

OFFICIAL STATEMENT
Dated August 14, 2023

NEW ISSUE – BOOK ENTRY ONLY

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

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

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



\$13,655,000
CHILTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Falls County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

Dated Date: September 1, 2023

Due: As shown on page ii herein

Interest to Accrue from Date of Delivery (defined below)

AUTHORITY FOR ISSUANCE AND SECURITY ... The Chilton 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 (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on August 14, 2023. 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 D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

PAYMENT TERMS ... Interest on the Bonds will accrue from their date of initial delivery (detailed below) will be payable on February 15 and August 15 of each year, commencing February 15, 2024, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in the principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. The definitive Bonds will be registered and delivered to Cede & Co. the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. **Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased.** So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds (as applicable) will be payable by the Paying Agent/Registrar, initially BOKF, NA, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

PURPOSE ... Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, including safety and security upgrades to the primary and secondary campuses, and the purchase of the necessary sites for school facilities, and (ii) to pay the costs of issuance related to the Bonds. See “PLAN OF FINANCING – Sources and Uses of Funds” herein.

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

The Bonds are offered for delivery when, as and if issued and received by the underwriter of the Bonds (the “Underwriter”) and are subject to the approving opinion of the Attorney General of the State of Texas and the opinions of Cantu Harden Montoya LLP, San Antonio, Texas and Walsh Gallegos Treviño Kyle & Robinson, P.C., San Antonio, Texas, Co-Bond Counsel (see “APPENDIX C – FORMS OF OPINIONS OF CO-BOND COUNSEL” hereto). Certain matters will be passed upon for the Underwriter by its counsel, Leon Alcala, PLLC, Austin, Texas. It is expected that the Bonds will be available for delivery through DTC on or about September 13, 2023 (the “Date of Delivery”).

STEPHENS INC.

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

\$13,655,000
CHILTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Falls County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

CUSIP No. Prefix 169323⁽¹⁾

\$5,690,000 Serial Bonds

Maturity Date (2/15)	Principal (\$)	Interest Rate (%)	Initial Yield⁽²⁾ (%)	CUSIP No. Suffix⁽¹⁾
8/15/2024	670,000	5.000	3.510	AA0
2025	490,000	5.000	3.480	AB8
2026	465,000	5.000	3.350	AC6
2027	435,000	5.000	3.250	AD4
2028	395,000	5.000	3.250	AE2
2029	350,000	5.000	3.250	AF9
2030	300,000	5.000	3.220	AG7
2031	260,000	5.000	3.220	AH5
2032	260,000	5.000	3.230	AJ1
2033	280,000	5.000	3.280 ⁽³⁾	AK8
2034	305,000	5.000	3.340 ⁽³⁾	AL6
2035	330,000	5.000	3.390 ⁽³⁾	AM4
2036	355,000	5.000	3.530 ⁽³⁾	AN2
2037	385,000	5.000	3.670 ⁽³⁾	AP7
2038	410,000	5.000	3.750 ⁽³⁾	AQ5

(Interest to accrue from the initial Date of Delivery)

\$7,965,000 Term Bonds

\$1,925,000 5.000% Term Bond Due February 15, 2043, Priced to Yield 3.980%⁽³⁾, CUSIP No. Suffix⁽¹⁾: AR3

\$2,565,000 5.000% Term Bond Due February 15, 2048, Priced to Yield 4.110%⁽³⁾, CUSIP No. Suffix⁽¹⁾: AS1

\$3,475,000 4.250% Term Bond Due February 15, 2053, Priced to Yield 4.510%, CUSIP No. Suffix⁽¹⁾: AT9

(Interest to accrue from the initial Date of Delivery)

The District reserves the option to redeem the Bonds maturing February 15, 2033 through February 15, 2048, each inclusive, 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. In addition, the District reserves the option to redeem the Bonds maturing on February 15, 2053, in whole or in part, in the principal amount \$5,000 or any integral multiple thereof, on February 15, 2028, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

The Bonds having a stated maturity on February 15 of 2043, 2048 and 2053 (the "Term Bonds"), are also subject to mandatory sinking fund redemption as described herein (see "THE BONDS – Redemption Provisions").

⁽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. Neither the Underwriter, 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 Underwriter and may be changed at any time at the discretion of the Underwriter.

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

**CHILTON INDEPENDENT SCHOOL DISTRICT
905 Durango Avenue
Chilton, Texas 76632**

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Rodney Hall	President	November 2026
Rebecca Maxey	Vice President	November 2024
Christine Chandler	Secretary	November 2026
John Cobb	Member	November 2026
James Jones	Member	November 2024
Donald Pruitt, Jr.	Member	November 2024
Emily Rueda	Member	November 2026

ADMINISTRATION – FINANCE CONNECTED

<u>Name</u>	<u>Position</u>
Dr. Brandon Hubbard	Superintendent of Schools
Lahoma Taylor	Business Manager

CONSULTANTS AND ADVISORS

Co-Bond Counsel	Cantu Harden Montoya LLP, San Antonio, Texas
Co-Bond Counsel	Walsh Gallegos Treviño Kyle & Robinson, P.C., San Antonio, Texas
Financial Advisor	Frost Bank, Round Rock, Texas
Auditors	Paul J. Christensen & Associates, LLC, Waco, Texas

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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.

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

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

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

Neither the District, Financial Advisor, nor the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" or the affairs of TEA described under the caption "APPENDIX D – 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.

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM	Appendix D

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 Chilton Independent School District (the "District") is a political subdivision located in Falls County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Board trustees serve staggered four-year terms with elections being held in November of every other year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District.
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 August 14, 2023 (See "THE BONDS – Authority for Issuance").
THE BONDS	The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "THE BONDS – Description of the Bonds").
DATED DATE	September 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").
REDEMPTION PROVISIONS	<p>The District reserves the option to redeem the Bonds maturing February 15, 2033 through February 15, 2048, each inclusive, 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. In addition, the District reserves the option to redeem the Bonds maturing on February 15, 2053, in whole or in part, in the principal amount \$5,000 or any integral multiple thereof, on February 15, 2028, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.</p> <p>The Bonds having a stated maturity on February 15 of 2043, 2048 and 2053 (the "Term Bonds"), are also subject to mandatory sinking fund redemption as described herein (see "THE BONDS – Redemption Provisions").</p>
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 D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

TAX MATTERS	In the opinion of Cantu Harden Montoya LLP, under current law and subject to conditions described in the section “TAX MATTERS” herein, interest on the Bonds (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. No other opinion is expressed by Co-Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds. A holder may be subject to other federal tax consequences as described in the section “TAX MATTERS.” See “TAX MATTERS” for a discussion of the opinion of Cantu Harden Montoya LLP with respect to the Bonds. The opinion of Walsh Gallegos Treviño Kyle & Robinson, P.C. will not address tax issues.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is the BOKF, N.A., Dallas, Texas.
MUNICIPAL BOND RATING	The Bonds are rated “A” by S&P Global Ratings (“S&P”) without regard to credit enhancement. The Bonds are also rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State (see “Appendix D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.)
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, including safety and security upgrades to the primary and secondary campuses, and the purchase of the necessary sites for school facilities, and (ii) to pay the costs of issuance related to the Bonds. (see “PLAN OF FINANCING – Purpose” and “ – Sources and Uses of Funds”).
BOOK-ENTRY ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated to occur on or about September 13, 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 Co-Bond Counsel (see “APPENDIX C – FORMS OF OPINIONS OF CO-BOND COUNSEL” herein).

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OFFICIAL STATEMENT
Relating to

\$13,655,000
CHILTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Falls County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, C, and D hereto, provides certain information regarding the issuance of the \$13,655,000 Chilton 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 (the "Election"), and a bond order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on August 14, 2023. The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS – Authority for Issuance").

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

Included in this Official Statement are descriptions of the Bonds, the Bond Order and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, 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

Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, including safety and security upgrades to the primary and secondary campuses, and the purchase of the necessary sites for school facilities, and (ii) to pay the costs of issuance related to 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	\$ 13,655,000.00
Net Reoffering Premium on the Bonds	<u>590,304.05</u>
TOTAL SOURCES	\$ 14,245,304.05
 <u>Uses of Funds:</u>	
Deposit to Construction Fund	\$ 14,000,000.00
Underwriter's Discount	90,362.99
Costs of Issuance and Contingency ⁽¹⁾	<u>154,941.06</u>
TOTAL USES	\$ 14,245,304.05

⁽¹⁾ Includes legal fees of the District, financial advisory fees, rating agency fee, fees of the Paying Agent/Registrar, and other costs of issuance.

THE BONDS

Description of the Bonds

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

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

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

Security and Source of Payment

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

Permanent School Fund Guarantee

The District has been notified by the Texas Education Agency that, in connection with the sale of the Bonds, it 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 D – 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 D is incorporated herein and made a part hereof for all purposes.

Redemption Provisions

The Bonds maturing February 15, 2033 through February 15, 2048, each inclusive, 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. In addition, the Bonds maturing on February 15, 2053 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, 2028 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

The Bonds having a stated maturity on February 15 of 2043, 2048 and 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 Bond Due
February 15, 2043**

<u>Redemption Date (2/15)</u>	<u>Principal (\$)</u>
2039	370,000
2040	365,000
2041	375,000
2042	395,000
2043 ⁽¹⁾	420,000

**Term Bond Due
February 15, 2048**

<u>Redemption Date (2/15)</u>	<u>Principal (\$)</u>
2044	445,000
2045	480,000
2046	510,000
2047	545,000
2048 ⁽¹⁾	585,000

**Term Bond Due
February 15, 2053**

<u>Redemption Date (2/15)</u>	<u>Principal (\$)</u>
2049	620,000
2050	660,000
2051	695,000
2052	735,000
2053 ⁽¹⁾	765,000

Selection of Bonds for Redemption

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

Notice of Redemption

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

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

DTC Redemption Provisions

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

⁽¹⁾ Stated Maturity.

Defeasance

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

Amendments to Bond Order

The District may amend the Bond Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Bond Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

Default and Remedies

The Bond Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and therefore rests with the discretion of the court, but may not be arbitrarily refused. The Bonds may not be accelerated 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. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or covenants in the or Bond Order. 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 of the Bonds cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a

specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Co-Bond Counsel will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

The opinions of Co-Bond Counsel will be qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

Payment Record

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

Legality

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

Delivery

When issued; anticipated to occur on or about September 13, 2023.

Future Issues

On May 6, 2023, the District's voters authorized the District to issue \$14,000,000 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 \$14,000,000 toward voter authorized projects, leaving \$0 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 also, without voter approval, 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 (See "OTHER PERTINENT INFORMATION – Potential Financing or General Fund Drawdown").

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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 Falls 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 (See " – District and Taxpayer Remedies").

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

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a \$40,000 exemption (as described below) of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session" for a discussion of SB 2 and the November 7, 2023 State-wide election at which voters will consider an amendment to the Texas Constitution to increase the general residential homestead exemption from \$40,000 to \$100,000.

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. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session" for a discussion of SB 2 and the November 7, 2023 State-wide election at which voters will consider an amendment to the Texas Constitution to increase the general residential homestead exemption from \$40,000 to \$100,000. If voters approve such increase, school districts will be subject to certain restrictions upon eliminating or reducing local option homestead exemptions as discussed in "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session".

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. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area.

For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended. Section 11.35 of the Property Tax Code was recently amended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. 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 has 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 Falls County. The Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in Falls County. The District's taxes are collected by the Falls 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 tax increment-financing zone.

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 entered into the following Economic Development Agreements previously authorized under former Chapter 313, Texas Tax Code (each, a “Chapter 313 Agreement”) under which the taxable value of the project is limited for maintenance and operations taxes but the full assessed value of each project will be taxed for purposes of the debt service taxes securing the Bonds:

The District has entered into a Chapter 313 Agreement, limiting the taxable appraised value for maintenance and operation purposes to \$15,000,000, beginning tax year 2023 and extending through tax year 2032 with OCI Crown LLC.

The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operation purposes to \$15,000,000, beginning tax year 2023 and extending through tax year 2032 with OCI SOL LLC.

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 District is still in the process of (a) analyzing the provisions of HB 3 and SB 2 in light of the changes made in HB 1525, and (b) monitoring the on-going guidance provided by TEA. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding 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 Regular and Special Legislative Sessions

The 88th Legislature convened in general session on January 10, 2023 and adjourned on May 29, 2023. At the conclusion of the regular session, the Governor called an immediate special session of the 88th Texas Legislature, which 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. During the second special session, the Governor placed just two items on the agenda, including legislation: (1) "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 (2) "to put Texas on a pathway to eliminating 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, (c) prohibit 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) limit the appraised value of a non-homestead property valued at \$5 million or less to the lesser of (1) the market value of the property or (2) the market value of all new improvements to the property, plus 120% of the appraised value of the property for the preceding tax year. SB 2 also makes provision for State

aid funding to pay for the loss in school district M&O and I&S tax revenue (i.e., “hold harmless”). The hold harmless for the I&S tax revenue applies to (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 provisions set forth in (b) and (d) above will be submitted to voters of the State on November 7, 2023, and the provisions in (a)-(d) will not be effective unless voters approve of relevant amendments to the Texas Constitution at such election. The Governor signed SB 2 into law on July 22, 2023. After each special session, the Texas Governor may call one or more additional special sessions, each of which may last no longer than 30 days. During each special session, the Texas Legislature may enact laws that materially change current law as it relates to the funding and operation of public schools, including those impacting the District and its finances.

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 (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

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

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

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

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

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

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of certain legislation passed during the 86th 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 not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's 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 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 November 4, 2003 in accordance with the provisions of Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code, 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 or State assistance to satisfy the 50-cent Test.

Public Hearing and Voter-Approval Tax Rate

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

A school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, except that a tax rate that exceeds the Voter-Approval Tax Rate must be adopted not later than the seventy-first (71st) day before the next occurring November uniform election date. A school district's failure to adopt a tax rate equal to or less than the Voter-Approval Tax Rate by September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll, will result in the tax rate for such school district for the tax year to be the lower of the "no-

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

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

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

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

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

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

DEBT LIMITATIONS

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "NOTES TO THE FINANCIAL STATEMENTS – J. 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 – K. Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended August 31, 2022 as set forth in APPENDIX B hereto for information regarding the District's net OPEB liability and related matters.

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 conclusion of the 2021-22 fiscal year, the District had a net pension liability as set forth in APPENDIX B hereto.

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

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to make investments meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA"), which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the "SEC") and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and

are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

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

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

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

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

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

the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

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

Litigation

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

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

TAX MATTERS

Tax Exemption

In the opinion of Cantu Harden Montoya LLP, Co-Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds for federal income tax purposes: (1) will be excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code") of the owners thereof, and (2) will not be included in computing the alternative minimal taxable income of the owners thereof who are individuals. The statutes, rules, regulations, and court decisions on which such opinion is based are subject to change.

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

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

Tax Changes

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

Ancillary Tax Consequences

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

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

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

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed in order to mitigate the effects of COVID-19. The District has not experienced any decrease in property values or unusual tax delinquencies as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

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 COVID-19 or a similar virus as well as ongoing disruptions in the global oil markets (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). The value of the PSF guarantee could also be adversely impacted by ongoing volatility in the diversified global markets in which the PSF is invested (see "Appendix D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak").

As of May 11, 2023, the COVID-19 National Public Health Emergency Declaration officially ended. As of the date hereof, however, a new variant of SARS-CoV-2 appears to be responsible for a recent increase in COVID-19 cases in China. The District cannot predict whether COVID-19 cases will increase throughout the world or whether any such increase would have a material adverse effect on the District's operations or its finances.

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

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

Annual Reports

The District shall provide annually to the MSRB, (1) within six 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 APPENDIX A of this Official Statement and (2) if not provided as part of such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in APPENDIX B hereto or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in this Official Statement, and (ii) audited, if the District commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. 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's current fiscal year end is August 31. Accordingly, it must provide updated information 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 file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

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

Notice of Certain Events

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

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

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority

has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. The term “financial obligation” used in clauses (15) and (16) of the immediately preceding paragraph means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee or either (A) or (B). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

During the past five years the District has not had any continuing disclosure agreements under the Rule.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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

Registration and Qualification of Bonds for Sale

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

of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

Municipal Bond Rating

The Bonds are rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds are rated “A” by S&P without regard to credit enhancement.

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

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

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

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriter’s discount of \$90,362.99 and no accrued interest. The Underwriter’s obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

In the ordinary course of their various business activities, the Underwriter and its affiliates, 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 Underwriter and its 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.

Concentration of Tax Base

As shown in “Table 8 – HISTORICAL TOP TEN TAXPAYERS” of APPENDIX A attached hereto, the top ten taxpayers in the District currently account for, in the aggregate, approximately 74% of the District’s tax base. In addition, the top taxpayer in the District currently accounts for over 33% of the District’s tax base, thereby creating a concentration risk for the District.

The valuation of solar farms and other electric utilities within the State (such as those comprising a portion of the District's tax base), as determined by respective appraisal districts, have been subject to litigation related to the taxable value of such property; electric utilities are also subject to transfer and sole ownership by another entity, including to local governments whose property is exempt from ad valorem taxation. Accordingly, the District makes no representation regarding the continued valuation of any of top ten taxpayers or the generation of future tax revenues therefrom. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Default and Remedies" and "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT."

Potential Financing or General Fund Drawdown

The District has determined the need to make certain heating, ventilation, and air conditioning improvements at an estimated cost of approximately \$3,375,000. The District is in the process of determining whether to fund such improvements through the issuance of obligations secured by its maintenance tax or the use of surplus general operating fund balance. Any such obligations would not be secured by the same tax revenues securing the Bonds. Further, to the extent that the District uses any general operating fund balance to fund such improvements, the District expects that it would still maintain a general operating fund balance that is equal to or greater than the general operating fund balance target set forth in the District's policies. The District does not expect any potential financing or general operating fund drawdown to have any material adverse effect on its finances or operations.

Miscellaneous

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

Forward Looking Statements

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

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

Information from External Sources

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

Authorization of the Official Statement

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

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

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

/s/ Rodney Hall
President, Board of Trustees

ATTEST:

/s/ Christine Chandler
Secretary, Board of Trustees

APPENDIX A

SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

Table 1
ASSESSED VALUATION ^{(A)(B)}

2023/24 Total Assessed Valuation.....	\$	647,088,295
2023/24 Taxable Assessed Valuation.....	\$	340,024,045
 <u>Exemptions</u>		<u>Total</u>
Residential Homestead.....	\$	37,375,126
10% Residential Homestead Cap.....		13,817,226
Over Age 65.....		688,316
Disabled Persons.....		110,087
Disabled/Deceased Veterans.....		979,605
Productivity Value Loss.....		253,983,780
Pollution Control.....		110,110
Total (47.45% of Total Assessed Valuation).....	\$	<u>307,064,250</u>

^(A) Represents the certified value assuming the successful referendum of certain provisions of Senate Bill 2, which was signed into law on July 22, 2023, at a statewide election to be held on November 7, 2023 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2023 Regular and Special Legislative Sessions" in the Official Statement).

^(B) Source: Falls County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Falls County Appraisal District updates records.

Table 2
UNLIMITED TAX DEBT OUTSTANDING ^{(A)(B)}

Unlimited Tax Debt Outstanding (As of August 1, 2023).....	\$	282,000
Plus: The Bonds (Dated September 1, 2023).....		<u>13,655,000</u>
TOTAL UNLIMITED TAX DEBT OUTSTANDING.....	\$	13,937,000
Less: Interest & Sinking Fund Balance (As of August 31, 2022).....		<u>138,785</u>
NET UNLIMITED TAX DEBT OUTSTANDING.....	\$	<u>13,798,215</u>

^(A) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(B) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Maintenance Tax Notes" and "Table 16 - Capital Leases").

2023 Population Estimate	1,504	Per Capita Total Assessed Valuation	\$	430,245
2022/23 Enrollment	553	Per Capita Taxable Assessed Valuation	\$	226,080
Area (square miles)	181	Per Capita Total Unlimited Tax Debt	\$	9,267

2023/24 valuations herein include the full taxable value of properties that are subject to a series of value limitation agreements that the District has entered into pursuant to Chapter 313 of the Tax Code and is the full value that is used in calculating the District's I&S tax levy. The Certified Taxable Assessed Valuation used for the purposes of calculating the District's M&O tax levy for the 2023 Tax Year is approximately \$145,438,915.

Table 3
ESTIMATED GENERAL OBLIGATION OVERLAPPING DEBT STATEMENT

<u>Taxing Body</u>	<u>Gross Dollar Amount</u>	<u>As Of</u>	<u>Percent Overlap</u>	<u>Dollar Overlap</u>
Falls County	\$ 2,360,000	08/01/23	10.56%	\$ 249,216
Chilton ISD	\$ 13,937,000 ^{(A)(B)}	08/01/23	100.00%	\$ 13,937,000 ^{(B)(C)}
Total Direct and Overlapping Debt				\$ 14,186,216
Ratio of Direct Debt to Taxable Assessed Valuation.....				4.10%
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation.....				4.17%
Ratio of Direct and Overlapping Debt to Total Assessed Valuation.....				2.19%
Per Capita Direct and Overlapping Debt.....				\$ 9,432

^(A) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Maintenance Tax Notes" and "Table 16 - Capital Leases").

^(B) Includes the Bonds.

Source: The Municipal Advisory Council of Texas.

Table 4
2022/23 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES

Falls County.....	\$	0.815910
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Source: Falls County Appraisal District. Includes Fall County's Lateral Road Tax.

Table 5
PROPERTY TAX RATES AND COLLECTIONS

<u>Tax Year</u>	<u>Taxable Assessed</u>		<u>Total</u>		<u>Percent Collections</u> ^(A)		<u>Fiscal Year</u> <u>Ended</u>
	<u>Valuation</u>		<u>Tax Rate</u>		<u>Current</u>	<u>Total</u>	
2017	\$ 62,664,814		\$ 1.2690		95.81%	100.00%	08/31/18
2018	69,638,156		1.2690		95.80%	99.08%	08/31/19
2019	82,500,879		1.1800		94.42%	98.80%	08/31/20
2020	87,307,167		1.1361		91.26%	94.79%	08/31/21
2021	95,792,177		1.0953		<u>95.25%</u>	<u>103.43%</u>	08/31/22
	Five Year Average.....				<u>94.51%</u>	<u>99.22%</u>	
2022	\$ 110,175,005		\$ 1.0371		94.42% ^(B)	98.09% ^(B)	08/31/23

^(A) Excludes penalties and interest.

^(B) Unaudited, partial collections as of July 25, 2023.

Source: District's Audited Financial Statements and Falls County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Falls County Appraisal District updates records.

Table 6
TAX RATE DISTRIBUTION ^(A)

	<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>	<u>2020/21</u>	<u>2019/20</u>
Local Maintenance	\$0.66920	\$0.85460	\$0.89140	\$0.94602	\$0.97000 ^(B)
Interest and Sinking	<u>\$0.46342</u>	<u>\$0.18250</u>	<u>\$0.20390</u>	<u>\$0.19009</u>	<u>\$0.21000</u>
Total	<u>\$1.13262</u>	<u>\$1.03710</u>	<u>\$1.09530</u>	<u>\$1.13611</u>	<u>\$1.18000</u>

^(A) See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

^(B) Beginning in year 2019/20, the District's maintenance and operations tax rate became subject to compression pursuant to House Bill 3 that was enacted during the 2019 legislative session (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Overview" in the Official Statement).

Source: District's Audited Financial Statements and District records.

Table 7
VALUATION AND UNLIMITED TAX DEBT HISTORY

<u>Fiscal Year</u>	<u>Taxable</u> <u>Assessed</u> <u>Valuation</u>	<u>Percent Increase/</u> <u>(Decrease) In</u> <u>Taxable</u> <u>Assessed</u> <u>Valuation</u> <u>Over Prior Year</u>	<u>Principal</u> <u>Amount Of</u> <u>Unlimited</u> <u>Tax Debt</u> <u>Outstanding</u> <u>At Year End</u> ^(A)	<u>Ratio Of</u> <u>Unlimited Tax</u> <u>Debt To Taxable</u> <u>Assessed</u> <u>Valuation</u> ^(A)
2018/19	\$ 69,638,156	11.13%	\$ 1,496,000	2.15%
2019/20	82,500,879	18.47%	1,212,000	1.47%
2020/21	87,307,167	5.83%	915,000	1.05%
2021/22	95,792,177	9.72%	605,000	0.63%
2022/23	110,175,005	15.01%	13,937,000 ^(B)	12.65% ^(B)
2023/24	340,024,045 ^(C)	208.62%	12,985,000 ^(D)	3.82% ^(D)

^(A) Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Maintenance Tax Notes" and "Table 16 - Capital Leases").

^(B) Projected, as of August 31, 2023, subject to change. Includes the Bonds.

^(C) Represents the certified value assuming the successful referendum of certain provisions of Senate Bill 2, which was signed into law on July 22, 2023, at a statewide election to be held on November 7, 2023 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2023 Regular and Special Legislative Sessions" in the Official Statement). Increase in valuation primarily due to OCI Crown LLC and OCI SOL LLC solar farm projects. See Table 8 below.

^(D) Projected, as of August 31, 2024, subject to change. Includes the Bonds.

Source: Falls County Appraisal District and District records.

Table 8
HISTORICAL TOP TEN TAXPAYERS ^(A)

PRINCIPAL TAXPAYERS AND THEIR 2023/24 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
OCI Crown LLC ^(B)	Solar Farm	\$ 112,837,200	33.19%
OCI SOL LLC ^(B)	Solar Farm	111,747,930	32.86%
Oncor Electric Delivery Company LLC	Utility	8,178,930	2.41%
Flint Hills Resources LP	Oil & Gas	6,259,070	1.84%
Parsons Inc.	Commercial Roofing	2,561,200	0.75%
Cole Family Trust	Rural Land	2,369,230	0.70%
Thigpen Trucking Inc.	Trucking	2,104,880	0.62%
Cow Bayou Cattle Company LLC	Commercial Land	2,017,250	0.59%
Atmos Energy / Mid-Tex Pipeline	Oil & Gas Pipeline	1,806,770	0.53%
MEI Investments LP	Commercial Land	1,503,330	0.44%
Totals.....		\$ 251,385,790	73.93%

PRINCIPAL TAXPAYERS AND THEIR 2022/23 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
Flint Hills Resources LP	Oil & Gas	\$ 6,114,050	5.55%
Oncor Electric Delivery Company LLC	Utility	5,963,580	5.41%
Parsons Inc.	Commercial Roofing	3,086,840	2.80%
Thigpen Trucking Inc.	Trucking	2,315,740	2.10%
Cow Bayou Cattle Company LLC	Commercial Land	2,016,510	1.83%
Atmos Energy / Mid-Tex Pipeline	Oil & Gas Pipeline	1,859,530	1.69%
MEI Investments LP	Commercial Land	1,501,840	1.36%
Thigpen Ranches Ltd.	Commercial Land	1,408,250	1.28%
Primoris T & D Services LLC	Utility Services Contractor	851,970	0.77%
Thigpen, Robert P. Jr. et ux.	Real Estate	839,842	0.76%
Totals.....		\$ 25,958,152	23.56%

PRINCIPAL TAXPAYERS AND THEIR 2021/22 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Property</u>	<u>Taxable Assessed Valuation</u>	<u>Percent Of T.A.V.</u>
Oncor Electric Delivery Company LLC	Utility	\$ 6,082,630	6.35%
Flint Hills Resources LP	Oil & Gas	6,072,250	6.34%
Parsons Inc.	Commercial Roofing	3,364,970	3.51%
Atmos Energy / Mid-Tex Pipeline	Oil & Gas Pipeline	1,968,681	2.06%
Thigpen Trucking Inc.	Trucking	1,857,220	1.94%
Cow Bayou Cattle Company LLC	Commercial Land	1,783,930	1.86%
Thigpen Ranches Ltd.	Commercial Land	1,501,890	1.57%
MEI Investments LP	Commercial Land	1,501,840	1.57%
Lease Finance Partners Inc.	Commercial Vehicles	700,330	0.73%
Trinity Materials Inc.	Construction Materials	663,610	0.69%
Totals.....		\$ 25,497,351	26.62%

^(A) As shown in the table above, the total combined top ten taxpayers in the District currently account for 73.93% of the District's tax base. In addition, the top two taxpayers in the District currently account for 66.05% of the District's tax base, thereby creating a concentration risk for the District. Any adverse development related to OCI Crown LLC, OCI SOL LLC, or their subsidiaries affecting their ability to continue to conduct business at their locations within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness. See "CONCENTRATION OF TAX BASE."

^(B) In connection with an expansion of their operations within the District, these entities have entered into an assessed value limitation agreement with the District that limits the assessed value of the property relating to the expansion (but not the value of existing property) for purposes of the District's M&O tax levy.

Source: Falls County Appraisal District.

Table 9
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Property Use Category	2023/24 ^(A)	2022/23	2021/22	2020/21	2019/20
Real Property:					
Single-Family Residential	\$ 57,883,930	\$ 49,364,110	\$ 36,443,350	\$ 30,107,980	\$ 30,992,540
Multi-Family Residential	-	125,140	99,020	109,290	130,770
Vacant Lots/Tracts	927,470	841,650	548,510	472,440	495,960
Acreage	265,207,935	226,697,240	207,258,552	163,917,470	165,434,050
Farm and Ranch Improvements	61,118,760	49,833,820	39,446,690	39,666,690	36,811,030
Commercial and Industrial	232,002,790	5,710,880	5,321,155	3,008,410	3,008,410
Tangible Personal Property:					
Commercial and Industrial	8,488,070	9,151,040	7,376,080	6,186,240	5,879,910
Other	3,598,620	2,773,530	2,069,600	1,856,210	1,867,070
Real and Tangible Personal Property:					
Utilities	17,860,720	15,492,760	16,306,790	16,820,630	15,613,600
Total Assessed Valuation	\$ 647,088,295	\$ 359,990,170	\$ 314,869,747	\$ 262,145,360	\$ 260,233,340
Less Exemptions:					
Residential Homestead	\$ 37,375,126 ^(B)	\$ 18,000,932 ^(C)	\$ 11,569,669	\$ 11,094,251	\$ 10,295,541
10% Residential Cap Adjustment	13,817,226	13,312,828	7,601,728	6,788,786	8,712,937
Over Age 65	688,316	1,298,653	1,491,072	1,449,523	1,385,027
Disabled Persons	110,087	255,244	327,589	302,474	286,195
Disabled/Deceased Veterans	979,605	1,467,103	1,865,087	1,780,915	1,945,127
Productivity Value Loss	253,983,780	215,397,625	196,118,206	153,306,354	154,991,744
Pollution Control	110,110	82,780	104,219	115,890	115,890
Total Exemptions	\$ 307,064,250	\$ 249,815,165	\$ 219,077,570	\$ 174,838,193	\$ 177,732,461
Taxable Assessed Valuation	\$ 340,024,045	\$ 110,175,005	\$ 95,792,177	\$ 87,307,167	\$ 82,500,879

^(A) Represents the certified value assuming the successful referendum of certain provisions of Senate Bill 2, which was signed into law on July 22, 2023, at a statewide election to be held on November 7, 2023 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2023 Regular and Special Legislative Sessions" in the Official Statement).

^(B) Increase in "Residential Homestead" is primarily due to the increase in the State-mandated general residence homestead exemption from \$40,000 to \$100,000 pursuant to a constitutional amendment to be submitted to voters at a statewide election to be held on November 7, 2023 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2023 Regular and Special Legislative Sessions" in the Official Statement).

^(C) Increase in "Residential Homestead" is primarily due to the increase in the State-mandated general residence homestead exemption from \$25,000 to \$40,000 pursuant to a constitutional amendment approved at a statewide election held on May 7, 2022.

Source: Falls County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Falls County Appraisal District updates records.

Table 10
PERCENTAGE OF TOTAL ASSESSED VALUATION BY CATEGORY

Property Use Category	2023/24	2022/23	2021/22	2020/21	2019/20
Real Property:					
Single-Family Residential	8.95%	13.71%	11.57%	11.49%	11.91%
Multi-Family Residential	0.00%	0.03%	0.03%	0.04%	0.05%
Vacant Lots/Tracts	0.14%	0.23%	0.17%	0.18%	0.19%
Acreage	40.98%	62.97%	65.82%	62.53%	63.57%
Farm and Ranch Improvements	9.45%	13.84%	12.53%	15.13%	14.15%
Commercial and Industrial	35.85%	1.59%	1.69%	1.15%	1.16%
Oil, Gas and Minerals	0.00%	0.00%	0.00%	0.00%	0.00%
Inventory	0.00%	0.00%	0.00%	0.00%	0.00%
Tangible Personal Property:					
Commercial and Industrial	1.31%	2.54%	2.34%	2.36%	2.26%
Other	0.56%	0.77%	0.66%	0.71%	0.72%
Real and Tangible Personal Property:					
Utilities	2.76%	4.30%	5.18%	6.42%	6.00%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Falls County Appraisal District.

**Table 11
OUTSTANDING UNLIMITED TAX DEBT SERVICE**

<u>Year</u>	<u>Outstanding Debt Requirements</u>		<u>Plus: The Bonds - Debt Requirements</u>		<u>Total Debt Service Requirements</u>	<u>Percent Of Principal Retired</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>		
2022/23	\$ 323,000.00	\$ 24,990.20	\$ -	\$ -	\$ 347,990.20	
2023/24	282,000.00	12,577.20	670,000.00	605,611.81	1,570,189.01	
2024/25	-	-	490,000.00	610,937.50	1,100,937.50	
2025/26	-	-	465,000.00	587,062.50	1,052,062.50	
2026/27	-	-	435,000.00	564,562.50	999,562.50	18.69%
2027/28	-	-	395,000.00	543,812.50	938,812.50	
2028/29	-	-	350,000.00	525,187.50	875,187.50	
2029/30	-	-	300,000.00	508,937.50	808,937.50	
2030/31	-	-	260,000.00	494,937.50	754,937.50	
2031/32	-	-	260,000.00	481,937.50	741,937.50	29.66%
2032/33	-	-	280,000.00	468,437.50	748,437.50	
2033/34	-	-	305,000.00	453,812.50	758,812.50	
2034/35	-	-	330,000.00	437,937.50	767,937.50	
2035/36	-	-	355,000.00	420,812.50	775,812.50	
2036/37	-	-	385,000.00	402,312.50	787,312.50	41.27%
2037/38	-	-	410,000.00	382,437.50	792,437.50	
2038/39	-	-	370,000.00	362,937.50	732,937.50	
2039/40	-	-	365,000.00	344,562.50	709,562.50	
2040/41	-	-	375,000.00	326,062.50	701,062.50	
2041/42	-	-	395,000.00	306,812.50	701,812.50	54.70%
2042/43	-	-	420,000.00	286,437.50	706,437.50	
2043/44	-	-	445,000.00	264,812.50	709,812.50	
2044/45	-	-	480,000.00	241,687.50	721,687.50	
2045/46	-	-	510,000.00	216,937.50	726,937.50	
2046/47	-	-	545,000.00	190,562.50	735,562.50	71.53%
2047/48	-	-	585,000.00	162,312.50	747,312.50	
2048/49	-	-	620,000.00	134,512.50	754,512.50	
2049/50	-	-	660,000.00	107,312.50	767,312.50	
2050/51	-	-	695,000.00	78,518.75	773,518.75	
2051/52	-	-	735,000.00	48,131.25	783,131.25	94.64%
2052/53	-	-	765,000.00	16,256.25	781,256.25	100.00%
	\$ 605,000.00	\$ 37,567.40	\$ 13,655,000.00	\$ 10,576,593.06	\$ 24,874,160.46	

Note: Table 11 does not include any potential funding the District may receive from the State of Texas. The District has budgeted for the receipt of State financial assistance for debt service in the amount of \$157,956 for year 2022/23 and received State financial assistance for debt service in the amount of \$182,416 for the fiscal year ended August 31, 2022. The amount of State funding aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement). Table 11 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Maintenance Tax Notes" and "Table 16 - Capital Leases").

Table 12
AUTHORIZED BUT UNISSUED BONDS

After the issuance of the Bonds, the District will have no authorized but unissued bonds remaining from an election held within the District on May 6, 2023. Except for possible refundings for debt service savings, the District does not anticipate the issuance of additional unlimited tax bonds within the next 12 months.

In addition to unlimited tax bonds, the District may, without voter approval, incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes. The District is in the process of reviewing financing options for potential HVAC upgrades, including the issuance of maintenance tax notes, in fiscal year 2024 (See "OTHER PERTINENT INFORMATION - Potential Financing or General Fund Drawdown" in the Official Statement).

Table 13
INTEREST & SINKING FUND BUDGET INFORMATION

Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2023.....		\$	348,491	(A)
Interest and Sinking Fund Balance at August 31, 2022.....	\$		138,785	
Estimated State Assistance.....			157,956	
Local Taxes and Other Revenues.....			<u>205,326</u>	
		\$	<u>502,067</u>	
Projected Interest and Sinking Fund Balance at August 31, 2023.....		\$	<u>153,576</u>	

(A) Includes estimated paying agent/registrars fees and other bond related expenses.

Table 14
TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS

Year 2022/23 Principal And Interest Requirements.....	\$	347,990	
\$0.3343 Tax Rate At 94.51% Collections Produces.....	\$	348,093	(A)
Year 2023/24 Principal And Interest Requirements.....	\$	1,570,189	
\$0.4887 Tax Rate At 94.51% Collections Produces.....	\$	1,570,462	(B)
Maximum Principal And Interest Requirements, Year 2023/24.....	\$	1,570,189	
\$0.4887 Tax Rate At 94.51% Collections Produces.....	\$	1,570,462	(B)

(A) Based upon 2022/23 taxable assessed valuation of \$110,175,005.

(B) Based upon 2023/24 taxable assessed valuation of \$340,024,045.

Note: Table 14 does not include any potential funding the District may receive from the State of Texas. The District has budgeted for the receipt of State financial assistance for debt service in the amount of \$157,956 for year 2022/23 and received State financial assistance for debt service in the amount of \$182,416 for the fiscal year ended August 31, 2022. The amount of State aid for debt service may substantially differ from year to year, depending on a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in the Official Statement). Table 14 does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Maintenance

Table 15
MAINTENANCE TAX NOTES ^(A)

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service Requirements</u>	<u>Percent Of Principal Retired</u>
2022/23	\$ 103,000.00	\$ 19,300.48	\$ 122,300.48	
2023/24	108,000.00	14,482.00	122,482.00	
2024/25	112,000.00	9,456.13	121,456.13	
2025/26	118,000.00	4,201.93	122,201.93	
2026/27	36,000.00	753.30	36,753.30	100.00%
	<u>\$ 477,000.00</u>	<u>\$ 48,193.84</u>	<u>\$ 525,193.84</u>	

^(A) Payable from the District's Maintenance & Operations tax rate. Does not include other limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 16 - Capital Leases").

Table 16
CAPITAL LEASES

The District previously entered into a capital lease agreement for school buses. Debt service requirements for the capital lease obligation as of August 31, 2022 are as follows:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2023	\$ 41,089	\$ 3,197	\$ 44,286
2024	42,129	2,157	44,286
2025	43,005	1,092	44,097
	<u>\$ 126,223</u>	<u>\$ 6,446</u>	<u>\$ 132,669</u>

Source: District's Audited Financial Statements.

Table 17
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ended August 31, 2018 - 2022				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Assets:					
Cash and Cash Equivalents	\$ 5,713,172	\$ 4,526,259	\$ 4,081,442	\$ 3,409,012	\$ 3,089,668
Property Taxes Receivable - Delinquent	154,279	185,272	151,935	143,000	136,733
Allowance for Uncollectible Taxes	(30,856)	(37,054)	(30,387)	(28,600)	(27,347)
Due from Other Governments	-	383,302	173,556	335,100	144,509
Due from Other Funds	491,291	341,324	296,948	120,383	113,635
Other Receivables	-	12,022	11,950	2,238	3,039
Prepaid Items	-	-	-	-	9,838
Other Current Assets	-	-	52,674	-	-
Total Assets	<u>\$ 6,327,886</u>	<u>\$ 5,411,125</u>	<u>\$ 4,738,118</u>	<u>\$ 3,981,133</u>	<u>\$ 3,470,075</u>
Liabilities, Deferred Inflows of Resources and Fund Balances:					
<i>Liabilities:</i>					
Accounts Payable	\$ 143,631	\$ 90,798	\$ 60,213	\$ 50,472	\$ 13,027
Payroll Deductions and Withholdings	2,137	54	35,370	32,550	83
Accrued Wages Payable	310,916	304,848	277,558	249,540	190,837
Due to Other Funds	64,738	3,540	2,850	583	25
Due to State	2,304	-	-	-	-
Accrued Expenditures	6,505	6,351	5,745	5,305	3,918
Total Liabilities	<u>\$ 530,231</u>	<u>\$ 405,591</u>	<u>\$ 381,736</u>	<u>\$ 338,450</u>	<u>\$ 207,890</u>
<i>Deferred Inflows of Resources:</i>					
Unavailable Revenue - Property Taxes	\$ 123,423	\$ 148,218	\$ 121,548	\$ 114,400	\$ 109,386
Total Deferred Inflows of Resources	<u>\$ 123,423</u>	<u>\$ 148,218</u>	<u>\$ 121,548</u>	<u>\$ 114,400</u>	<u>\$ 109,386</u>
<i>Fund Balance:</i>					
Non-spendable Fund Balance:					
Prepaid Items	\$ -	\$ -	\$ -	\$ -	\$ 9,838
Unassigned Fund Balance	\$ 5,674,232	\$ 4,857,316	\$ 4,234,834	\$ 3,528,283	\$ 3,142,961
Total General Fund Balance^(A)	<u>\$ 5,674,232</u>	<u>\$ 4,857,316</u>	<u>\$ 4,234,834</u>	<u>\$ 3,528,283</u>	<u>\$ 3,152,799</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 6,327,886</u>	<u>\$ 5,411,125</u>	<u>\$ 4,738,118</u>	<u>\$ 3,981,133</u>	<u>\$ 3,470,075</u>

^(A) The District estimates its Ending General Fund Balance will be approximately \$5,700,000 for the fiscal year ending August 31, 2023.
Source: District's Audited Financial Statements.

Table 18
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Years Ended August 31, 2018 - 2022				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Beginning General Fund Balance ^(A)	\$ 4,857,317	\$ 4,234,831	\$ 3,528,283	\$ 3,152,797	\$ 2,878,937
Revenues:					
Local and Intermediate Sources	\$ 1,262,448	\$ 918,467	\$ 1,047,530	\$ 818,270	\$ 828,574
State Program Revenues	6,206,554	6,091,601	5,762,943	4,957,201	4,695,924
Federal Program Revenues	47,037	54,588	20,734	768	21,439
Total Revenues	\$ 7,516,039	\$ 7,064,656	\$ 6,831,207	\$ 5,776,239	\$ 5,545,937
Expenditures:					
Instruction	\$ 3,142,842	\$ 3,149,747	\$ 3,017,539	\$ 2,639,715	\$ 2,506,635
Instructional Resources and Media Services	69,180	68,292	72,509	36,342	34,123
Curriculum and Instructional Staff Development	63,583	52,056	42,435	35,694	23,975
Instructional Leadership	76,465	69,983	70,866	5,155	25,330
School Leadership	272,823	281,229	273,616	234,151	277,782
Guidance, Counseling and Evaluation Services	128,373	152,479	157,493	95,012	91,786
Health Services	88,677	92,311	65,053	58,521	56,232
Student Transportation	144,582	313,455	72,833	85,798	125,540
Food Services	11,063	9,504	-	-	-
Extracurricular Activities	564,206	436,348	370,358	356,284	302,907
General Administration	531,588	437,776	566,877	366,026	344,775
Facilities Maintenance and Operations	648,785	748,487	694,581	600,672	663,280
Security and Monitoring Services	24,749	14,129	28,085	51,330	-
Data Processing Services	172,398	182,906	175,265	153,301	144,989
Community Services	84,865	79,512	60,284	77,867	75,004
Principal on Long-term Debt	138,076	174,549	134,237	130,771	123,772
Interest on Long-term Debt	28,101	30,886	35,575	40,157	46,991
Facilities Acquisition and Construction	276,275	73,988	26,545	148,497	136,008
Payments to Fiscal Agent/Member District of SSA	199,427	246,126	219,363	246,767	256,410
Other Intergovernmental Charges	33,066	39,182	41,142	38,693	36,536
Total Expenditures	\$ 6,699,124	\$ 6,652,945	\$ 6,124,656	\$ 5,400,753	\$ 5,272,075
Proceeds from Capital Lease	\$ -	\$ 210,774	\$ -	\$ -	\$ -
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 816,915	\$ 622,485	\$ 706,551	\$ 375,486	\$ 273,862
Ending General Fund Balance ^{(A)(B)(C)}	\$ 5,674,232	\$ 4,857,316	\$ 4,234,834	\$ 3,528,283	\$ 3,152,799

(A) Beginning and Ending General Fund Balance may differ due to rounding.

(B) Ending General Fund Balance includes Non-spendable and Unassigned Fund Balance.

(C) The District estimates its Ending General Fund Balance will be approximately \$5,700,000 for the fiscal year ending August 31, 2023.

Source: District's Audited Financial Statements.

Table 19
CHANGE IN NET POSITION ^(A)

	Fiscal Years Ended August 31, 2018 - 2022				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Revenues:					
Program Revenues					
Charges for Services	\$ 122,925	\$ 95,587	\$ 40,410	\$ 59,787	\$ 57,529
Operating Grants and Contributions	<u>2,008,583</u>	<u>1,848,579</u>	<u>1,623,141</u>	<u>1,389,701</u>	<u>312,575</u>
Total Program Revenues	\$ 2,131,508	\$ 1,944,166	\$ 1,663,551	\$ 1,449,488	\$ 370,104
General Revenues					
Maintenance and Operations Taxes	\$ 825,989	\$ 776,825	\$ 774,493	\$ 697,465	\$ 620,850
Debt Service Taxes	192,401	145,867	164,543	151,214	138,362
State Aid - Formula Grants	5,782,464	5,691,943	5,479,850	4,751,031	4,483,373
Investment Earnings	85,741	23,160	24,483	48,547	19,721
Miscellaneous Local and Intermediate Revenue	300,250	75,630	243,894	17,891	54,925
Royalties	-	54,035	-	48,756	102,521
Total General Revenues	\$ 7,186,845	\$ 6,767,460	\$ 6,687,263	\$ 5,714,904	\$ 5,419,752
Total Revenues.....	<u>\$ 9,318,353</u>	<u>\$ 8,711,626</u>	<u>\$ 8,350,814</u>	<u>\$ 7,164,392</u>	<u>\$ 5,789,856</u>
Expenses					
Instruction	\$ 3,755,062	\$ 4,022,024	\$ 3,892,416	\$ 3,475,194	\$ 2,068,958
Instructional Resources and Media Services	67,620	73,718	78,972	40,594	29,361
Curriculum and Instructional Staff Development	220,270	55,075	49,392	60,785	62,725
Instructional Leadership	132,635	75,361	79,607	5,960	20,006
School Leadership	261,484	302,432	310,378	267,027	204,041
Guidance, Counseling and Evaluation Services	154,002	173,963	172,409	106,680	76,992
Health Services	84,492	97,511	73,198	66,461	43,208
Student Transportation	148,099	129,480	94,801	116,896	96,713
Food Services	462,059	499,594	456,948	390,533	266,326
Extracurricular Activities	636,150	532,110	411,163	398,846	238,059
General Administration	539,683	476,253	619,608	407,335	302,680
Facilities Maintenance and Operations	664,525	823,585	735,911	625,400	595,953
Security and Monitoring Services	27,925	17,345	56,261	11,877	-
Data Processing Services	315,017	198,827	196,600	173,483	113,395
Community Services	80,727	84,699	69,200	88,475	57,425
Interest on Long-term Debt	82,315	83,600	91,485	101,385	141,726
Bond Issuance Costs and Fees	-	-	-	-	1,000
Payments Related to SSA	199,427	246,126	290,587	246,767	256,410
Other Intergovernmental Charges	33,066	39,182	41,142	38,693	36,536
Total Expenses.....	<u>\$ 7,864,558</u>	<u>\$ 7,930,885</u>	<u>\$ 7,720,078</u>	<u>\$ 6,622,391</u>	<u>\$ 4,611,514</u>
Increase/(Decrease) in Net Position	\$ 1,453,795	\$ 780,741	\$ 630,736	\$ 542,001	\$ 1,178,342
Beginning Net Position	6,046,198	5,242,331	4,611,595	4,069,594	6,489,899
Prior Period Adjustment	-	23,126 ^(B)	-	-	(3,598,647) ^(C)
Ending Net Position.....	<u>\$ 7,499,993</u>	<u>\$ 6,046,198</u>	<u>\$ 5,242,331</u>	<u>\$ 4,611,595</u>	<u>\$ 4,069,594</u>

^(A) Financial operations for all governmental activities in accordance with GASB Statement Number 34.

^(B) Prior Period Adjustment due to the adoption of GASB Statement Number 84 by the District.

^(C) Prior Period Adjustment due to the adoption of GASB Statement Number 75 by the District.

Source: District's Audited Financial Statements.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Chilton 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.

CHILTON I.S.D.



CHILTON INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2022

Paul J. Christensen & Associates, LLC
Certified Public Accountants
Waco, Texas

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

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CERTIFICATE OF BOARD

Chilton Independent School District
Name of School District

Falls
County

073-901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2022 at a meeting of the Board of Trustees of such school district on the 23th day of January, 2023.

Christine Chandler
Signature of Board Secretary

Rodney Hall
Signature of Board President

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

Paul J. Christensen & Associates, LLC

Certified Public Accountants

2110 Austin Avenue
Waco, Texas 76701
(254)752-3436
FAX (254)752-3463
<http://www.waco-cpa.com>

Paul J. Christensen, C.P.A.
Gary L. Sauls, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Chilton Independent School District
P.O. Box 488
Chilton, Texas 76632

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Chilton Independent School District, as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise Chilton Independent School 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 Chilton Independent School 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Chilton Independent School 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.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 by 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 Chilton Independent School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Chilton Independent School 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, pension and OPEB information on pages 7-11 and 52-58 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

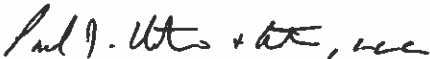
Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Chilton Independent School District's basic financial statements. The combining nonmajor fund financial statements and required TEA schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. The combining nonmajor fund financial statements and required TEA schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and required TEA schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 23, 2023, on our consideration of Chilton Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Chilton Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Chilton Independent School District's internal control over financial reporting and compliance.

Paul J. Christensen & Associates, LLC


Waco, Texas
January 23, 2023

CHILTON INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Chilton Independent School District's annual financial report provides our overview of the District's financial performance for the fiscal year ended August 31, 2022. Please read it in conjunction with the District's financial statements, which begin on page 13.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$7,499,994 (*net position*). Of this amount, \$1,583,669 represents unrestricted net position.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$5,961,996, which is an increase of \$922,537 from the prior year. This change is primarily a result of an increase in local and federal revenue.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,674,232 or 85% of total General Fund expenditures, an increase of \$816,916 or 17% from the prior year.

Using This Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (pages 13 and 14 respectively). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The remaining statements – the fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The combining statements for non-major funds contain even more information about the District's individual funds. The sections labeled Required TEA Schedules and Compliance Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 13. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities, deferred outflows/inflows of resources at the end of the year while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by most private sector companies.

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

These two statements report the District's net position and changes in them. The District's net position (the difference between assets, deferred outflows/inflows of resources and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, non-financial factors should be considered as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District reports one activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 15 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U.S. Department of Education. The District's administration establishes other funds to help it control and manage money for particular purposes (such as campus activities).

The District has one type of fund as follows:

Governmental funds – All of the District's services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the services it provides. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are provided in reconciliation schedules following each of the governmental fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-Wide Financial Analysis

The following analysis presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table I) and the change in net position (Table II) of the District's governmental activities.

Table I
Chilton Independent School District
Net Position

	Governmental Activities 2022	Governmental Activities 2021
ASSETS		
Current and other assets	\$ 6,670,044	\$ 5,788,045
Capital assets, net	6,698,001	6,817,504
Total assets	13,368,045	12,605,549
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to TRS	589,339	542,798
Deferred outflows related to TRS OPEB	654,148	499,814
Total Deferred Outflows of Resources	1,243,487	1,042,612
LIABILITIES		
Long-term liabilities	3,928,249	4,981,289
Other liabilities	603,540	601,324
Total liabilities	4,531,789	5,582,613
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to TRS	1,029,845	435,748
Deferred inflows related to TRS OPEB	1,549,904	1,583,602
Total Deferred Inflows of Resources	2,579,749	2,019,350
NET POSITION:		
Invested in capital assets, net of related debt	5,489,777	5,161,204
Restricted	426,548	294,564
Unrestricted	1,583,669	590,430
Total net position	7,499,994	6,046,198
	\$ 14,611,532	\$ 13,648,161

Table II
Chilton Independent School District
Change in Net Position

	Governmental Activities 2022	Governmental Activities 2021
Revenues:		
Program Revenues:		
Charges for services	\$ 122,925	\$ 95,587
Operating grants and contributions	2,008,583	1,848,579
General Revenues:		
Property taxes	1,018,390	922,692
State aid - formula grants	5,782,464	5,691,943
Investment earnings	85,741	23,160
Miscellaneous	300,250	129,665
Total Revenue	9,318,353	8,711,626
Expenses:		
Instruction	\$ 3,755,061	\$ 4,022,024
Instructional resources and media services	67,620	73,718
Curriculum and instructional staff development	220,270	55,075
Instructional leadership	132,635	75,361
School leadership	261,484	302,432
Guidance, counseling and evaluation services	154,002	173,963
Health services	84,492	97,511
Student transportation	148,099	129,480
Food services	462,059	499,594
Extracurricular activities	636,150	532,110
General administration	539,683	476,253
Facilities maintenance and operations	664,525	823,585
Security and monitoring services	27,925	17,345
Data processing services	315,017	198,827
Community services	80,727	84,699
Debt service	82,315	83,600
Payments to fiscal agent/member district of SSA	199,427	246,126
Other intergovernmental charges	33,066	39,182
Total Expenses	7,864,557	7,930,885
Change in net position	1,453,796	780,741
Net position - beginning	6,046,198	5,265,457
Net position - end	\$ 7,499,994	\$ 6,046,198

Analysis

The District's total revenues increased from \$8,604,784 to \$9,715,647, an increase of \$1,110,863. Federal program revenues increased by \$597,081. Property taxes increased by \$153,029. Miscellaneous revenues increased by \$260,609 due to approximately \$276,000 Chapter 313 tax abatement application fee contributions received.

The District's total expenses increased by \$560,305 from \$8,232,806 to \$8,793,111. Expenses related to salaries increased 566,479 due the change in the professional pay scale and the addition of seven staff members.

The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of \$5,961,966 which is more than last year's total of \$5,039,459. This year's operations resulted in an increase of fund balance of \$922,536.

Over the course of the year, the Board of Trustees revised the budget as needed.

The District's General Fund balance of \$5,674,232 reported in exhibit G-1 differs from the General Fund's budgetary fund balance of \$5,037,821 reported in the budgetary comparison schedule on page 52. This is principally due to local and state program revenues being more than budgeted revenues and actual expenditures being less than budgeted expenditures.

Capital Asset and Debt Administration

Capital Assets

At the end of 2022, the District had \$6,698,001 net of depreciation invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

During the year ended August 31, 2022, the District spent \$284,670 on a land purchase and land improvements, and \$21,269 on equipment.

Debt

At year-end, the District had long-term debt obligations of \$1,208,224.

Economic Factors and Next Year's Budgets and Rates

For the 2022-2023 school year, the District will strive to maintain all programs without significant changes. The District continues to be aware of and plan for coming legislative changes to state funding in order to maintain their educational programs, meet increased state guidelines, and maintain adequate fund balance reserves.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Chilton Independent School District, 905 Durango Ave, Chilton, TX 76632 – (254) 546-1200.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	1 Primary Government
	Governmental Activities
ASSETS	
1110	Cash and cash equivalents \$ 6,026,129
1220	Property taxes - delinquent 189,569
1230	Allowance for uncollectible taxes (37,914)
1240	Due from other governments 480,132
1290	Other receivables (net) -
1300	Inventories 12,128
	Capital Assets:
1510	Land 489,909
1520	Buildings and Improvements, net 5,722,310
1530	Furniture and Equipment, net 183,985
1540	Vehicles, net 148,570
1560	Library Books and Media, net 153,227
1000	Total assets 13,368,045
DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred outflows related to TRS 589,339
1706	Deferred outflows related to TRS OPEB 654,148
1700	Total deferred outflows of resources 1,243,487
LIABILITIES	
2110	Accounts payable 152,467
2140	Interest payable 47,147
2150	Payroll Deductions & Withholdings 2,138
2160	Accrued Wages Payable 380,971
2180	Due to State 2,304
2200	Accrued Expenditures or expenses 11,571
2300	Deferred revenue 6,943
	Noncurrent liabilities:
2501	Due within one year 467,089
2502	Due in more than one year 741,135
2540	Net Pension Liability (District's Share) 791,912
2545	Net OPEB Liability (District's Share) 1,928,113
2000	Total liabilities 4,531,790
DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflows related to TRS 1,029,845
2606	Deferred inflows related to TRS OPEB 1,549,904
2600	Total deferred inflows of resources 2,579,749
NET POSITION	
3200	Invested in capital assets, net of related debt 5,489,777
	Restricted for:
3820	Federal and state programs 287,764
3850	Debt service 138,784
3900	Unrestricted 1,583,668
3000	Total net position \$ 7,499,993

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

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

EXHIBIT B-1

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Position
	1	3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary government:				
Governmental activities:				
11	\$ 3,755,062	\$ -	\$ 1,114,759	\$ (2,640,303)
12	67,620	-	835	(66,785)
13	220,270	-	3,702	(216,568)
21	132,635	-	(5,086)	(137,721)
23	261,484	-	1,037	(260,447)
31	154,002	-	6,391	(147,611)
33	84,492	-	41,535	(42,957)
34	148,099	-	4,271	(143,828)
35	462,059	26,229	745,005	309,175
36	636,150	96,696	7,382	(532,072)
41	539,683	-	26,495	(513,188)
51	664,525	-	32,269	(632,256)
52	27,925	-	30,496	2,571
53	315,017	-	1,219	(313,798)
61	80,727	-	(1,727)	(82,454)
72	82,315	-	-	(82,315)
93	199,427	-	-	(199,427)
99	33,066	-	-	(33,066)
TP	<u>\$ 7,864,558</u>	<u>\$ 122,925</u>	<u>\$ 2,008,583</u>	<u>\$ (5,733,050)</u>

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	825,989
DT	Property Taxes, Levied for Debt Service	192,401
SF	State Aid - Formula Grants	5,782,464
IE	Investment Earnings	85,741
MI	Miscellaneous Local and Intermediate Revenue	300,250
S1	Royalties	-
TR	Total General Revenues	<u>7,186,845</u>
CN	Change in Net Position	1,453,795
NB	Net Position - beginning	<u>6,046,198</u>
PA	Prior period adjustment	-
NE	Net Position - ending	<u>\$ 7,499,993</u>

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

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

EXHIBIT C-1

Data Control Codes	10 General Fund	Nonmajor Governmental Funds	98 Total Governmental Funds
ASSETS			
1110	\$ 5,713,172	\$ 312,957	\$ 6,026,129
1220	154,279	35,290	189,569
1230	(30,856)	(7,058)	(37,914)
1240	-	480,132	480,132
1260	491,291	65,436	556,727
1290	-	-	-
1300	-	12,128	12,128
1000	<u>6,327,886</u>	<u>898,885</u>	<u>7,226,771</u>
LIABILITIES			
2110	143,631	8,837	152,468
2150	2,137	-	2,137
2160	310,916	70,055	380,971
2170	64,738	491,988	556,726
2180	2,304	-	2,304
2200	6,505	5,066	11,571
2300	-	6,943	6,943
2000	<u>530,231</u>	<u>582,889</u>	<u>1,113,120</u>
DEFERRED INFLOWS OF RESOURCES			
2601	123,423	28,232	151,655
2600	<u>123,423</u>	<u>28,232</u>	<u>151,655</u>
FUND BALANCES			
Non-spendable Fund Balance:			
3410	-	12,128	12,128
Restricted Fund Balance:			
3450	-	136,851	136,851
3480	-	138,785	138,785
3600	5,674,232	-	5,674,232
3000	<u>5,674,232</u>	<u>287,764</u>	<u>5,961,996</u>
4000	<u>\$ 6,327,886</u>	<u>\$ 898,885</u>	<u>\$ 7,226,771</u>

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

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

EXHIBIT C-1R

Total Fund Balances - Governmental Funds	\$	5,961,996
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$14,198,903 and the accumulated depreciation was (\$7,270,975). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		5,161,204
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2022 capital outlays and debt principal payments is to increase net position.		754,014
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$589,342, a deferred resource inflow in the amount of \$1,029,845 and a net pension liability in the amount of \$791,912.		(4,056,287)
<p>Also included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$654,148, a deferred resource inflow in the amount of \$1,549,904 and a net OPEB liability in the amount of \$1,928,113. The net effect of items related to GASB 68 and GASB 75 for pension and OPEB liabilities was a decrease in net position.</p>		
4 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(425,441)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		104,507
19 Net Position of Governmental Activities	\$	<u>7,499,993</u>

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

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

EXHIBIT C-2

Data Control Codes	10		98	
	General Fund	Other Governmental Funds	Total Governmental Funds	
REVENUES				
5700	Local and intermediate sources	\$ 1,262,448	\$ 291,853	\$ 1,554,301
5800	State program revenues	6,206,554	197,252	6,403,806
5900	Federal program revenues	47,037	1,710,503	1,757,540
5020	Total revenues	<u>7,516,039</u>	<u>2,199,608</u>	<u>9,715,647</u>
EXPENDITURES				
Current:				
0011	Instruction	3,142,842	765,517	3,908,359
0012	Instructional resources and media services	69,180	-	69,180
0013	Curriculum and instructional staff development	63,583	163,569	227,152
0021	Instructional leadership	76,465	65,222	141,687
0023	School leadership	272,823	-	272,823
0031	Guidance, counseling, and evaluation services	128,373	25,000	153,373
0033	Health services	88,677	-	88,677
0034	Student (pupil) transportation	144,582	6,425	151,007
0035	Food services	11,063	456,536	467,599
0036	Extracurricular activities	564,206	78,615	642,821
0041	General administration	531,588	-	531,588
0051	Facilities maintenance and operations	648,785	37,508	686,293
0052	Security and monitoring services	24,749	-	24,749
0053	Data processing services	172,398	147,078	319,476
0061	Community services	84,865	64	84,929
Debt Service:				
0071	Principal on long-term debt	138,076	310,000	448,076
0072	Interest on long-term debt	28,101	38,454	66,555
Capital outlay:				
0081	Facilities acquisition and construction	276,275	-	276,275
Intergovernmental:				
0093	Payments to fiscal agent/member district of SSA	199,427	-	199,427
0099	Other intergovernmental charges	33,066	-	33,066
6030	Total expenditures	<u>6,699,124</u>	<u>2,093,988</u>	<u>8,793,112</u>
7900	Proceeds from capital lease	-	-	-
1100	Excess (deficiency) of revenues over expenditures	<u>816,915</u>	<u>105,620</u>	<u>922,535</u>
1200	Net change in fund balances	<u>816,915</u>	<u>105,620</u>	<u>922,535</u>
0100	Fund balances--beginning	<u>4,857,317</u>	<u>182,144</u>	<u>5,039,461</u>
1300	Prior Period Adjustment	-	-	-
3000	Fund balances--ending	<u>\$ 5,674,232</u>	<u>\$ 287,764</u>	<u>\$ 5,961,996</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	922,535
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2020 capital outlays and debt principal payments is to increase net position.		754,014
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(425,441)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and recognizing the liabilities associated with maturing long-term debt and interest. . The net effect of these reclassifications and recognitions is to increase net position.		(42,756)
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$179,044. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$132,703. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense increased the change in net position by \$108,952.		245,443
Similarly, GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$44,071. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$39,049. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$85,128. The net effect for both GASB 68 and GASB 75 related to pension and OPEB expenses is an increase in the change in net position.		
Change in Net Position of Governmental Activities	\$	<u>1,453,795</u>

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

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

EXHIBIT E-1

	Private Purpose Trust Funds	Custodial Fund
ASSETS		
Cash and Cash Equivalents	\$ 600	\$ 4,579
Total Assets	600	4,579
LIABILITIES		
Accounts Payable	-	-
Total Liabilities	-	-
NET POSITION		
Restricted for:		
Individuals, organizations and other governments	600	4,579
Total net position	\$ 600	\$ 4,579

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

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

EXHIBIT E-2

	Private Purpose Trust Funds	Custodial Fund
ADDITIONS:		
Miscellaneous Revenue - Student Activities	\$ 100	\$ 7,219
Total Additions	100	7,219
DEDUCTIONS:		
Supplies and Materials	-	8,445
Other Deductions	750	-
Total Deductions	750	8,445
Change in Fiduciary Net Position	(650)	(1,226)
Total Net Position - September 1 (Beginning)	1,250	5,805
Total Net Position - August 31 (Ending)	\$ 600	\$ 4,579

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Chilton Independent School District have been prepared in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement No. 76, and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") consists of seven members and has governance responsibilities over all activities related to public elementary and secondary school education within the Chilton Independent School District (the "District"). Board members are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity". There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. These statements report information on all non-fiduciary activities of the District. The effect of the interfund activity in the government-wide statements eliminates services provided and used in the process of consolidation. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges for services by a given function, and 2) grants and contributions, which are restricted to meeting operational requirements of a particular function. Charges for services includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. Grants and contributions includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes and state aid are properly excluded from program revenues and reported as general revenues instead.

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become 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. The District considers all revenues available if they are collectible within 60 days of the end of the current fiscal period. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. However, unmatured interest and principal on long-term debt are recognized only when due. The expenditures related to certain compensated absences and claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

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

Fiduciary funds are used to report on assets held in by the District in trust by others. These funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Custodial Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities and have no equity. Therefore, revenues and expenditures for these funds are not included for general operations of the district.

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund type(s):

Governmental Funds:

2. **Special Revenue Fund** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a Special Revenue Fund. Most Federal and some state financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in the Debt Service Fund.

Fiduciary Funds:

4. **Custodial Fund** – The District accounts for resources held for others in custodial funds. The District’s Custodial Funds are Student Activity Accounts.

E. OTHER ACCOUNTING POLICIES

Food Commodities

Food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and expenditures are charged and revenue is recognized for an equal amount when received.

Capital Assets

Capital assets which include land, buildings, furniture and equipment are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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

E. OTHER ACCOUNTING POLICIES (continued)

Capital Assets (continued)

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

<u>Assets</u>	<u>Year</u>
Buildings	39
Building Improvements	20
Vehicles	7
Office Equipment	7
Computer Equipment	7

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. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

Employees are allowed to accrue five days of state personal leave each year without limit. State personal leave does not vest under the District's policy and accordingly, employees can only utilize state personal leave when sick, or state personal leave for personal reasons when approved by their supervisor. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the basic financial statements.

Employees who retire from the District under the requirements of the Texas Teacher Retirement System are reimbursed for the accrued but unused state sick leave and state personal leave accumulated while employed in the District. The rate of payment is the daily rate for the position. Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year.

In the event of termination, an employee is reimbursed for any unused accumulated vacation leave. The District has no liability for unused vacation pay since all vacation leave is used or paid if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

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

E. OTHER ACCOUNTING POLICIES (continued)

Pensions

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

Other Post-Employment Benefits

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

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. The District is reporting an item related to TRS which represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net position liability and net OPEB liability.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of inflow, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources with TRS uses in calculating the ending net pension liability and net OPEB liability.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

Non-spendable Fund Balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid accounts. It also includes the long-term amount of the loans and notes receivable.

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

E. OTHER ACCOUNTING POLICIES (continued)

Fund Balance Classification (continued)

Restricted Fund Balance - includes amounts for which constraints have been placed on the use of the resources (a) either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provision of enabling legislation.

Committed Fund Balance – includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District’s Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board of Trustees remove or change the specified use by taking the same type of action it employed when the funds were initially committed.

Assigned Fund Balance – includes amounts that are constrained by the District’s intent to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the Board of Trustees or by other officials to which the Board of Trustees has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board of Trustees delegates the responsibility to assign funds to the superintendent or his/her designees.

Unassigned Fund Balance – is the residual classification for the General Fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

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 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.

Program Revenue

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 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.

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

E. OTHER ACCOUNTING POLICIES (continued)

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

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

Data Control Codes

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

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-1R provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and that long-term liabilities are not due and payable in the current period and therefore not reported in the governmental funds. The details of capital assets and long-term liabilities at the beginning of the year are as follows:

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Book Value Beg. of Year	Change in Net Position
Land	\$ 214,135	\$ -	\$ 214,135	
Building and Improvements	11,019,601	4,994,606	6,024,995	
Furniture and Equipment	2,005,023	1,814,767	190,256	
Vehicles	1,109,398	874,505	234,893	
Books and Media	153,227	-	153,227	
	<u>\$ 14,501,384</u>	<u>\$ 7,683,878</u>	<u>\$ 6,817,506</u>	<u>\$ 6,817,506</u>

Liabilities at the Beginning of the year	Payable at the Beg. of Year	Change in Net Position
<u>Long-term</u>		
Bonds Payable	915,000	
Notes Payable	575,000	
Capital Leases	166,302	
Total Liabilities	<u>\$ 1,656,302</u>	<u>\$ 1,656,302</u>

Net Adjustment to Net Position	<u>\$ 5,161,204</u>
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CHILTON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2022

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-3 provides the reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets in the government-wide statements. This adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
<u>Current Year Capital Outlay:</u>			
Land	\$ 275,774		
Buildings and improvements	8,895		
Furniture and Equipment	21,269		
Total Capital Outlay	<u>\$ 305,938</u>	<u>\$ 305,938</u>	<u>\$ 305,938</u>
<u>Debt Principal Payments</u>			
Bond principal payments	\$ 310,000		
Note principal payments	98,000		
Capital lease payments	40,076		
Total Principal	<u>\$ 448,076</u>	<u>\$ 448,076</u>	<u>\$ 448,076</u>
Total Adjustment to Net Position			<u>\$ 754,014</u>

Another element of the reconciliation on Exhibit C-3 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
<u>Adjustments to Revenue and Deferred Revenue:</u>			
Taxes Collected from Prior Years	\$ 57,430	\$ (57,430)	\$ -
Uncollected taxes (assumed collectible) from Current Year Levy	46,891	46,891	46,891
Uncollected taxes (assumed collectible) from Prior Year Levy	(135,639)	-	(135,639)
Difference between Prior Estimated Delinquent Taxes Collectable and Actual Collection Rate	6,749	(6,749)	-
<u>Adjustments to Long-term liabilities</u>			
Interest Payable	15,760	(15,760)	(15,760)
		<u>\$ (33,048)</u>	<u>\$ (104,508)</u>

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

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

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

District Policies and Legal and Contractual Provisions Governing Investments

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Chilton Independent School District is in substantial compliance with the requirements of the Act and with local policies.

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

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
TexPool	\$ 58,313	\$ 58,313	\$ -	\$ -	\$ -

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

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to certificates of deposits which are covered by pledged securities and local government investment pools. TexPool offers a safe, efficient and liquid investment alternative to local governments in the state of Texas. TexPool is rated AAAM by Standard & Poor's, the highest rating a local government investment pool can achieve.

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

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

A. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires investments to have maturities of one year or less.

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

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Allowance for uncollectible tax receivables within the Governmental Funds is based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables primarily occur between the General Fund and Special Revenue Funds. Special Revenue Funds often incur expenditures prior a reimbursement is received from the granting agency. Interfund balances at August 31, 2022, were as follows:

Fund	Due to	Due from
General Fund		
Special Revenue Funds	\$ 546	\$ 490,915
Trust & Agency Funds	-	376
Debt Service Fund	64,890	-
	65,436	491,291
Nonmajor Funds		
Special Revenue Funds		
General Fund	490,915	546
Trust & Agency Funds	376	-
Debt Service Fund		
General Fund	-	64,890
	491,291	65,436
	\$ 556,727	\$ 556,727

There were no interfund transfers during the year.

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

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2022, were as follows:

	Property Taxes (Net)	Other Government	Other	Total Receivables
Governmental Activities:				
General Fund	\$ 123,423	\$ -	\$ -	\$ 123,423
Nonmajor Funds	28,232	480,132	-	508,364
Total Governmental Activities	\$ 151,655	\$ 480,132	\$ -	\$ 631,787

Payables at August 31, 2022, were as follows:

	Accounts Payable	Salaries and Benefits	Other	Total Payables
Governmental Activities:				
General Fund	\$ 143,631	\$ 310,917	\$ 10,946	\$ 465,494
Nonmajor Funds	8,837	70,054	5,066	83,957
Total Governmental Activities	\$ 152,468	\$ 380,971	\$ 16,012	\$ 549,451

F. CAPITAL ASSET ACTIVITY

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

	Balance 9/1/2021	Additions	Retirements	Reclassifications	Balance 8/31/2022
Governmental Activities:					
Land	\$ 214,135	\$ 275,774	\$ -	\$ -	\$ 489,909
Buildings and improvements	11,019,602	8,895	-	-	11,028,497
Furniture and equipment	2,005,023	21,269	-	-	2,026,292
Vehicles	1,109,398	-	-	-	1,109,398
Books and media	153,227	-	-	-	153,227
Total at historical cost	14,501,385	305,938	-	-	14,807,323
Less accumulated depreciation for:					
Buildings and improvements	(4,994,606)	(311,581)	-	-	(5,306,187)
Furniture and equipment	(1,814,769)	(27,538)	-	-	(1,842,307)
Vehicles	(874,506)	(86,322)	-	-	(960,828)
Total accumulated depreciation	(7,683,881)	(425,441)	-	-	(8,109,322)
Governmental Activities: Capital Assets, Net	\$ 6,817,504	\$ (119,503)	\$ -	\$ -	\$ 6,698,001

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

F. CAPITAL ASSET ACTIVITY (continued)

Depreciation expense was charged to governmental functions as follows:

	Depreciation by Function	Depreciation Expense
11	Instruction	\$ 224,619
12	Instructional resources and media services	4,623
13	Curriculum and staff development	3,110
21	Instructional leadership	4,381
23	School leadership	17,883
31	Guidance, counseling, and evaluation services	10,113
33	Health services	4,264
34	Student transportation	5,899
35	Food Service	26,969
36	Extracurricular activities	24,383
41	General administration	36,510
51	Facilities maintenance and operations	43,846
52	Security and monitoring services	3,314
53	Data processing services	11,469
61	Community services	4,058
		\$ 425,441

G. UNEARNED REVENUE

Governmental funds defer revenue recognition in connection with monies that have been received but not yet earned. As of August 31, 2022, the components of unearned revenue reported in the General and Nonmajor funds consisted of the following:

	General	Nonmajor	Totals
Grants	\$ -	\$ 6,943	\$ 6,943
Other	-	-	-
Totals	\$ -	\$ 6,943	\$ 6,943

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

H. LONG-TERM LIABILITIES

The District's long-term liabilities consist of bond indebtedness, notes payable, and capital leases. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund.

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended August 31, 2022 was as follows:

Description	Amounts			Amounts	
	Outstanding 9/1/2021	Additions	Retirements	Outstanding 8/31/2022	Due Within One Year
Bonds payable	\$ 915,000	\$ -	\$ 310,000	\$ 605,000	\$ 323,000
Notes payable	575,000	-	98,000	477,000	103,000
Capital leases	166,300	-	40,076	126,224	41,089
Net Pension Liability	1,494,758	(570,143)	132,703	791,912	-
Net OPEB Liability	1,830,231	136,931	39,049	1,928,113	-
Totals	\$ 4,981,289	\$ (433,212)	\$ 619,828	\$ 3,928,249	\$ 467,089

Bonds Payable

Bond indebtedness of the District is reflected in the general long-term debt account group. Current requirements for principal and interest expenditures related to bonds are accounted for in the Debt Service Fund.

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

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/1/2021	Issued	Retired	Amounts Outstanding 8/31/2022
Unlimited Tax Refunding Bonds Series 2003	3.97%	\$ 750,000	\$ 1,099	\$ 104,000	\$ -	\$ 51,000	\$ 53,000
Unlimited Tax School Build. Bonds Series 2005	4.46%	3,598,000	37,161	811,000	-	259,000	552,000
Totals			\$ 38,260	\$ 915,000	\$ -	\$ 310,000	\$ 605,000

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

H. LONG-TERM LIABILITIES (continued)

Debt service requirements for bonds payable are as follows:

<u>Bonds Payable</u>				
Year Ended				Total
August 31,	Principal	Interest		Requirements
2023	323,000	24,987		347,987
2024	282,000	12,577		294,577
	<u>\$ 605,000</u>	<u>\$ 37,564</u>		<u>\$ 642,564</u>

Prior-Year Refunding's

In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Districts's financial statements.

Notes Payable

Note indebtedness of the District is reflected in the following schedule.

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

Description	Payable	Interest Current Year	Amounts		Retired	Amounts Outstanding 8/31/2022
			Outstanding 9/1/2021	Issued		
Maint. Tax Notes, 2005	4.730%	\$ 16,295	\$ 379,000	\$ -	\$ 69,000	\$ 310,000
Maint. Tax Notes, 2007	4.185%	7,596	196,000	-	29,000	167,000
		<u>\$ 23,891</u>	<u>\$ 575,000</u>	<u>\$ -</u>	<u>\$ 98,000</u>	<u>\$ 477,000</u>

Debt service requirements for notes payable are as follows:

Year Ended			Total
August 31,	Principal	Interest	Requirements
2023	103,000	19,300	122,300
2024	108,000	14,482	122,482
2025	112,000	9,456	121,456
2026	118,000	4,202	122,202
2027	36,000	753	36,753
	<u>\$ 477,000</u>	<u>\$ 48,193</u>	<u>\$ 525,193</u>

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

H. LONG-TERM LIABILITIES (continued)

Capital Leases

The District is obligated under certain leases accounted for as capital leases.

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

Description	Interest Rate Payable	Interest Current Year	Amounts Outstanding 9/1/2021	Issued	Retired	Amounts Outstanding 8/31/2022
Empire Finance - Buses	2.500%	4,210	166,299	-	40,076	126,223
		<u>\$ 4,210</u>	<u>\$ 166,299</u>	<u>\$ -</u>	<u>\$ 40,076</u>	<u>\$ 126,223</u>

Debt service requirements for capital lease obligations are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2023	41,089	3,197	44,286
2024	42,129	2,157	44,286
2025	43,005	1,092	44,097
	<u>\$ 126,223</u>	<u>\$ 6,446</u>	<u>\$ 132,669</u>

I. ACCUMULATED UNPAID LEAVE BENEFITS

The District does not account for accumulated unpaid vacation and sick leave benefits in its accounting records. The District does not believe this to be material due to the small size of the District and the large percentage of personnel who use their accumulated benefits annually.

J. DEFINED BENEFIT PENSION PLAN

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

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial

J. DEFINED BENEFIT PENSION PLAN (continued)

statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2021 and 2022.

The 86th Legislature increased contribution rates for the State, employers and members in a phase-in approach that concludes in fiscal year 2025. The State's base rate of 7.50 percent in fiscal year 2020 will increase to 8.00 percent in fiscal year 2023 and phase-in to 8.25 percent by fiscal year 2024. In addition, all public education employers will pay a supplemental contribution rate of 1.50 percent for fiscal year 2020 and will increase to 2.00 percent by fiscal year 2025. At the end of the phase-in period, these supplemental contributions will equal approximately 1.25 percent of total payroll. Combined, with additional contributions from retirees, these contributions are ultimately assumed to approximate 9.55 percent of total payroll. The member contribution rate will increase from the current 7.70 percent to 8.00 percent in fiscal year 2022 and ultimately 8.25 percent in fiscal year 2024.

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

J. DEFINED BENEFIT PENSION PLAN (continued)

	<u>Contribution Rates</u>	
	<u>2021</u>	<u>2022</u>
Member	7.70%	8.00%
Non-Employer Contributing Entity (State)	7.50%	7.75%
Employers	7.50%	7.75%
Current fiscal year employer contributions		\$ 179,044
Current fiscal year member contributions		\$ 335,082
2021 measurement year NECE on-behalf contributions		\$ 217,476

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

As the non-employer contributing entity, the State of Texas contributes to the retirement system the current employer contribution rate times the aggregate annual compensation of all members of the Plan during the fiscal year, reduced by the employer contributions described below. All participating employers and the State of Texas, as the employer for senior universities and medical schools, are required to pay the employer contribution rate in the following situations:

- 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 or all of an employee's salary is paid by federal, private, local or noneducational and general funds.

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

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

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

J. DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Assumptions. A change was made in the measurement date of the total pension liability for the 2021 measurement year. The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the total pension liability to August 31, 2021.

The total pension liability 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 Investment Rate of Return	7.25%
Municipal Bond Rate as of August 2020	1.95% - Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index."
Last year ending August 31 in Projection Period	2121
Inflation	2.30%
Salary Increases Including Inflation	3.05% to 9.05%
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2020. For a full description of these assumptions, please see the TRS CAFR and actuarial valuation report dated November 9, 2020.

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

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

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

J. DEFINED BENEFIT PENSION PLAN (continued)

The long-term rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2021 are summarized below:

Asset Class ¹	Target Allocation ²	Long-Term Expected Geometric Real Rate of Return ³	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
USA	18%	3.6%	0.94%
Non-U.S. Developed	13%	4.4%	0.83%
Emerging Markets	9%	4.6%	0.74%
Private Equity	14%	6.3%	1.36%
Stable Value			
Government Bonds	16%	-0.2%	0.01%
Absolute Return	0%	1.1%	0.00%
Stable Value Hedge Funds	5%	2.2%	0.12%
Real Return			
Real Estate	15%	4.5%	1.00%
Energy, Natural Resources, and Infrastructure	6%	4.7%	0.35%
Commodities	0%	1.7%	0.00%
Risk Parity			
Risk Parity	8%	2.8%	0.28%
Asset Allocation Leverage			
Cash	2%	-0.7%	-0.01%
Asset Allocation Leverage	-6%	-0.5%	0.03%
Inflation Expectation			2.20%
Volatility Drag ⁴			-0.95%
Total	<u>100%</u>		<u>6.90%</u>

¹ Absolute Return includes Credit Sensitive Investments.

² Target allocations are based on FY2021 policy model.

³ Capital Market Assumptions come from Aon Hewitt (as of 8/31/2021).

⁴ The volatility drag results from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.25%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Proportionate share of the net pension liability:	\$ 1,730,453	\$ 791,912	\$ 30,470

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

J. DEFINED BENEFIT PENSION PLAN (continued)

Pension Liabilities, Pension Expense, and Deferred Overflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2022, Chilton Independent School District reported a liability of \$791,912 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Chilton Independent School District. The amount recognized by Chilton Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Chilton Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 791,912
State's proportionate share that is associated with the District	1,297,803
Total	\$ 2,089,715

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

At August 31, 2021 the employer's proportion of the collective net pension liability was 0.0031096261% which was an increase of 0.0003187090% from its proportion measured as of August 31, 2020.

Changes Since the Prior Actuarial Valuation — The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

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

For the year ended August 31, 2022, Chilton Independent School District recognized pension expense of \$28,939 and revenue of \$5,188 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 1,325	\$ 55,751
Changes in actuarial assumptions	279,925	122,023
Differences between projected and actual investment earnings	-	664,008
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	129,048	188,063
Total as of August 31, 2021 measurement date	\$ 410,298	\$ 1,029,845
Contributions paid to TRS subsequent to the measurement date	179,044	-
Total as of fiscal year-end	\$ 589,342	\$ 1,029,845

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

J. DEFINED BENEFIT PENSION PLAN (continued)

The net amounts of the employer'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 Amount
2023	\$ (128,464)
2024	\$ (133,554)
2025	\$ (176,341)
2026	\$ (199,358)
2027	\$ 12,414
Thereafter	\$ 5,756

K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

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

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$ 41,113,711,083
Less: Plan Fiduciary Net Position	(2,539,242,470)
Net OPEB Liability	<u>\$ 38,574,468,613</u>

Net Position as percentage of Total OPEB Liability	6.18%
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Benefits Provided. TRS-Care provides basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

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

K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

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

TRS-Care Plan Premium Rates		
2021 Monthly Premium Rate		
<u>Retiree Type</u>	<u>Medicare</u>	<u>Non-Medicare</u>
Retirees *	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family * or surviving spouse	1,020	999

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

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

	<u>Contribution Rates</u>	
	<u>2021</u>	<u>2022</u>
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 44,071
Current fiscal year member contributions		\$ 27,225
2021 measurement year NECE on-behalf contributions		\$ 52,317

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

K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

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

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

Actuarial Assumptions. The total OPEB liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

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

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

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2020 TRS annual pension actuarial valuation:

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

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

The initial medical trend rates were 8.5% for Medicare retirees and 7.10% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.5% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 12 years.

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry-Age Normal
Inflation	2.30%
Single Discount Rate	1.95% as of August 31, 2021
Aging Factors	Based on plan Specific experience
	Normal Retirement: 65% participation prior to age 65 and 40% participation after age 65, 25% of pre-65 retirees are assumed to discontinue coverage at age 65
Election Rates	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs
Expenses	
Salary increases	3.05% to 9.05%, including inflation
Ad Hoc Post - Employment Benefit Changes	None

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

K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

Discount Rate. A single discount rate of 1.95% was used to measure the total OPEB liability. This was a decrease of .38% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the single discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was fixed-income 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” as of August 31, 2021.

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

	1% Decrease in Discount Rate (0.95%)	Discount Rate (1.95%)	1% Increase in Discount Rate (2.95%)
Proportionate share of the net OPEB liability:	\$ 2,325,749	\$ 1,928,113	\$ 1,615,161

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

	1% Decrease	Healthcare Cost Trend Rate	1% Increase
Proportionate share of the net OPEB liability:	\$ 1,561,708	\$ 1,928,113	\$ 2,419,738

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB. At August 31, 2022, the District reported a liability of \$1,928,113 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 1,928,113
State's proportionate share that is associated with the District	2,583,242
Total	\$ 4,511,355

The Net OPEB Liability was measured as of August 31, 2021 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The District’s proportion of the Net OPEB Liability was based on the District’s contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2020 thru August 31, 2021.

At August 31, 2021, the District’s proportion of the collective Net OPEB Liability was 0.0049984184% which was an increase of 0.0001838610% from its proportion measured as of August 31, 2020.

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

K. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

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

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

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 \$(141,120) and revenue of \$(95,341) 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 other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 83,014	\$ 933,342
Changes in actuarial assumptions	213,561	407,760
Differences between projected and actual investment earnings	2,093	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	311,409	208,802
Total as of August 31, 2021 measurement date	\$ 610,077	\$ 1,549,904
Contributions paid to TRS subsequent to the measurement date	44,071	
Total as of fiscal year-end	<u>\$ 654,148</u>	<u>\$ 1,549,904</u>

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 Amount
2023	\$ (184,851)
2024	\$ (184,899)
2025	\$ (184,886)
2026	\$ (134,132)
2027	\$ (65,421)
Thereafter	\$ (185,638)

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

L. MEDICARE PART D COVERAGE

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retire drug subsidy payments from the federal government to offset certain prescription drug expenditure for the 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 \$17,052, \$16,548, and \$17,847, respectively.

M. HEALTH CARE COVERAGE – ACTIVE EMPLOYEES

The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. The plan is authorized by the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and by the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan is a premium-based plan. Payments are made on a monthly basis for all covered employees.

N. DEFERRED INFLOWS

Deferred inflows at August 31, 2022 end consisted of the following:

	General	Nonmajor	Total
Property Taxes	\$ 123,423	\$ 28,232	\$ 151,655

O. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2022, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

Fund	State Entitlements	Federal Grants	Other	Total
General Fund	\$ -	\$ -	\$ -	\$ -
ESEA I, A Improving Basic Programs	-	53,899	-	53,899
National Breakfast and Lunch Program	-	18,498	-	18,498
ESEA II, A Training and Recruiting	-	13,054	-	13,054
Title IV, B Community Learning	-	-	-	-
ESSER School Emergency Relief Fund	-	215,164	-	215,164
ESEA VI, Pt B Rural & Low Income	-	21,599	-	21,599
ESEA Title IV, A Subpart I SSAE	-	6,487	-	6,487
Texas COVID Learning Acceleration Supports	-	60,149	-	60,149
Prior Purchase Reimbursement Program (PPRP)	-	91,282	-	91,282
Total Due from Other Governments	\$ -	\$ 480,132	\$ -	\$ 480,132

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

P. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Nonmajor Program	Debt Service Fund	Total
Property Taxes	\$ 852,984	\$ -	\$ 192,401	\$ 1,045,385
Interest Income	85,741	-	-	85,741
Food sales	-	26,229	-	26,229
CoCurricular	23,473	-	-	23,473
Other	300,250	73,223	-	373,473
	<u>\$ 1,262,448</u>	<u>\$ 99,452</u>	<u>\$ 192,401</u>	<u>\$ 1,554,301</u>

Q. SHARED SERVICES ARRANGEMENT

The District participates in a shared services arrangement for Special Education with six other districts. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Marlin Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Chilton Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the revenues and expenditures attributable to the District's participation.

R. RISK MANAGEMENT

Workers' Compensation Aggregate Deductible

During the year ended August 31, 2022, Chilton Independent School 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 Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

Chilton Independent School District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

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 \$2million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2022, the Fund carries a discounted reserve of \$112,857,641 for future development on reported claims and claims that have been incurred but not yet reported.

The Fund engages the services of independent auditors 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, 2022 are available on the TASB Risk Management Fund website and have been files with the Texas Department of Insurance in Austin.

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

R. RISK MANAGEMENT (continued)

Auto, Liability, and/or Property Programs

During the year ended August 31, 2022, Chilton Independent School District participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability
Auto Physical Damage
Legal Liability
Privacy & Information Security
Property

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

Auto, Liability, and/or Property Programs (continued)

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2022, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Pool

During the year ended August 31, 2022, Chilton Independent School 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 Chilton Independent School District has no additional liability beyond the contractual obligation for payment of contribution.

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, 2022, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

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

S. GENERAL FUND FEDERAL SOURCE REVENUES

Revenues from federal sources, which are reported in the General Fund, consist of:

<u>Program or Service</u>	<u>CFDA</u>	<u>Amount</u>
School health and related services	N/A	\$ 47,037

T. SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 23, 2023 the date which the financial statements were available to be issued.

APPENDIX C

FORMS OF OPINIONS OF CO-BOND COUNSEL



September 13, 2023

IN REGARD to the authorization and issuance of the “Chilton Independent School District Unlimited Tax School Building Bonds, Series 2023” (the *Bonds*), dated September 1, 2023, in the aggregate principal amount of \$13,655,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Chilton Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of August 15, 2024 and February 15 in the years 2025 through 2038, inclusive, and February 15, 2043, February 15, 2048 and February 15, 2053, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability

Legal Opinion of Cantu Harden Montoya LLP, San Antonio, Texas, in connection with the authorization and issuance of CHILTON INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the Code), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax; however, such interest is taken into account in determining the "adjusted financial statement income" (as defined in section 56A of the Code) of "applicable corporations" (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

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

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

Cantu Harden Montoya LLP



WALSH GALLEGOS
TREVINO KYLE & ROBINSON P.C.

September 13, 2023

IN REGARD to the authorization and issuance of the “Chilton Independent School District Unlimited Tax School Building Bonds, Series 2023” (the *Bonds*), dated September 1, 2023, in the aggregate principal amount of \$13,655,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Chilton Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of August 15, 2024 and February 15 in the years 2025 through 2038, inclusive, and February 15, 2043, February 15, 2048 and February 15, 2053, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates.

We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

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

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

Walsh Gallegos Treviño Kyle & Robinson PC

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The following is incorporated into the offering document to which it is attached.

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 United States 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. In July 2023, the PSFC Board appointed an Acting chief executive officer to perform those duties while the PSFC Board conducts a search to hire a permanent replacement for the chief executive officer who retired at the end of March. The PSFC Board adopted bylaws governing how it will manage its affairs and conduct business. The chief executive officer reports to the PSFC Board. Any amendments to the PSF Corporation's articles of formation and bylaws will be adopted by the PSFC Board but are subject to approval by the SBOE. At its March 2023 meeting,

the PSFC Board approved its securities lending policy.

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

The SLB's investments in real estate investment funds and real asset investment funds will transfer to the PSF Corporation. Beginning December 31, 2022, the SLB is no longer authorized to make investments into funds; however, the SLB will still be able to invest in land, mineral and royalty interests, and individual real estate holdings; the SLB will also be required to send PSF mineral revenue to the PSF Corporation for investment, subject to designation via the appropriations process to cover GLO expenses of managing the minerals.

Not less than once each year, the PSFC Board must submit an audit report to the Legislative Budget Board ("LBB") regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization does not affect the State Auditor's authority to conduct an audit of the PSF Corporation in accordance with other State laws. The first audit of the PSF Corporation will be conducted following the close of the 2022-2023 fiscal year on August 31, 2023.

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

With respect to the 2024-2025 State biennium, and for subsequent biennia, the PSF Corporation is required to submit a legislative appropriations request ("LAR") to the LBB and the Office of the Governor that details a request for appropriation of funds to enable the PSF Corporation to carry out its responsibilities for the investment management of the Fund. The requested funding, budget structure, and riders are sufficient to fully support all operations of the PSF Corporation in state fiscal years 2024 and 2025. As described therein, the LAR is designed to provide the PSF Corporation with the ability to operate as a stand-alone state entity in the State budget while retaining the flexibility to fulfill its fiduciary duty and provide oversight and transparency to the Legislature and Governor.

The Total Return Constitutional Amendment

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

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

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

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

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

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

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
				\$1,05						
PSF(SBOE) Distribution	\$1,021	\$839	\$839	6	\$1,056	\$1,236	\$1,236	\$1,102	\$1,102	\$1,731
PSF(SLB) Distribution	\$300	\$0	\$0	\$0	\$0	\$0	\$300	\$600	\$600 ²	\$415
Per Student Distribution	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347	\$341	\$432

¹ In millions of dollars. Source: PSF Annual Report for year ended August 31, 2022.

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

In November 2022, the SBOE approved a \$3.1 billion distribution to the ASF for State fiscal biennium 2024-2025. In making its determination of the 2024-2025 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$1.2 billion for the biennium.

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

<u>State Fiscal Biennium</u> <u>SBOE Distribution Rate</u> ¹	<u>2008-09</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>	<u>2024-25</u>
	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32% ²

¹ Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the SLB approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2024-25.

² The distribution rate approved by the SBOE for fiscal biennium 2024-25 was based on a number of assumptions, including a mid- to long-term expected return rate for the Fund of 6.35% and a rate of inflation measured by the consumer price index of 2.70% according to the policy adopted by the SBOE in June 2022.

Asset Allocation of Fund Portfolios

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE historically reviewed the asset allocations during its summer meeting in even-numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in June 2022. The IPS (effective January 1, 2023) provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income, and alternatives. The alternatives category includes absolute return, private equity, real estate, emerging manager program, real return, natural resources, and infrastructure components. Alternative asset classes diversify the managed assets of the PSF and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. Given the greater weighting in the overall portfolio of traditional investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

Prior to the effective date of the IPS, the most recent asset allocation of the PSF(SBOE), was approved by the SBOE in June 2022, and is set forth below, along with the asset allocations of the PSF(SLB) and Liquid Account that were effective June 2022.

PSF 2022 Strategic Asset Allocations

	<u>PSF(SBOE)</u>	<u>PSF(SLB)</u>	<u>Liquid Account</u>
Equity Total	55%	0%	77%
Public Equity Total	37%	0%	77%
Large Cap US Equity	14%	0%	38%
Small/Mid Cap US Equity	6%	0%	10%
International Equities	14%	0%	29%
Emerging Markets Equity	3%	0%	0%
Private Equity	18%	0%	0%
Fixed Income Total	22%	0%	21%
Core Bonds	12%	0%	16%
Non-Core Bonds (High Yield & Bank Loans)	4%	0%	0%
Emerging Markets Debt	3%	0%	0%
Treasuries	3%	0%	0%
TIPS	0%	0%	5%
Short Duration	0%	0%	0%
Alternative Investments Total	22%	100%	0%
Absolute Return	7%	0%	0%
Real Estate	11%	33%	0%
Real Return	4%	0%	0%
Energy	0%	31%	0%
Infrastructure	0%	36%	0%
Emerging Manager Program	1%	0%	0%
Cash	0%	0%	2%

PSF Corporation 2023 Strategic Asset Allocation

Effective January 1, 2023, the IPS includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE, the SLB and the Liquid Account). The IPS provides that the Fund's

investment objectives are as follows:

- Generate distributions for the benefit of public schools in Texas;
- Maintain the purchasing power of the Fund, after spending and inflation, in order to maintain intergenerational equity with respect to distributions from the Fund;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support Fund obligations; and
- Maintain a AAA credit rating, as assigned by a nationally recognized securities rating organization.

The table below sets forth the asset allocation of the Fund beginning January 1, 2023.

Asset Class	Strategic Asset Allocation	Range
Equities		
Large Cap US Equity	15%	+/- 3.0%
Small/Mid-Cap US Equity	6%	+/- 1.0%
Non-US Developed Equity	10%	+/- 3.0%
Emerging Market Equity	6%	+/- 1.0%
<i>Total Equity</i>	37%	
Fixed Income		
Core Bonds	11%	+/- 2.0%
Non-Core Bonds (High Yield & Bank Loans)	3%	+/- 3.0%
Emerging Market Debt (Local Currency)	2%	+/- 2.0%
U.S. Treasuries	2%	+/- 2.0%
<i>Total Fixed Income</i>	18%	
Cash Equivalents		
	0%	
Alternatives		
Absolute Return	6%	+/- 1.0%
Private Equity	15%	+/- 4.0%
Real Estate	12%	+/- 4.0%
Emerging Manager Program (Private Equity/Real Estate)	1%	+/- 1.0%
Real Return (Commodities & U.S. Treasury Inflation Protected Securities (TIPS))	4%	+/- 1.5%
Private Real Assets – Natural Resources	3%	+/- 2.0%
Private Real Assets - Infrastructure	4%	+/- 2.0%
<i>Total Alternatives</i>	45%	

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

The table below sets forth the comparative investments of the PSF(SBOE) for the years ending August 31, 2021 and 2022, as set forth in the PSF Annual Reports for those years. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined for investment management and accounting purposes.

Comparative Investment Schedule - PSF(SBOE)¹

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

<u>ASSET CLASS</u>	August 31, <u>2022</u>	August 31, <u>2021</u>	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,358.4	\$ 2,597.3	\$ (238.9)	-9.2%
Domestic Large Cap	<u>4,730.4</u>	<u>6,218.7</u>	<u>(1,488.3)</u>	<u>-23.9%</u>
Total Domestic Equity	7,088.8	8,816.0	(1,727.2)	-19.6%
International Equity	<u>5,972.5</u>	<u>8,062.1</u>	<u>(2,089.6)</u>	<u>-25.9%</u>
TOTAL EQUITY	13,061.3	16,878.1	(3,816.8)	-22.6%
FIXED INCOME				
Domestic Fixed Income	4,563.3	4,853.1	(289.8)	-6.0%
U.S. Treasuries	1,140.2	1,243.3	(103.1)	-8.3%
High Yield Bonds	1,142.5	-	<u>1,142.5</u>	<u>N/A</u>
Emerging Market Debt	<u>1,142.5</u>	<u>2,683.7</u>	<u>(1,492.8)</u>	<u>-55.6%</u>
TOTAL FIXED INCOME	8,036.9	8,780.1	(743.2)	-8.5%
ALTERNATIVE INVESTMENTS				
Absolute Return	2,932.3	3,546.0	(613.7)	-17.3%
Real Estate	4,365.7	3,706.0	659.7	17.8%
Private Equity	7,933.1	7,724.6	208.5	2.7%
Emerging Manager Program	29.9	-	29.9	N/A
Real Return	<u>1,412.0</u>	<u>1,675.5</u>	<u>(263.5)</u>	<u>-15.7%</u>
TOT ALT INVESTMENTS	16,673.0	16,652.1	20.9	0.1%
UNALLOCATED CASH	<u>196.5</u>	<u>262.9</u>	<u>(66.4)</u>	<u>-25.3%</u>
TOTAL PSF(SBOE) INVESTMENTS	\$ 37,967.7	\$ 42,573.2	\$ (4,605.5)	-10.8%

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

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.

Liquid Account Fair Value at August 31, 2022¹

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

<u>ASSET CLASS</u>	August 31, <u>2022</u>	August 31, <u>2021</u>	Amount of Increase (Decrease)	Percent Change
Equity				
Domestic Small/Mid Cap	\$ 500.0	\$228.3	\$271.7	119.0%
Domestic Large Cap	<u>1,671.7</u>	<u>578.6</u>	<u>1,093.1</u>	<u>188.9%</u>
Total Domestic Equity	2,171.7	806.9	1,364.8	169.1%
International Equity	<u>1,225.5</u>	<u>392.6</u>	<u>832.9</u>	<u>212.1%</u>
TOTAL EQUITY	3,397.2	1,199.5	2,197.7	183.2%
Fixed Income				
Short-Term Fixed Income	797.4	1,074.8	(277.4)	-25.8%
Core Bonds	506.8	413.1	93.7	22.7%
TIPS	<u>208.2</u>	<u>213.9</u>	<u>(5.7)</u>	<u>-2.7%</u>
TOTAL FIXED INCOME	1,512.4	1,701.8	(189.4)	-11.1%
Unallocated Cash	<u>35.2</u>	<u>1,420.5</u>	<u>(1,385.3)</u>	<u>-97.5%</u>
Total Liquid Account Investments	\$4,944.8	\$4,321.8	\$623.0	14.4%

¹ In millions of dollars.

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

The table below sets forth the comparative investments of the PSF(SLB) for the years ending August 31, 2022 and 2021.

Comparative Investment Schedule - PSF(SLB)

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

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	271.5	223.9	47.6	21.3%
Investments				
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 drawn for investment. After September 1, 2019, that cash was moved to the Liquid Account to be invested by the SBOE.

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

The School District Bond Guarantee Program

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

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Education Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying

Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

The Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at <https://tea.texas.gov/sites/default/files/ch033a.pdf>.

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

As of July 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 July 31, 2023, there were 184 active open-enrollment charter schools in the State and there were 1,103 charter school campuses authorized under such charters, though as of such date, 208 of such campuses are not currently serving students for various reasons; therefore, there are 895 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 after the IRS updated regulations relating to the PSF and similar funds.

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 will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

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

Since December 16, 2009, the IRS Limit was a static limit set at 500% of the total cost value of the assets held by the PSF as of December 16, 2009; however, on May 10, 2023, the IRS released Notice 2023-39 (the “IRS Notice”), stating that the IRS would issue regulations amending the existing regulations to amend the calculation of the IRS limit to 500% of the total cost value of assets held by the PSF as of the date of sale of new bonds. 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 May 10, 2023, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

The IRS Notice changes the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of June 30, 2023 the cost value of the Guarantee Program was \$43,704,948,910 (unaudited), thereby producing an IRS Limit of \$218,344,585,245 in principal amount of guaranteed bonds outstanding.

As of June 30, 2023, the estimated State Capacity Limit is \$152,967,321,185, which is lower than the IRS Limit, making the State Capacity Limit 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.

With the change in the Capacity Reserve from 5% to 0.25%, effective March 1, 2023, as discussed above, and the change in the IRS Limit making the State Capacity Limit the current Capacity Limit, the net Guarantee Program capacity as of June 30, 2023 is \$152,556,827,260. No representation is made as to how the capacity 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. If the amount of guaranteed bonds approaches the State Capacity Limit, the SBOE or Education Commissioner may increase the State Capacity Limit multiplier as discussed above.

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 June 30, 2023, the Charter District Reserve Fund contained \$90,293,027, which represented approximately 2.23% 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 the applicable rating section within the Official Statement to which this is attached for information regarding a district's underlying rating and the enhanced rating applied to a given series of bonds.

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 State Capacity Limit of \$152,556,827,260 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of June 30, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of June 30, 2023, the amount of outstanding bond guarantees represented 70.06% of the Capacity Limit (which is currently the State Capacity Limit). June 30, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount (\$)	No. of Issues	Principal Amount (\$)	No. of Issues	Principal Amount (\$)
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 June 30, 2023 (based on unaudited data, which is subject to adjustment), there were \$107,163,538,633 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,424 school district issues, aggregating \$103,112,917,633 in principal amount and 107 charter district issues, aggregating \$4,050,621,000 in principal amount. At June 30, 2023 the projected guarantee capacity available was \$30,224,526,888 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2022

The following discussion is derived from the Annual Report for the year ended August 31, 2022, including the Message of the Executive Administrator of the Fund and the Management’s Discussion and Analysis contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the fifteen member SBOE are referred to throughout this MD&A as the PSF(SBOE) and, with respect to the Liquid Account, Liquid(SBOE) assets. As of August 31, 2022, the Fund’s land, mineral rights and certain real assets are managed by the five-member SLB and these assets are referred to throughout as the PSF(SLB) assets. The current PSF(SBOE) asset allocation policy includes an allocation for real estate investments, and as such investments are made, and become a part of the PSF(SBOE) investment portfolio, those investments will be managed by the SBOE and not the SLB.

At the end of fiscal 2022, the Fund balance was \$56.8 billion, an increase of \$1.2 billion from the prior year. This increase is primarily due to overall net increases in value of the various asset classes in which the Fund is invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2022, net of fees, were -6.80%, 6.54% and 7.33%, respectively, and the Liquid(SBOE) annual rate of return for the one-year and three-year periods ending August 31, 2022, net of fees, was -10.24% and -1.23% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 32.29%, 8.42%, and 7.40%, respectively.

The Fund is invested in global markets and experiences volatility commensurate with the related indices. The Fund is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted and implemented to make the cost structure more effective and efficient. See “Comparative Investment Schedule - PSF(SBOE)” for the PSF(SBOE) holdings as of August 31, 2022.

As of August 31, 2022, the SBOE has approved, and the Fund made capital commitments to, externally managed real estate investment funds in a total amount of \$7.3 billion and capital commitments to private equity limited partnerships for a total of \$10.1 billion. Unfunded commitments at August 31, 2022, totaled \$2.4 billion in real estate investments and \$2.9 billion in private equity investments.

PSF Returns Fiscal Year Ended 8-31-2022¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(SBOE) Portfolio	(6.80)%	(6.37)%
Domestic Large Cap Equities(SBOE)	(11.08)	(11.23)
Domestic Small/Mid Cap Equities(SBOE)	(10.96)	(10.90)
International Equities(SBOE)	(19.72)	(19.52)
Emerging Market Equity(SBOE)	(22.85)	(21.80)
Fixed Income(SBOE)	(12.16)	(11.52)
Treasuries	(22.82)	(22.64)
Absolute Return(SBOE)	(0.55)	(5.66)
Real Estate(SBOE)	23.31	20.56
Private Equity(SBOE)	3.17	8.43
Real Return(SBOE)	2.98	3.09
Emerging Market Debt(SBOE)	(17.95)	(19.43)
Liquid Large Cap Equity(SBOE)	(10.39)	(11.23)
Liquid Small Cap Equity(SBOE)	(10.63)	(10.90)
Liquid International Equity(SBOE)	(19.34)	(19.52)
Liquid Short-Term Fixed Income(SBOE)	(4.27)	(4.01)
Liquid Core Bonds(SBOE)	(11.30)	(11.52)
Liquid TIPS(SBOE)	(5.78)	(5.98)
Liquid Transition Cash Reserves(SBOE)	1.65	0.38
Liquid Combined(SBOE)	(10.24)	(10.88)
PSF(SLB)	(32.29)	N/A

¹ Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2022.

² Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2022.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2022, the remaining commitments totaled approximately \$1.94 billion.

For fiscal year 2022, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled \$3.5 billion, a decrease of \$7.3 billion from fiscal year 2021 earnings of \$10.8 billion. The total change in the fair value of the Fund investments is consistent with the change in value of the markets in which those investments were made. In fiscal year 2022, revenues earned by the Fund included gains realized on the sale of land and real estate owned by the Fund; lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio and externally managed real assets investment funds; and other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 3.0% for the fiscal year ending August 31, 2022. This increase is primarily attributable to an increase in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund, as well as increases in operational costs.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2021 and 2022, the distribution from the SBOE to the ASF totaled \$1.1 billion and \$1.7 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2021 and 2022 totaled \$600 and \$415 million, respectively.

At the end of the 2022 fiscal year, PSF assets guaranteed \$103.2 billion in bonds issued by 898 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 8,554 school district and charter district bond issues totaling \$239.7 billion in principal amount. During the 2022 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,442. The dollar amount of

guaranteed school and charter bond issues outstanding increased by \$7.98 billion or 8.4%. The State Capacity Limit increased by \$13.3 billion, or 9.8%, during fiscal year 2022 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2022 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two capacity limits for the Guarantee Program.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. As part of the Regulatory Recodification, the PSF Corporation developed its own ethics policy as required by SB 1232, which provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

As of August 31, 2022, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

The Regulatory Recodification included the codification of the TEA's undertaking pursuant to Rule 15c2-12 (the "TEA Undertaking") pertaining to the PSF and the Guarantee Program. As of March 1, 2023, the TEA Undertaking is codified at 19 TAC 33.8, which relates to the Guarantee Program and is available at [available at https://tea.texas.gov/sites/default/files/ch033a.pdf](https://tea.texas.gov/sites/default/files/ch033a.pdf).

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA Undertaking, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer

of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial information and operating data concerning such entity and events notices relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in this offering document.

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

Compliance with Prior Undertakings

Except as stated below, during the last five years, the TEA has not failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022 TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents.

SEC Exemptive Relief

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