	$ --
	LIABILITIES:			
	Current Liabilities:			
2110	Accounts Payable	$ --	$ --	$ --
2150	Payroll Deductions and Withholdings	--	--	--
2170	Due to Other Funds	59,460	27,654	--
2180	Due to Other Governments	--	--	--
2300	Unearned Revenue	--	--	--
2000	Total Liabilities	59,460	27,654	--
	FUND BALANCES:			
	Nonspendable Fund Balances:			
3410	Inventories	--	--	--
	Restricted Fund Balances:			
3450	Federal/State Funds Grant Restrictions	--	--	--
3490	Other Restrictions of Fund Balance	--	--	--
3000	Total Fund Balances	--	--	--
4000	Total Liabilities and Fund Balances	$ 59,460	$ 27,654	$ --

410 State Textbook	429 State Funded Special Revenue	461 Campus Activity	480 Education Fund
$ --	$ --	$ 23,365	$ 20,696
--	122,085	--	--
--	--	--	--
--	--	--	--
--	--	--	--
$ --	$ 122,085	$ 23,365	$ 20,696
$ --	$ 7,264	$ --	$ --
--	--	--	--
--	114,821	--	--
--	--	--	20,696
--	--	--	--
--	122,085	--	20,696
--	--	--	--
--	--	--	--
--	--	23,365	--
--	--	23,365	--
$ --	$ 122,085	$ 23,365	$ 20,696

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ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
AUGUST 31, 2022

Data Control Codes		498 Scholarship	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
	ASSETS:			
1110	Cash and Cash Equivalents	$ 2,000	$ 5,721	$ 753,987
1240	Due from Other Governments	--	--	407,244
1260	Due from Other Funds	--	--	91,677
1290	Other Receivables	--	--	244
1300	Inventories	--	--	5,597
1000	Total Assets	$ 2,000	$ 5,721	$ 1,258,749
	LIABILITIES:			
	Current Liabilities:			
2110	Accounts Payable	$ --	$ --	$ 11,295
2150	Payroll Deductions and Withholdings	--	--	25
2170	Due to Other Funds	--	--	408,624
2180	Due to Other Governments	--	--	23,831
2300	Unearned Revenue	--	--	75,335
2000	Total Liabilities	--	--	519,110
	FUND BALANCES:			
	Nonspendable Fund Balances:			
3410	Inventories	--	--	5,597
	Restricted Fund Balances:			
3450	Federal/State Funds Grant Restrictions	500	--	703,456
3490	Other Restrictions of Fund Balance	1,500	5,721	30,586
3000	Total Fund Balances	2,000	5,721	739,639
4000	Total Liabilities and Fund Balances	$ 2,000	$ 5,721	$ 1,258,749

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		211 Title I, Part A- Improving Basic Programs	224 IDEA-B Formula	225 IDEA-B Preschool	240 National School Breakfast/Lunch Program
	REVENUES:				
5700	Local and Intermediate Sources	$ --	$ --	$ --	$ 116,819
5800	State Program Revenues	--	--	--	2,624
5900	Federal Program Revenues	687,355	454,683	5,117	2,140,065
5020	Total Revenues	687,355	454,683	5,117	2,259,508
	EXPENDITURES:				
	Current:				
0011	Instruction	621,677	235,338	--	--
0012	Instructional Resources and Media Services	--	--	--	--
0013	Curriculum and Staff Development	64,405	925	--	--
0021	Instructional Leadership	--	46,501	--	--
0023	School Leadership	--	--	--	--
0031	Guidance, Counseling, and Evaluation Services	--	156,625	5,117	--
0033	Health Services	--	--	--	--
0035	Food Service	--	--	--	1,660,879
0036	Cocurricular/Extracurricular Activities	--	--	--	--
0041	General Administration	--	--	--	--
0051	Facilities Maintenance and Operations	--	--	--	--
0052	Security and Monitoring Services	--	--	--	--
0053	Data Processing Services	--	--	--	--
0061	Community Services	1,273	--	--	--
0093	Payments to Shared Services Arrangements	--	15,294	--	--
6030	Total Expenditures	687,355	454,683	5,117	1,660,879
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	--	598,629
1200	Net Change in Fund Balances	--	--	--	598,629
0100	Fund Balances - Beginning	--	--	--	109,924
3000	Fund Balances - Ending	$ --	$ --	$ --	$ 708,553

244 Perkins V: Strengthen. CTE for 21st Century	255 Title II, Part A-Supp. Effective Instruction	263 Title III, Part A-ELA	266 Education Stabilization Fund (ESSER)	281 CRRSA ESSER II
$ --	$ --	$ --	$ --	$ --
--	--	--	--	--
34,361	97,637	71,271	770	2,474,932
34,361	97,637	71,271	770	2,474,932
34,361	60,087	62,271	770	2,474,932
--	--	--	--	--
--	2,950	9,000	--	--
--	--	--	--	--
--	34,600	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
34,361	97,637	71,271	770	2,474,932
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
$ --	$ --	$ --	$ --	$ --

ROYAL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		284 IDEA-B Formula - ARP	289 Title IV, Part A, Subpart 1	397 Advanced Placement Incentives
	REVENUES:			
5700	Local and Intermediate Sources	$ --	$ --	$ --
5800	State Program Revenues	--	--	212
5900	Federal Program Revenues	59,460	94,656	--
5020	Total Revenues	59,460	94,656	212
	EXPENDITURES:			
	Current:			
0011	Instruction	18,460	22,874	212
0012	Instructional Resources and Media Services	--	--	--
0013	Curriculum and Staff Development	--	--	--
0021	Instructional Leadership	--	--	--
0023	School Leadership	--	--	--
0031	Guidance, Counseling, and Evaluation Services	41,000	30,008	--
0033	Health Services	--	20,069	--
0035	Food Service	--	--	--
0036	Cocurricular/Extracurricular Activities	--	--	--
0041	General Administration	--	--	--
0051	Facilities Maintenance and Operations	--	--	--
0052	Security and Monitoring Services	--	21,705	--
0053	Data Processing Services	--	--	--
0061	Community Services	--	--	--
0093	Payments to Shared Services Arrangements	--	--	--
6030	Total Expenditures	59,460	94,656	212
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	--	--	--
1200	Net Change in Fund Balances	--	--	--
0100	Fund Balances - Beginning	--	--	--
3000	Fund Balances - Ending	$ --	$ --	$ --

410 State Textbook	429 State Funded Special Revenue	461 Campus Activity	480 Education Fund
$ --	$ --	$ 26,265	$ 57,440
211,546	139,757	--	--
--	--	--	--
211,546	139,757	26,265	57,440
353,332	--	--	41,616
--	--	--	--
--	9,556	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	31,638	15,824
--	8,116	--	--
--	122,085	--	--
--	--	--	--
--	--	--	--
--	--	--	--
--	--	--	--
353,332	139,757	31,638	57,440
(141,786)	--	(5,373)	--
(141,786)	--	(5,373)	--
141,786	--	28,738	--
$ --	$ --	$ 23,365	$ --

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ROYAL INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		498 Scholarship	499 Locally Funded Grants	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
	REVENUES:			
5700	Local and Intermediate Sources	$ 500	$ 19,323	$ 220,347
5800	State Program Revenues	--	--	354,139
5900	Federal Program Revenues	--	--	6,120,307
5020	Total Revenues	500	19,323	6,694,793
	EXPENDITURES:			
	Current:			
0011	Instruction	--	517	3,926,447
0012	Instructional Resources and Media Services	--	427	427
0013	Curriculum and Staff Development	--	2,680	89,516
0021	Instructional Leadership	--	--	46,501
0023	School Leadership	--	300	34,900
0031	Guidance, Counseling, and Evaluation Services	--	600	233,350
0033	Health Services	--	--	20,069
0035	Food Service	--	--	1,660,879
0036	Cocurricular/Extracurricular Activities	--	6,123	53,585
0041	General Administration	--	1,623	9,739
0051	Facilities Maintenance and Operations	--	--	122,085
0052	Security and Monitoring Services	--	--	21,705
0053	Data Processing Services	--	5,000	5,000
0061	Community Services	--	--	1,273
0093	Payments to Shared Services Arrangements	--	--	15,294
6030	Total Expenditures	--	17,270	6,240,770
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	500	2,053	454,023
1200	Net Change in Fund Balances	500	2,053	454,023
0100	Fund Balances - Beginning	1,500	3,668	285,616
3000	Fund Balances - Ending	$ 2,000	$ 5,721	$ 739,639

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2022

	1	2	3
	Tax Rates		Assessed/Appraised
Year Ended August 31	Maintenance	Debt Service	Value For School Tax Purposes
2013 and Prior Years	Various	Various	Various
2014	$ 1.0400	$ 0.5563	$ 876,060,060
2015	$ 1.0400	$ 0.5000	$ 995,418,384
2016	$ 1.0400	$ 0.4888	$ 1,037,758,434
2017	$ 1.0400	$ 0.4889	$ 1,066,145,568
2018	$ 1.1700	$ 0.3588	$ 1,100,969,227
2019	$ 1.1700	$ 0.3588	$ 1,193,950,092
2020	$ 1.0639	$ 0.3588	$ 1,453,800,656
2021	$ 0.9630	$ 0.3588	$ 1,719,769,241
2022 (School Year Under Audit)	$ 0.9603	$ 0.3588	$ 2,123,028,398
1000 Totals			

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/21	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/22
$ 433,138	$ --	$ 10,679	$ 4,634	$ --	$ 417,825
41,189	--	1,370	733	--	39,086
41,515	--	1,707	821	--	38,987
40,384	--	2,916	1,370	--	36,098
216,659	--	5,186	2,437	(14)	209,022
57,820	--	8,531	2,616	(384)	46,289
103,291	--	33,704	10,336	(460)	58,791
136,026	--	75,614	25,502	81,651	116,561
620,675	--	113,685	35,618	(244,937)	226,435
--	28,004,867	20,082,556	7,510,137	64,790	476,964
$ 1,690,697	$ 28,004,867	$ 20,335,948	$ 7,594,204	$ (99,354)	$ 1,666,058
$ --	$ --	$ --	$ --	$ --	$ --

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ROYAL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	Local and Intermediate Sources	$ 160,065	$ 164,065	$ 116,819	$ (47,246)
5800	State Program Revenues	3,643	3,643	2,624	(1,019)
5900	Federal Program Revenues	1,376,421	1,506,019	2,140,065	634,046
5020	Total Revenues	1,540,129	1,673,727	2,259,508	585,781
	EXPENDITURES:				
	Current:				
	Support Services - Student (Pupil):				
0035	Food Services	1,540,129	1,673,727	1,660,879	12,848
	Total Support Services - Student (Pupil)	1,540,129	1,673,727	1,660,879	12,848
6030	Total Expenditures	1,540,129	1,673,727	1,660,879	12,848
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	598,629	598,629
1200	Net Change in Fund Balance	--	--	598,629	598,629
0100	Fund Balance - Beginning	109,924	109,924	109,924	--
3000	Fund Balance - Ending	$ 109,924	$ 109,924	$ 708,553	$ 598,629

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ROYAL INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2022

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES:				
5700	Local and Intermediate Sources	$ 7,429,502	$ 7,442,771	$ 7,697,270	$ 254,499
5800	State Program Revenues	28,761	28,761	39,316	10,555
5020	Total Revenues	7,458,263	7,471,532	7,736,586	265,054
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	3,435,000	3,435,000	3,435,000	--
0072	Interest on Long-Term Debt	1,818,537	1,818,537	1,782,386	36,151
0073	Bond Issuance Costs and Fees	10,600	23,869	19,347	4,522
	Total Debt Service	5,264,137	5,277,406	5,236,733	40,673
6030	Total Expenditures	5,264,137	5,277,406	5,236,733	40,673
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	2,194,126	2,194,126	2,499,853	305,727
	Other Financing Sources (Uses):				
8949	Other Uses	--	(1,919,826)	(1,919,826)	--
7080	Total Other Financing Sources and (Uses)	--	(1,919,826)	(1,919,826)	--
1200	Net Change in Fund Balance	2,194,126	274,300	580,027	305,727
0100	Fund Balance - Beginning	2,644,280	2,644,280	2,644,280	--
3000	Fund Balance - Ending	$ 4,838,406	$ 2,918,580	$ 3,224,307	$ 305,727

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ROYAL INDEPENDENT SCHOOL DISTRICT

USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAM
AS OF AUGUST 31, 2022

Data Control Codes		Responses
	Section A: Compensatory Education Programs	
AP1	Did your District expend any state compensatory education program state allotment funds during the District's fiscal year?	Yes
AP2	Does the District 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.	$ 2,720,113
AP4	List the actual direct program expenditures for state compensatory education programs during the District's fiscal year. (PICs 24, 26, 28 29, 30, 34)	$ 2,683,720
	Section B: Bilingual Education Programs	
AP5	Did your District expend any bilingual education program state allotment funds during the District's fiscal year?	Yes
AP6	Does the District 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 District's fiscal year.	$ 662,604
AP8	List the actual direct program expenditures for bilingual education programs during the District's fiscal year. (PICs 25, 35)	$ 348,652

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Federal Awards and Other Compliance Section

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INDEPENDENT AUDITORS' 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*

To the Board of Trustees of
Royal Independent School District:

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 Royal Independent School District (the "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 13, 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 the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District'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.

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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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 13, 2023

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

To the Board of Trustees of
Royal Independent School District:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Royal Independent School District's (the "District") 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 the District's major federal programs for the year ended August 31, 2022. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

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

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above 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.

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Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise profession judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement o 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of 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 Auditors' 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 our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that have not been identified.

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

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 13, 2023

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

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued:	Unmodified			
Internal control over financial reporting:				
One or more material weaknesses identified?	____	Yes	X	No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____	Yes	X	None Reported
Noncompliance material to financial statements noted?	____	Yes	X	No

2. Federal Awards

Internal control over major programs:				
One or more material weaknesses identified?	____	Yes	X	No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____	Yes	X	None Reported
Type of auditors' report issued on compliance for major programs:	Unmodified			
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200, para. 200.516(a)??	____	Yes	X	No

Identification of major programs:

Assistance Listing Number(s)	Name of Federal Program or Cluster
84.425D	COVID-19 Education Stabilization Fund (ESSER)
84.425D	COVID-19 Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II
84.425U	COVID-19 American Rescue Plan (ARP) ESSER III

Dollar threshold used to distinguish between type A and type B programs:	$750,000			
Auditee qualified as low-risk auditee?	X	Yes	____	No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

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

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
None noted		

(1) Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	(2) Federal AL Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
CHILD NUTRITION CLUSTER:			
U. S. Department of Agriculture			
Passed Through State Department of Education:			
School Breakfast Program	10.553	806780706	$ 563,158
National School Lunch Program	10.555	806780706	1,477,937
Total Passed Through State Department of Education			2,041,095
Total U. S. Department of Agriculture			2,041,095
Total Child Nutrition Cluster			2,041,095
FOOD DISTRIBUTION CLUSTER:			
U. S. Department of Agriculture			
Commodity Delivery Fee Reimbursement	10.560	01115	5,424
Commodity Supplemental Food Program (Non-cash)	10.565	806780706	93,546
Total U. S. Department of Agriculture			98,970
Total Food Distribution Cluster			98,970
SPECIAL EDUCATION (IDEA) CLUSTER:			
U. S. Department of Education			
Passed Through State Department of Education:			
IDEA-Part B, Formula	84.027A	226600012379056600	454,683
COVID-19 IDEA-B Formula - American Rescue Plan (ARP)	84.027X	225350012379055000	59,460
IDEA-Part B, Preschool	84.173A	226610012379056610	5,117
Total Passed Through State Department of Education			519,260
Total U. S. Department of Education			519,260
Total Special Education (IDEA) Cluster			519,260
OTHER PROGRAMS:			
U.S. Department of Defense			
Direct Program:			
Junior ROTC	12.000	237-905	84,933
Total U.S. Department of Defense			84,933
U. S. Department of Education			
Passed Through State Department of Education:			
Title I Part A - Improving Basic Programs	84.010A	22610101237905	687,355
Perkins V: Strengthening CTE for 21st Century	84.048A	22420006237905	34,361
Title III, Part A-English Language Acquisition and Language Enhancement	84.365A	22671001237905	71,271
Title II, Part A-Supporting Effective Instruction	84.367A	22694501237905	97,637
LEP Summer School	84.369A	69552002	4,424
Title IV, Part A, Subpart 1	84.424A	22680101237905	70,163
COVID-19 Education Stabilization Act (ESSER)	84.425D	20521001237905	770
COVID-19 Coronavirus Response and Relief Supplemental Appropriations Act (ESSER II)	84.425D	21521001237905	2,474,932
Total AL Number 84.425D			2,475,702
COVID-19 American Rescue Plan (ARP) ESSER III	84.425U	21528001237905	1,697,389
Total Passed Through State Department of Education			7,698,657

(1)	(2)	(2A)		(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal AL Number	Pass- Through Entity Identifying Number		Federal Expenditures
U.S. Department of Health and Human Services				
Passed Through Education Service Center, Region IV:				
COVID-19 Public Health Workforce Supplemental	93.354	HHS001101500001	$	20,069
Total Passed Through Education Service Center, Region IV				20,069
Total U.S. Department of Health and Human Services				20,069
Total U. S. Department of Education				7,718,726
TOTAL EXPENDITURES OF FEDERAL AWARDS			$	7,902,629

Federal Revenue per SEFA	$	7,902,629
General Fund SHARs Revenue		381,478
E-Rate Revenue		33,566
Total Exhibit C-2 Federal Revenue	$	8,317,673

The accompanying notes are an integral part of this schedule.

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Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the District. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance")**.** Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Summary of Significant Accounting Policies

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

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

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ROYAL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2022

Data Control Codes		Responses
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF3	Did the District make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the District was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the District is considered **to not have made** timely payments.) Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued. Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.	Yes
SF4	Was the District issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the District is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	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 District post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code, and other statutes, laws, and rules that were in effect at the District's fiscal year end?	Yes
SF8	Did the Board members discuss the District's property values at a Board meeting within 120 days before the District adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end	$ 603,235

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APPENDIX C

Opinion of Bond Counsel

August 10, 2023

Re: Royal Independent School District Unlimited Tax School Building Bonds, Series 2023 (the "Bonds")

Ladies and Gentlemen:

We have acted as Bond Counsel to the captioned issuer (the "District") in connection with the issuance of the Bonds, which are being issued in the aggregate original principal amount of $49,340,000. The Bonds are authorized by an order adopted by the Board of Trustees of the District on July 10, 2023 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order. We call attention to the fact that the rights and obligations under the Bonds and the Order and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Finally, our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

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

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

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

Respectfully submitted,

Leon | Alcala, PLLC

APPENDIX D

OPINION OF SPECIAL TAX COUNSEL

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

(Final Opinion)

Ladies and Gentlemen:

We have acted as special tax counsel to Royal Independent School District (the "District") in connection with the issuance of $_____ aggregate principal amount of obligations designated as "Unlimited Tax School Building Bonds, Series 2023" (the "Bonds"). The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on _____, 2023 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

In such connection, we have reviewed the Order, the tax certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein.

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

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by. and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. We have reviewed and assumed the accuracy of the opinion of Leon Alcala, PLLC as bond counsel of even date herewith as to the validity and enforceability of the Bonds and the power of the Board to levy and pledge the annual ad valorem tax as set forth therein. Our services did not include financial or other non-legal advice.

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

1. Under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes; and, furthermore, interest on the Bonds is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

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 though the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the "Prudent Person Standard").

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 Fund[1]

Fiscal Year Ending	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
PSF(SBOE) Distribution	$1,021	$839	$839	$1,056	$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.

State Fiscal Biennium	2008-09	2010-11	2012-13	2014-15	2016-17	2018-19	2020-21	2022-23	2024-25
SBOE Distribution Rate[1]	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

	PSF (SBOE)	**PSF (SLB)**	**Liquid Account**
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 MarketsDebt	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%
Total Equity	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%
Total Fixed Income	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%
Total Alternatives	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.

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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	4,730.4	6,218.7	(1,488.3)	-23.9%
Total Domestic Equity	7,088.8	8,816.0	(1,727.2)	-19.6%
International Equity	5,972.5	8,062.1	(2,089.6)	-25.9%
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	-	1,142.5	N/A
Emerging Market Debt	1,142.5	2,683.7	(1,492.8)	-55.6%
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	1,412.0	1,675.5	(263.5)	-15.7%
TOT ALT INVESTMENTS	16,673.0	16,652.1	20.9	0.1%
UNALLOCATED CASH	196.5	262.9	(66.4)	-25.3%
TOTAL PSF(SBOE) INVESTMENTS	$ 37,967.7	$ 42,573.2	$ (4,605.5)	-10.8%

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

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

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

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Liquid Account Fair Value at August 31, 2022[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/Mid Cap	$ 500.0	$228.3	$271.7	119.0%
Domestic Large Cap	1,671.7	578.6	1,093.1	188.9%
Total Domestic Equity	2,171.7	806.9	1,364.8	169.1%
International Equity	1,225.5	392.6	832.9	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	208.2	213.9	(5.7)	-2.7%
TOTAL FIXED INCOME	1,512.4	1,701.8	(189.4)	-11.1%
Unallocated Cash	35.2	1,420.5	(1,385.3)	-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.

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Comparative Investment Schedule - PSF(SLB)

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

Asset Class	As of 8-31-22	As of 8-31-21	Increase (Decrease)	Percent Change
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds[1]				
Energy/Minerals	$2,718.6	$1,707.5	$1,011.1	59.2%
Infrastructure	1,622.7	1,652.3	(29.6)	-1.8%
Real Estate	1,921.2	1,276.8	644.4	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]	1,257.5	699.2	558.3	79.8%
Total PSF(SLB) Investments	$13,842.0	$8,687.2	$5,154.8	59.3%

[1] The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated using the most recent valuations available, adjusted for subsequent contributions and withdrawals.
[2] Cash at State Treasury represents amounts that have been deposited in the State Treasury and temporarily invested in short-term investments until called for investment by the external real assets investment funds, separate accounts, and co-investment vehicles to which PSF(SLB) has made capital commitments. Prior to September 1, 2019, PSF(SLB) was required by statute to deposit cash designated by the SLB for investment in real assets in the State Treasury until it is draw

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.

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.

Changes in SBOE-determined multiplier for State Capacity Limit

Date	Multiplier
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 CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of September 1, 2017 and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. SB 1480 amended the CDBGP Capacity calculation so that the Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby increasing the CDBGP Capacity.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.36% in March 2023. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At 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 "[insert applicable rating reference]" 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

At 8/31	Principal Amount[1]
2018	$79,080,901,069
2019	84,397,900,203
2020	90,336,680,245
2021	95,259,161,922
2022	103,239,495,929[2]

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

[2] At August 31, 2022 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $156,825,227,335, of which $53,585,731,406 represents interest to be paid. As shown in the table above, at August 31, 2022, there were $103,239,495,929 in principal amount of bonds guaranteed under the Guarantee Program. Using the 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)]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount ($)	No. of Issues	Principal Amount ($)	No. of Issues	Principal Amount ($)
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.

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PSF Returns Fiscal Year Ended 8-31-2022[1]

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 §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.

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.