

OFFICIAL STATEMENT

Dated: July 20, 2023

Rating: S&P: “AAA” (PSF)/ “A” (underlying)
PSF Guarantee: Conditional Approval Received
(See “OTHER INFORMATION – Ratings” and
“APPENDIX E - THE PERMANENT SCHOOL
FUND GUARANTEE PROGRAM” herein)

NEW ISSUE - Book-Entry Only

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

The District will not designate the Bonds as “qualified tax-exempt obligations” for financial institutions.



\$15,155,000

NEWCASTLE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Young County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS
SERIES 2023

Dated Date: August 1, 2023

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

Newcastle Independent School District (the “District”) is issuing its \$15,155,000 Unlimited Tax School Building Bonds, Series 2023 (the “Bonds”). The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 45, Texas Education Code, as amended, and an election held in the District on May 6, 2023, and are direct obligations of the District. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, on all taxable property located within the District, as provided in the order authorizing issuance of the Bonds (the “Order”) (see “THE BONDS – Authority for Issuance”). Additionally, the District has received conditional approval of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Interest on the Bonds will accrue from the date of their delivery and will be payable on February 15 and August 15 of each year, commencing August 15, 2023, until maturity or prior redemption. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see “THE BONDS – Description of the Bonds”).

The District intends to use the Book-Entry Only System of The Depository Trust Company (“DTC”), but use of such system could be discontinued. Principal, premium, if any, and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by BOKF, NA, Dallas, Texas, as the initial Paying Agent/Registrar (the “Paying Agent/Registrar”) for the Bonds. No physical delivery of the Bonds will be made to the beneficial owners thereof. Such Book-Entry Only System will affect the method and timing of payment and the method of transfer of the Bonds (see “THE BONDS – Book-Entry Only System”).

Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings in the District (including, but not limited to, safety and security improvements) and (ii) to pay the costs incurred in the issuance of the Bonds. (See “THE BONDS – Purpose” and “THE BONDS – Sources and Uses of Funds”).

The District reserves the right to redeem at its option the Bonds maturing on and after February 15, 2034, in whole or from time to time in part, in the principal amount of \$5,000 or any integral multiple thereof, before their respective scheduled maturity dates, on February 15, 2033 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 are offered for delivery when, as, and if issued and received by the underwriters listed below (the “Underwriters”) and subject to the approving opinions of the Attorney General of Texas and the legal opinions of Leon Alcalá, PLLC, Austin, Texas, as Bond Counsel, as to the validity of the Bonds under the Constitution and the general laws of the State of Texas, and Greenberg Traurig, LLP, Houston, Texas, Special Tax Counsel, as to the exclusion from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. (see “APPENDIX C – FORM OF BOND COUNSEL’S OPINION” and “APPENDIX D – FORM OF SPECIAL TAX COUNSEL’S OPINION”). Certain legal matters will be passed upon for the Underwriters by Jackson Walker LLP, Houston, Texas, as counsel to the Underwriters.

It is expected that the Bonds will be available for delivery through DTC on or about August 9, 2023.

RAYMOND JAMES

STEPHENS INC.

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND YIELDS

\$15,155,000 Unlimited Tax School Building Bonds, Series 2023

| Maturity (2/15) ^(a) | Principal Amount | Interest Rate | Initial Reoffering Yield ^(b) | CUSIP No. ^(c) (651061) | Maturity (2/15) ^(a) | Principal Amount | Interest Rate | Initial Reoffering Yield ^(b) | CUSIP No. ^(c) (651061) |
|-----------------------------------|---------------------|------------------|---|---|-----------------------------------|---------------------|------------------|---|---|
| 2024 | \$800,000 | 5.000% | 3.270% | BT9 | 2034 | \$720,000 | 5.000% | 3.030% | CD3 |
| 2025 | 780,000 | 5.000 | 3.200 | BU6 | 2035 | 725,000 | 5.000 | 3.100 | CE1 |
| 2026 | 765,000 | 5.000 | 3.060 | BV4 | 2036 | 730,000 | 5.000 | 3.210 | CF8 |
| 2027 | 750,000 | 5.000 | 2.940 | BW2 | 2037 | 740,000 | 5.000 | 3.340 | CG6 |
| 2028 | 740,000 | 5.000 | 2.890 | BX0 | 2038 | 755,000 | 5.000 | 3.420 | CH4 |
| 2029 | 730,000 | 5.000 | 2.900 | BY8 | 2039 | 770,000 | 5.000 | 3.500 | CJ0 |
| 2030 | 725,000 | 5.000 | 2.910 | BZ5 | 2040 | 785,000 | 5.000 | 3.560 | CK7 |
| 2031 | 720,000 | 5.000 | 2.900 | CA9 | 2041 | 805,000 | 5.000 | 3.630 | CL5 |
| 2032 | 720,000 | 5.000 | 2.920 | CB7 | 2042 | 825,000 | 5.000 | 3.680 | CM3 |
| 2033 | 715,000 | 5.000 | 2.980 | CC5 | 2043 | 855,000 | 5.000 | 3.730 | CN1 |

(Interest accrues from date of delivery)

- (a) The District reserves the right to redeem at its option the Bonds maturing on and after February 15, 2034 in whole or from time to time in part, in the principal amount of \$5,000 or any integral multiple thereof, before their respective scheduled maturity dates, on February 15, 2033 or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. (See "THE BONDS – Optional Redemption").
- (b) The initial yields have been established by, and are the sole responsibility of, the Underwriters and may subsequently be changed.
- (c) CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of the American Bankers Association by FactSet Research Systems Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the District or the Underwriters and are included solely for the convenience of the holders of the Bonds. None of the District or the Underwriters is responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

USE OF INFORMATION IN THIS OFFICIAL STATEMENT

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

THE BONDS ARE EXEMPTED 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 JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

Neither the District, the Financial Advisor nor the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry Only System or the affairs of the Texas Education Agency described under “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”.

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 SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information set forth in this Official Statement in accordance with, and as part of, their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but none of the Underwriters guarantees the accuracy or completeness of such information.

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 otherwise specified, such web sites and the information or links contained therein are not incorporated into, and are not a part of, this Official Statement.

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

| | |
|-------------------------------------|--|
| The District | The Newcastle Independent School District (the “District”) is a political subdivision located in Young County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). Board trustees serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Consultants and advisors supply support services. See “INTRODUCTION – Description of the District.” |
| Authority for Issuance | The Bonds are issued 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, and the order authorizing the issuance of the Bonds adopted by the Board of Trustees of the District on July 20, 2023 (the “Order”) (see “THE BONDS – Authority for Issuance”). |
| The Bonds | The District’s Unlimited Tax School Building Bonds, Series 2023 (the “Bonds”) shall mature on the dates and in the amounts set forth on the inside cover page of this Official Statement (see “THE BONDS – Description of the Bonds”). |
| Payment of Interest | Interest on the Bonds will accrue from the date of their delivery and will be payable semiannually on February 15 and August 15 of each year, commencing August 15, 2023, until maturity or prior redemption. (See “THE BONDS – Description of the Bonds”). |
| Paying Agent/Registrar | The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see “THE BONDS – Paying Agent/Registrar”). Initially, the District intends to use the Book-Entry Only System of The Depository Trust Company (see “THE BONDS – Book-Entry Only System”). |
| Security For The Bonds | The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. (See “THE BONDS – Security and Source of Payment”). In addition, the District has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund of the State of Texas (see “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”). |
| Redemption | The District reserves the right to redeem at its option the Bonds maturing on and after February 15, 2034, in whole or from time to time in part, in the principal amount of \$5,000 or any integral multiple thereof, before their respective scheduled maturity dates, on February 15, 2033 or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”). |
| Tax Matters | In the opinion of Special Tax Counsel, assuming the accuracy of certain representations and certifications, and continuing compliance with certain tax covenants, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is excludable from gross income for federal income tax purposes, and, further, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed on individuals. In the case of the alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. See “TAX MATTERS” herein for a description of certain other federal tax consequences of ownership of the Bonds. |

| | |
|--|---|
| Use of Proceeds | Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings in the District (including, but not limited to, safety and security improvements); and (ii) to pay the costs incurred in the issuance of the Bonds. (See “THE BONDS – Purpose” and “THE BONDS – 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. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of the Bonds at maturity or on a prior redemption date 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 “THE BONDS – Book-Entry Only System”). |
| Permanent School Fund Guarantee.... | A Permanent School Fund application has been submitted to the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”). |
| Ratings..... | S&P Global Ratings (“S&P”) has assigned its municipal bond rating of “AAA” to the Bonds by virtue of the guarantee by the Permanent School Fund of the State of Texas of the repayment of principal and interest of the Bonds. In addition, S&P has assigned its underlying unenhanced rating of “A” to the Bonds. An explanation of the significance of such ratings may be obtained from S&P (See “OTHER INFORMATION – Ratings”). |
| Payment Record | The District has never defaulted on the payment of its bonded indebtedness. |

NEWCASTLE INDEPENDENT SCHOOL DISTRICT

SELECTED FINANCIAL INFORMATION

| Fiscal Year Ended 8/31 | Tax Year | Estimated Population⁽¹⁾ | Taxable Assessed Valuation⁽³⁾ | Taxable Assessed Valuation Per Capita | Tax Supported Debt Outstanding⁽⁵⁾ | Ratio of Tax Supported Debt to Assessed Valuation | Tax Supported Debt Per Capita |
|-------------------------------|-----------------|---|---|--|---|--|--------------------------------------|
| 2020 | 2019 | 984 | \$93,025,265 | \$94,538 | \$1,801,290 | 1.94% | \$1,831 |
| 2021 | 2020 | 1,070 | 81,614,274 | 76,275 | 1,501,075 | 1.84 | 1,403 |
| 2022 | 2021 | 1,113 | 73,738,144 | 66,252 | 1,200,860 | 1.63 | 1,079 |
| 2023 | 2022 | 1,162 | 78,756,336 | 67,777 | 15,720,645 ⁽⁶⁾ | 19.96 | 13,529 |
| 2024 | 2023 | 1,162 ⁽²⁾ | 545,558,679 ⁽⁴⁾ | 469,500 | 16,055,645 ⁽⁷⁾ | 2.94 | 13,817 |

(1) Source: Municipal Advisory Council of Texas.

(2) Projected Population.

(3) As reported by Young County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year. Reflects assessed valuation for Debt Service tax rate only. The assessed valuation for M&O purposes is limited pursuant to Chapter 313 of the Tax Code for economic development. As a result, the District, in effect, has two tax values, one for Debt Service taxes and one for M&O taxes.

(4) Increase in assessed valuation is largely attributable to Young Wind, LLC project which is approximately 82% of such value. See "OTHER INFORMATION - Concentration of Tax Base."

(5) Treats prior sinking fund payments related to the District's Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 as repaid principal.

(6) Includes the Bonds.

(7) Projected outstanding debt. Includes the Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

For Fiscal Year Ended August 31,

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Beginning Balance | \$ 2,028,276 | \$ 2,366,556 | \$ 2,312,907 | \$ 2,121,619 | \$ 2,012,084 |
| Total Revenue | 3,271,952 | 3,021,258 | 2,506,470 | 2,580,489 | 2,566,487 |
| Total Expenditures | 3,263,464 | 3,341,409 | 2,417,630 | 2,368,257 | 2,434,736 |
| Excess/(Deficiency) of Revenues | 8,488 | (320,151) | 88,840 | 212,232 | 131,751 |
| Net Transfers/Adjustments | 2,850 | (18,129) | (35,191) | (20,944) | (22,216) |
| Ending Balance | <u>\$ 2,039,614</u> | <u>\$ 2,028,276</u> | <u>\$ 2,366,556</u> | <u>\$ 2,312,907</u> | <u>\$ 2,121,619</u> |

Source: The District's audited financial statements.

For additional information regarding the District, please contact:

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Newcastle Independent School District
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Newcastle, Texas 76372
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Government Capital Securities
Corporation
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Southlake, Texas 76092
(817) 722-0220
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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

Elected Officials

| Board of Trustees | Term | Term Expires | Occupation |
|------------------------------|-------------|---------------------|------------------------------------|
| Tradd Strawbridge, President | 11 Years | May, 2024 | Ranching & Cattle Operations Owner |
| Dancey Creel, Vice President | 10 Years | May, 2025 | Grain Elevator Owner |
| Shelly Shields, Secretary | < 1 Year | May, 2026 | Pest Control Owner |
| Michael Crossland, Member | 8 Years | May, 2024 | Lab Manager |
| Anthony Ford, Member | 5 Years | May, 2024 | General Manager |
| Sam Creel, Member | 4 Years | May, 2025 | Farmer/Rancher |
| Quentin Terrell, Member | < 1 Year | May, 2026 | Construction Project Manager |

Selected Administrative Staff

| Name | Position | Length of Service Within District | Total Industry Experience |
|----------------|------------------|--|----------------------------------|
| Shane Mallory | Superintendent | > 2 Years | 17 Years |
| Shirley Rhodes | Business Manager | 22 Years | 22 Years |

Consultants and Advisors

Auditors Cameron L. Gulley, C.P.A.
Eastland, Texas

Bond Counsel Leon Alcala, PLLC, Austin, Texas

Special Tax Counsel Greenberg Traurig, LLP, Houston, Texas

Financial Advisor Government Capital Securities Corporation
Southlake, Texas

OFFICIAL STATEMENT
RELATING TO

\$15,155,000
NEWCASTLE INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023

INTRODUCTION

This Official Statement, which includes APPENDICES A, B, C, D, and E hereto, provides certain information regarding the issuance of the \$15,155,000 Newcastle Independent School District Unlimited Tax School Building Bonds, Series 2023 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the order adopted by the Board of Trustees (the “Board”) of the Newcastle Independent School District (the “District”) authorizing the issuance of the Bonds (the “Order”), except as otherwise indicated herein.

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 INFORMATION – Forward Looking Statements”).

Included in this Official Statement are descriptions of the Bonds, the Order, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Newcastle Independent School District, 505 Washington Ave., Newcastle, Texas 76372, and, during the offering period, from the District’s Financial Advisor, Government Capital Securities Corporation, 559 Silicon Drive, Suite 102, Southlake, Texas 76092, 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 (the “MSRB”), and will be available through its Electronic Municipal Market Access (“EMMA”) System. See “CONTINUING DISCLOSURE OF INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

Description of the District

The District is a political subdivision of the State of Texas located in Young County, Texas. The District is governed by the Board. Board trustees serve staggered three-year terms with elections being held in May of each year. Policymaking and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

THE BONDS

Description of the Bonds

The Bonds shall be dated August 1, 2023. Interest will accrue on the Bonds from the date of delivery thereof and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. The Bonds will be issued in principal denominations of \$5,000 or any integral multiple thereof within a stated maturity. Interest on the Bonds is payable on February 15 and August 15 of each year, commencing on August 15, 2023, until maturity or prior redemption. The paying agent, transfer agent and registrar (the “Paying Agent/Registrar”) for the Bonds is initially BOKF, NA, Dallas, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry Only System described below. No physical delivery of the Bonds will be made to the beneficial owners. Principal of, premium, if any, and accrued interest on the Bonds will be paid by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry Only System" for a more complete description of such system.

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

Optional Redemption

The District reserves the right to redeem at its option the Bonds maturing on and after February 15, 2034, in whole or from time to time in part, in the principal amount of \$5,000 or any integral multiple thereof, before their respective scheduled maturity dates, on February 15, 2033 or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the maturities and the principal amount thereof to be redeemed and shall direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to call by lot or any other customary random selection method such Bonds, or portions thereof, within such maturity for redemption.

Notice of Redemption

At least thirty (30) days prior to a redemption date, a notice of redemption will be sent by U.S. mail, first class postage prepaid, in the name of the District to each registered owner of a Bond to be redeemed in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND THE DEPOSIT OF THE FUNDS NECESSARY TO REDEEM SUCH BONDS, THE AMOUNTS SO REDEEMED SHALL BE PAYABLE SOLELY FROM THE FUNDS PROVIDED FOR REDEMPTION, AND INTEREST WHICH WOULD OTHERWISE ACCRUE ON THE BONDS OR PORTIONS THEREOF CALLED FOR REDEMPTION SHALL TERMINATE ON THE DATE FIXED FOR REDEMPTION.

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

The Paying Agent/Registrar and the District, so long as a Book-Entry Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC.

In such event, DTC may implement, through its Book-Entry Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds from the beneficial owners.

Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants, or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see “THE BONDS – Book-Entry Only System”).

Authority for Issuance

The Bonds are being issued pursuant to authority conferred by the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, as amended, an election held in the District on May 6, 2023, and the Order. Capitalized terms used herein have the same meanings, respectively, assigned to such terms in the Order, except as otherwise indicated.

Purpose

Proceeds from the sale of the Bonds will be used (i) for the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings in the District (including, but not limited to, safety and security improvements); and (ii) to pay the costs incurred in the issuance of the Bonds.

Sources and Uses of Funds

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

Sources of Funds:

| | |
|------------------------------|-------------------------------|
| Par Amount of the Bonds | \$15,155,000.00 |
| Plus: Original Issue Premium | <u>1,655,564.80</u> |
| Total Sources of Funds | <u><u>\$16,810,564.80</u></u> |

Uses of Funds:

| | |
|--|-------------------------------|
| Project Fund | \$16,500,000.00 |
| Underwriters’ Discount and Issuance Costs ⁽¹⁾ | 305,618.36 |
| Additional Proceeds | <u>4,946.44</u> |
| Total Uses of Funds | <u><u>\$16,810,564.80</u></u> |

⁽¹⁾ Includes, among other things, counsel fees and other costs of issuing the Bonds.

Security and Source of Payment

The Bonds are direct and voted obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. In addition, the District has received approval, subject to certain conditions, for the Bonds to be guaranteed by the Permanent School Fund of The State of Texas. See “APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” herein.

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency for the payment of the Bonds to be guaranteed under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to satisfying certain conditions, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the Permanent School Fund, and the Charter District Bond

Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See “APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix E is incorporated herein and made a part hereof for all purposes.

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 opinions of the District’s Bond Counsel, Leon Alcala, PLLC, Austin, Texas (“Bond Counsel”) and Special Tax Counsel, Greenberg Traurig, LLP, Houston, Texas (“Special Tax Counsel”) (see “OTHER INFORMATION – Legal Matters”, “APPENDIX C – FORM OF BOND COUNSEL’S OPINION”, and “APPENDIX D - FORM OF SPECIAL TAX COUNSEL’S OPINION.”)

Amendments to the Order

The District, may, without the consent of or notice to any holders of the Bonds, from time to time and at any time, amend the Order in any manner not detrimental to the interests of the holders of the Bonds, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of holders of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; provided, however, that, without the consent of all holders of outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, redemption premium, if any, 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 to be held by holders for consent to any such amendment, addition, or rescission.

Defeasance

The Order provides that the District may defease the provisions of the Order and discharge its obligation to the owners of any or all of the Bonds to pay the principal of and interest thereon in any manner now or hereafter permitted by law, including when the payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (i) cash in an amount equal to the principal amount of and interest on such bond to the date of maturity or earlier redemption or (ii) pursuant to an escrow or trust agreement, cash and/or (A) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; or (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 Board adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, which, in the case of (A) or (B), may be in book-entry form, and the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, will be sufficient to provide for the timely payment of the principal of and interest on the Bonds to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their dates of maturity, provision will have been made for giving notice of redemption as provided in the Order.

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

reservation be included in any redemption notices that it authorizes. Any surplus amounts not required to accomplish such defeasance shall be returned to the District.

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

Book-Entry Only System

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

Neither the District nor the Underwriters can give or gives 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

Principal, interest, and redemption 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest, and redemption payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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, Bonds are required to be printed and delivered.

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

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 Order will be given only to DTC.

Paying Agent/Registrar

BOKF, NA, Dallas, Texas has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under applicable law; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District 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.

In the event the Book-Entry Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and redemption payments of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds is a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So long as Cede & Co. is the registered owner of the Bonds, principal, interest, and redemption payments on the Bonds will be made as described in "Book-Entry Only System" above.

Transfer, Exchange, and Registration

In the event the Book-Entry Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange Bonds (i) during a period beginning at the close of business on any Record Date and ending with the next interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on any interest payment date means the close of business on the last business day of the month next preceding such 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 from the District. Notice of the Special Record Date and of the scheduled payment date of the past due payment (“Special Payment Date”), which shall be 15 days after the Special Record Date, shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Owners’ Remedies

The Order does not provide for the appointment of a trustee to represent the interests of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A registered owner of Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of sovereign immunity. A registered owner’s only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. The District is also 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 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 Bond Counsel and Special Tax Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

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, et al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. May 13, 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 Litigation and Changes in Law on District Bonds

The Court’s decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing 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 would be adversely affected by any such legislation. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the 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. 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 to a compression percentage set by

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

2023 Legislative Session

The 88th Texas Legislature began on January 10, 2023 and adjourned on May 29, 2023. The Legislature meets in regular session in odd numbered years for 140 days. During the 88th Texas Legislative Session, the Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. The District is in the process of reviewing legislation that passed and can make no representation regarding the impact of such legislation at this time.

When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called two special sessions. The second special session concluded on July 13, 2023.

During the second called special session, legislation was passed to (i) reduce the maximum compressed M&O tax rate for school districts by approximately \$0.107 for the 2023-2024 school year (causing school district Maximum Compressed Rates (defined below) for the 2023/24 school year to range from \$0.6880 to \$0.6192); (ii) increase the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and to hold districts harmless from certain M&O and I&S tax revenue losses associated with the increases in exemptions; (iii) adjust the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibit school districts, cities and counties from repealing or reducing an optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) establish a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at or under \$5,000,000 to the lesser of (a) the market value of the property and (b) the market value of all new improvements to the property, plus 120% of the appraised value of the property for the preceding tax year; (vi) except certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expand the size of the governing body of an appraisal district in a county with a population of 75,000 or more by adding elected directors and authorize the legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. The foregoing legislation is intended to reduce the amount of property taxes paid by homeowners and businesses and will result in an increase to the State’s share of the cost of funding public education. The legislation has been signed into law by the Governor.

Implementation of items (ii) and (v) of the above-described legislation are subject to voter approval of a constitutional amendment that will be submitted to the voters at an election to be held on November 7, 2023. If the constitutional amendment is approved by voters, certain additional legislation will take effect including but not limited to certain increases to the no-tax-due threshold for franchise tax.

Additional special sessions may be called. During this time, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. The District can make no representations or predictions regarding the scope of legislation that may be considered during any additional called special session or the potential impact of such legislation at this time.

Local Funding for School Districts

A school district’s M&O tax rate is composed of two distinct parts: the “Tier One Tax Rate”, which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program, as further described below, and the “Enrichment Tax Rate”, which is any local M&O tax effort in excess of its Tier One Tax Rate. Formulas for the State Compression Percentage and

Maximum Compressed Tax Rate (each as described below) are designed to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “Local Funding for School Districts” is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts’ funding entitlements, as further discussed under the subcaption “– 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% per 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 set to 90% of the maximum 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 “– 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 to increase

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

The current 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 programmatic 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, the demographics of students in ADA and the educational programs the students are being serviced in, 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, (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 compensation incentive allotment to increase teacher retention in disadvantaged or rural school districts. A school district's total Tier One funding less the allotments that are not derived by a weighted formula, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

For the 2022-2023 school year, the fast growth allotment weights 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 \$310 million for the 2022-2023 school year and \$315 million for the 2023-2024 school year.

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2022-2023 State fiscal

biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

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

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

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

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

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

Furthermore, "property-wealthy" school districts that received additional State funds under the Finance System prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have

received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year. Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. Furthermore, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open-enrollment charter schools are entitled for a school year under the formula transition grant 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 Two guarantee as previously discussed (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of the Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "– Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund and they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

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

School Finance System as Applied to the District

For the 2022-2023 fiscal year, the District has not been designated as an “excess local revenue” district by the TEA. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options.

A district’s status of any excess local revenue in Tier I and its wealth per student for Copper Penny purposes in Tier II must be tested for each future school year and, if it exceeds the maximum permitted levels, the excess must be reduced by exercising of one of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district’s combined property tax base, and the District’s ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Young 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 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 “TAX INFORMATION – District and Taxpayer Remedies”).

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) for tax years beginning on or after January 1, 2022, a \$40,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for

disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

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

State Mandated Freeze on School District Taxes

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

On May 7, 2022, a constitutional amendment was approved by voters of the State authorizing the legislature to provide for the reduction of the amount of a limitation on the total amount of ad valorem taxes that may be imposed for general elementary and secondary public school purposes on 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 and Goods-In-Transit Exemptions

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

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), previously allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the 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 87th Legislature did not vote to extend this program, which expired by its terms effective 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 “TAX INFORMATION – District Application of Tax Code” 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 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.

Collection of Taxes – Penalty and Interest Charges

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

| <u>Month</u> | <u>Cumulative Penalty</u> | <u>Cumulative Interest^(b)</u> | <u>Total</u> |
|--------------|-------------------------------|--|--------------|
| February | 6% | 1% | 7% |
| March | 7 | 2 | 9 |
| April | 8 | 3 | 11 |
| May | 9 | 4 | 13 |
| June | 10 | 5 | 15 |
| July | 32 ^(a) | 6 | 38 |

^(a) Includes 20% penalty used to pay delinquent tax attorney’s fees.

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

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve-month average) and taxes become due October 1 of the same year and generally become delinquent on February 1 of the following year.

District's Rights in the Event of Tax Delinquencies

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

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 April 12, 1958 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, 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, Texas Education Code, as amended ("Section 45.0031"), 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 district voters 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. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduces the district’s local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District’s interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an I&S fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code (except refunding bonds issued to refund commercial paper notes), are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the 50-cent Test.

Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Attorney General must find that the district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. The District has not used State assistance other than EDA or IFA allotment funding or projected property values to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The District grants a state mandated \$40,000 general homestead exemption.

The District grants an additional state mandated exemption of \$10,000 to the market value of the residence homestead of persons: (1) 65 years of age or older, and (2) the disabled.

The District has not granted an additional local option exemption on the market value of residence homesteads.

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

The District does not grant a freeport exemption.

The District does not tax nonbusiness personal property.

In accordance with Section 11.131 of the Tax Code, the District must grant a complete exemption to the residential homesteads of veterans judged to be 100% disabled by the U.S. Department of Veteran Affairs. The Tax Code also provides for various other mandatory 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.

The District does not grant a "goods-in-transit" exemption.

The District has adopted a tax abatement policy.

The District has executed a number of value limitation agreements (each, a “Chapter 313 Agreement”) previously authorized under Chapter 313, Texas Tax Code (“Chapter 313”). Under Chapter 313, Texas school districts could grant value limitation agreements that limit the taxable value of certain qualified investments for maintenance and operations tax purposes. **Chapter 313 Agreements do not impact school district interest and sinking fund taxes used to pay bonded indebtedness, including the Bonds.**

- The District has entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to \$15,000,000, beginning tax year 2023 and extending through tax year 2032, with Young Wind, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to \$15,000,000, beginning tax year 2024 and extending through tax year 2033, with Plug Project Holding Co., LLC.

EMPLOYEES’ BENEFIT PLANS

The District’s employees participate in a retirement plan (the “Plan”) with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas (“TRS”). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS, costs relating to employee salaries that exceed the statutory limit. (See “APPENDIX B – NEWCASTLE INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT.”) In addition to the TRS retirement plan, the District provides health care coverage for its employees.

Please see APPENDIX B for additional detail regarding the District’s net pension liability and net other-post employment benefits (OPEB) liability.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by Texas law, as are strikes by teachers. There are various local, state, and national organized employee groups who engage in efforts to better the 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.

INVESTMENTS

The District may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the District or obligations under a lease, installment sale, or other agreement of the District) in investments authorized by State law in accordance with investment policies approved by the governing body of the District. Both State law and the District’s investment policies are subject to change.

Legal Investments

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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 of the

District 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 SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), 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 Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and 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), 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 as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, 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) 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 (13) through (15) below, 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; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "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 United States or state bank; (14) no-load money market mutual funds registered with and regulated by the 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 (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have 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.

A political subdivision such as the District may enter into 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, other

than the prohibited obligations described below, (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 (13) through (15) 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.

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 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.

Investment Policies

Under Texas 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 and 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 Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas 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, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board.

Additional Provisions

Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to

preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) 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, (5) 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 repurchase agreement, (6) restrict the investment in non-money market 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, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TAX MATTERS

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

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

Except as described above, Special Tax Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the interest on the Bonds, or the ownership or disposition of the Bonds. Prospective purchasers of Bonds should be aware that the ownership of Bonds may result in other collateral federal tax consequences, including (i) the denial of a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, (ii) the reduction of the loss reserve deduction for property and casualty insurance companies by the applicable statutory percentage of certain items, including the interest on the Bonds, (iii) the inclusion of the interest on the Bonds in the earnings of certain foreign corporations doing business in the United States for purposes of a branch profits tax, (iv) the inclusion of the interest on the Bonds in the passive income subject to federal income taxation of certain Subchapter S corporations with Subchapter C earnings and profits at the close of the taxable year, (v) the inclusion of interest on the Bonds in the determination of the taxability of certain Social Security and Railroad Retirement benefits to certain recipients of such benefits, (vi) net gain realized upon the sale or other disposition of property such as the Bonds generally must be taken into account when computing the Medicare tax with respect to net investment income or undistributed net investment income, as applicable, imposed on certain high income individuals and specified trusts and estates and (vii) receipt of certain investment income, including interest on the Bonds, is considered when determining qualification limits for obtaining the earned income credit provided by Section 32(a) of the Code. The nature and extent of the other tax consequences described above will depend on the particular tax status and situation of each owner of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors as to the impact of these other tax consequences.

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

Original Issue Premium and Discount

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

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

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

Changes in Tax Law

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

Information Reporting and Backup Withholding

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

statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains 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 material events, to the MSRB. This information will be available free of charge from the MSRB via the EMMA system at www.emma.msrb.org. See “APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to certain information vendors.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in APPENDIX A of this Official Statement under Tables numbered one through five and seven through twelve, and in APPENDIX B. The District will update and provide this information within six months after the end of each fiscal year.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

Event Notices

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 Order make any provision for debt service reserves, credit enhancement (other than the 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

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

Limitations and Amendments

The District has agreed to update information and to provide notices of material 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 the 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 and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12 taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, and the District also may amend the agreement in its discretion in any other manner or circumstance, but in any case only if and to the extent that the provisions of this sentence would not have prevented 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 Rule 15c2-12. If the District so amends the continuing disclosure agreement, it shall include with any amended financial information or operating data next provided in accordance with the agreement an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

OTHER INFORMATION

Ratings

S&P has assigned the rating of “AAA” to the Bonds based on the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA.” The underlying unenhanced rating of the Bonds is “A.” Such ratings reflect only the views of S&P and any desired explanation of the significance of any such rating should be obtained from S&P at 55 Water Street, New York, New York 10041. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance that any such rating, once issued, will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

No Litigation Certificate

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency, or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial statements or operations of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate substantially to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale, or delivery of said Bonds.

Legal Investments and Eligibility to Secure Public Funds in Texas

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) 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), the Bonds may have to be assigned a rating of “A” or its equivalent as to investment quality by a national rating agency before such Bonds are eligible investments for sinking funds and other public funds. 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.

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This

disclaimer of responsibility for registration and 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 in such other jurisdictions.

Legal Matters

The District will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the legal opinions of Leon Alcala, PLLC with respect to the Bonds being issued in compliance with the provisions of applicable law and Greenberg Traurig, LLP with respect to the interest on the Bonds being excludable from gross income for purposes of federal income tax. The form of Leon Alcala, PLLC's opinion is attached hereto as APPENDIX C – FORM OF BOND COUNSEL'S OPINION and the form of Greenberg Traurig, LLP's opinion is attached as APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION.

Leon Alcala, PLLC, Austin, Texas ("Bond Counsel") and Greenberg Traurig, LLP ("Special Tax Counsel"), were engaged by, and only represent, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the following captions or subcaptions, as applicable: "THE BONDS" (except under the subcaptions "Sources and Uses of Funds" and "Book-Entry Only System"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" (except "Possible Effects of Litigation and Changes in Law on District Bonds"), "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas", "OTHER INFORMATION – Registration and Qualification of Bonds for Sale", and "OTHER INFORMATION – Legal Matters" (only insofar as such section relates to the legal opinion of Bond Counsel and specifically excluding the last paragraph thereof) and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. Except as noted below, Special Tax Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Special Tax Counsel, such firm has reviewed the information appearing under the following captions or subcaptions, as applicable: "TAX MATTERS" and "OTHER INFORMATION – Legal Matters" (insofar as such section relates to the legal opinion of Special Tax Counsel) and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein. Bond Counsel and Special Tax Counsel have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the other information contained herein. The legal fees to be paid to Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinions of Bond Counsel and Special Tax Counsel may accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Jackson Walker LLP, Houston, Texas. The legal fee of such firm is contingent upon the sale and delivery of the Bonds.

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

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

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

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.

Use of Audited Financial Statements

Cameron L. Gulley, C.P.A., the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Cameron L. Gulley, C.P.A. also has not performed any procedures relating to this Official Statement.

Underwriting

Raymond James & Co., Inc. and Stephens Inc. (together, the "Underwriters") have agreed, subject to certain conditions, to purchase the Bonds from the District, at the respective prices indicated on the inside front cover of this Official Statement, less an underwriting discount of \$95,318.36, and no accrued interest. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

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

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

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

Infectious Disease Outbreak – COVID-19

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

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

The full extent of the ongoing impact of COVID-19 on the District’s longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition or its ratings. See “OTHER INFORMATION – Ratings”.

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

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

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.

Concentration of Tax Base

As shown in APPENDIX A - FINANCIAL INFORMATION REGARDING THE DISTRICT, Table 5 – “Ten Largest Taxpayers,” the top ten taxpayers in the District for the 2022 tax year accounted for, in the aggregate, over 29.44% of the District's tax base. In addition, the top taxpayer in the District accounted for approximately 14.70% of the District's tax base. Further, based upon certified assessed value information for tax year 2023, the Young Wind, LLC wind farm project accounts for approximately 82% of the District's tax base. As a result, there is a concentration risk for the District.

The top taxpayer based upon certified assessed value information for tax year 2023 is in the electric generation/utilities industry. Electric utilities have been subject to litigation related to the taxable value of such property and are also subject to transfer and sole ownership by another entity, including to local governments whose property is exempt from ad valorem taxation. A portion of the District's assessed valuation is comprised of industries related to oil and gas, which are subject to fluctuation in terms of market valuation and availability (and recent events such as COVID-19 significantly increased the volatility in this market sector see “Infections Disease Outbreak – COVID-19” herein). 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 – Owners' Remedies” and “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT.”

Recent declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. Adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the District, resulting in a reduction in property tax revenue. The Bonds are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds. Reductions in oil and gas revenues may also have an adverse effect on State revenues available during the next biennium, which may impact how the State funds education.

Effects of Sequestration

The District has previously issued its Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 (the “Affected Bonds”), which receive refundable credits under section 6431 of the Internal Revenue Code (the “Code”) applicable to certain qualified bonds (“Subsidy Payments”). Subject to sequestration described in this subcaption, the amount of the Subsidy Payments is equal to 35% of the interest payable by the District on the Affected Bonds.

The Budget Control Act of 2011 (the “Budget Control Act”) provided for increases in the federal debt limit and established procedures designed to reduce the federal budget deficit. The Budget Control Act provided that a failure by Congress to otherwise reduce the deficit would result in sequestration: automatic, generally across-the-board spending reductions. Sequestration under the Budget Control Act took effect on March 1, 2013, and the District has received reduced Subsidy Payments for the Affected Bonds since that date. The amount of the reduction of the Subsidy Payments under the Budget Control Act has ranged and is currently expected to range from a high of 8.7% in 2013 to a low of 5.7% for federal fiscal years 2021 through 2030.

The Statutory Pay-As-You-Go Act of 2010 (the “PAYGO Act”) provided a sequestration procedure similar to the Budget Control Act that is based on an annual “scorecard” evaluation of new federal legislation that impacts revenues and spending. If the scorecard shows that new legislation which is not excepted from the PAYGO Act causes spending to exceed revenues over five and ten year periods, then sequestration of up to 100% applies against certain federal programs, including the Subsidy Payments. PAYGO Act sequestration has not occurred previously. Due to recent

legislation related to COVID-19 relief, however, it was reported that the PAYGO scorecard could increase the overall sequestration percentage from the current level of 5.7% (under the Budget Control Act) to 100% effective in approximately mid-January of 2023. The Consolidated Appropriations Act of 2023, enacted in December of 2022, applies the PAYGO scorecard balance for January of 2023 to the PAYGO scorecard for the 2025 fiscal year. Consequently, the PAYGO Act's sequestration provisions will not be triggered in January of 2023, or in January of 2024 based on existing legislation, but such provisions would be triggered in January of 2025 absent further legislation. Additionally, Congress can terminate, extend, or otherwise modify reductions in Subsidy Payments due to sequestration at any time.

It is anticipated that Subsidy Payments to the District for such Affected Bonds will be, to some extent, reduced as described above. The District cannot and does not make any representation regarding the amount of Subsidy Payments that it will receive in the future. Pursuant to the order authorizing the issuance of the Affected Bonds, the District is required to make interest and principal payments on the Affected Bonds regardless of whether any Subsidy Payments are received. If the sequestration continues, the District may be required to increase ad valorem tax rates in order to pay additional debt service expenses on the Affected Bonds resulting from decreased Subsidy Payments. The District can make no prediction as to the length or long-term effects of the sequestration.

Cybersecurity

The District, like other school districts in the State, utilize 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.

Miscellaneous

The financial data and other information contained herein have been obtained from the District's records, audited financial statements, and other sources that 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.

Concluding Statement

The information set forth herein has been obtained from the District's records, audited financial statements, and other sources which are considered to be reliable. There is no guarantee that any of assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects. The Order authorizing the issuance of the Bonds approved the form and content of this Official Statement and any addenda, supplement, or amendment thereto and authorize its further use in the re-offering of the Bonds by the Underwriters. This Official Statement has been approved by the Board for distribution in accordance with the provisions of Rule 15c2-12.

ATTEST:

/s/ Shelly Shields
Secretary, Board of Trustees
Newcastle Independent School District

/s/ Tradd Strawbridge
President, Board of Trustees
Newcastle Independent School District

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APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

The Tax Code as it Applies to the District

The District grants a state mandated \$40,000 general homestead exemption.

The District grants an additional state mandated exemption of \$10,000 to the market value of the residence homestead of persons: (1) 65 years of age or older, and (2) the disabled.

The District has not granted an additional local option exemption on the market value of residence homesteads.

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

The District does not grant a freeport exemption.

The District does not tax nonbusiness personal property.

In accordance with Section 11.131 of the Tax Code, the District must grant a complete exemption to the residential homesteads of veterans judged to be 100% disabled by the U.S. Department of Veteran Affairs. The Tax Code also provides for various other mandatory 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.

The District does not grant a “goods-in-transit” exemption.

The District has adopted a tax abatement policy.

The District has executed a number of value limitation agreements (each, a “Chapter 313 Agreement”) previously authorized under Chapter 313, Texas Tax Code (“Chapter 313”). Under Chapter 313, Texas school districts could grant value limitation agreements that limit the taxable value of certain qualified investments for maintenance and operations tax purposes. **Chapter 313 Agreements do not impact school district interest and sinking fund taxes used to pay bonded indebtedness, including the Bonds.**

- The District has entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to \$15,000,000, beginning tax year 2023 and extending through tax year 2032, with Young Wind, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to \$15,000,000, beginning tax year 2024 and extending through tax year 2033, with Plug Project Holding Co., LLC.

TABLE 1 - VALUATION, EXEMPTIONS, AND TAX SUPPORTED DEBT

District Direct Debt

| | |
|---|---------------------|
| 2023-24 Certified Net Taxable Assessed Valuation ⁽¹⁾ | \$545,558,679 |
| Outstanding Debt, as of 8/31/23 ⁽²⁾ | 900,645 |
| Plus: The Bonds | 15,155,000 |
| Total Direct Debt | <u>\$16,055,645</u> |
| As a % of 2023/24 Certified Taxable Assessed Valuation | 2.94% |

(1) Certified 2023-2024 Valuations provided by Young County Appraisal District. Reflects assessed valuation for Debt Service tax rate only. The assessed valuation for M&O purposes is limited pursuant to Chapter 313 of the Tax Code for economic development. As a result, the District, in effect, has two tax values, one for Debt Service taxes and one for M&O taxes.

(2) Projected outstanding debt. Treats prior sinking fund payments related to the District’s Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 as repaid principal.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY⁽¹⁾

| | Tax Year 2023 | Tax Year 2022 | Tax Year 2021 | Tax Year 2020 | Tax Year 2019 |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
| Real Property | \$983,613,080 | \$413,190,021 | \$337,203,548 | \$321,880,727 | \$325,180,781 |
| Non Real Property | 35,420,570 | 33,790,860 | 29,816,470 | 37,857,880 | 55,348,990 |
| Gross Value | \$1,019,033,650 | \$446,980,881 | \$367,020,018 | \$ 359,738,607 | \$380,529,771 |
| Less | 473,474,971 | 368,224,545 | 293,281,874 | 278,124,333 | 287,504,506 |
| Exemptions/Adjustments | | | | | |
| Net Taxable Value | <u>\$ 545,558,679</u> | <u>\$ 78,756,336</u> | <u>\$ 73,738,144</u> | <u>\$ 81,614,274</u> | <u>\$ 93,025,265</u> |

⁽¹⁾ Valuations provided by Young County Appraisal District.

TABLE 3 - VALUATION AND TAX DEBT HISTORY

| Fiscal Year Ended 8/31 | Estimated Population⁽¹⁾ | Taxable Assessed Valuation⁽³⁾ | Taxable Assessed Valuation Per Capita | Tax Supported Debt Outstanding⁽⁵⁾ | Ratio of Tax Supported Debt to Assessed Valuation | Tax Supported Debt Per Capita |
|---|---|---|--|---|--|--|
| 2020 | 984 | \$93,025,265 | \$94,538 | \$ 1,801,290 | 1.94% | \$1,831 |
| 2021 | 1,070 | 81,614,274 | 76,275 | 1,501,075 | 1.84% | 1,403 |
| 2022 | 1,113 | 73,738,144 | 66,252 | 1,200,860 | 1.63% | 1,079 |
| 2023 | 1,162 | 78,756,336 | 67,777 | 15,720,645 ⁽⁶⁾ | 19.96% | 13,529 |
| 2024 | 1,162 ⁽²⁾ | 545,558,679 ⁽⁴⁾ | 469,000 | 16,055,645 ⁽⁷⁾ | 2.94 % | 13,817 |

⁽¹⁾ Source: Municipal Advisory Council of Texas.

⁽²⁾ Projected Population.

⁽³⁾ As reported by Young County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year. Reflects assessed valuation for Debt Service tax rate only. The assessed valuation for M&O purposes are limited pursuant to Chapter 313 of the Tax Code for economic development. As a result, the District, in effect, has two tax values, one for Debt Service taxes and one for M&O taxes.

⁽⁴⁾ Increase in assessed valuation is largely attributable to the Young Wind, LLC project which is approximately 82% of such value. See "OTHER INFORMATION - Concentration of Tax Base."

⁽⁵⁾ Treats prior sinking fund payments related to the District's Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 as repaid principal.

⁽⁶⁾ Includes the Bonds.

⁽⁷⁾ Projected outstanding debt. Includes the Bonds.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

| Fiscal Year Ended 8/31 | Tax Year | Taxable Assessed Valuation⁽¹⁾ | Tax Rate | Tax Levy⁽³⁾ | Percent Collected | |
|---|---------------------|---|--------------------|-------------------------------|----------------------------|--------------|
| | | | | | Current | Total |
| 2020 | 2019 | \$ 93,025,265 | \$1.4484 | \$1,324,990 | 80.88% | 81.41% |
| 2021 | 2020 | 81,614,274 | 1.4700 | 1,177,174 | 98.19% | 99.58% |
| 2022 | 2021 | 73,738,144 | 1.4717 | 1,060,808 | 98.58% | 98.58% |
| 2023 | 2022 | 78,756,336 | 1.4700 | 1,116,824 | (In process of collection) | |
| 2024 | 2023 | 545,558,679 ⁽²⁾ | TBD ⁽⁴⁾ | TBD ⁽⁴⁾ | (N/A) | |

⁽¹⁾ Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.

⁽²⁾ Certified Taxable Assessed Valuation provided by Young County Appraisal District. Reflects assessed valuation for Debt Service tax rate only. The assessed valuation for M&O purposes are limited pursuant to Chapter 313 of the Tax Code for economic development. As a result, the District, in effect, has two tax values, one for Debt Service taxes and one for M&O taxes. Increase in assessed valuation is largely attributable to the Young Wind, LLC project which is approximately 82% of such value. See "OTHER INFORMATION - Concentration of Tax Base."

⁽³⁾ Excludes penalties and interest.

⁽⁴⁾ The District's tax rate for the upcoming fiscal year is expected to be set in August 2023. The District currently expects that it will levy a \$0.36 I&S tax rate, but this remains subject to change until the District's Board of Trustees takes official action to levy taxes for such fiscal year.

TABLE 5 - TEN LARGEST TAXPAYERS⁽¹⁾

| <u>Taxpayers</u> | <u>Type of Property</u> | <u>2022/23 Net Taxable Assessed Valuations⁽²⁾</u> | <u>% of Total 2022/23 Assessed Valuation</u> |
|-------------------------------|--------------------------------|---|---|
| 1. Oncor Electric Delivery Co | Electric Utility | \$11,576,040 | 14.70% |
| 2. Nadel and Gussman LLC | Oil & Gas | 2,721,830 | 3.46% |
| 3. Walsh & Watts Inc | Oil & Gas | 2,204,380 | 2.80% |
| 4. Zack Thomason Burkett IV | Ranch | 1,422,890 | 1.81% |
| 5. Targa North Texas LP | Oil & Gas | 1,065,060 | 1.35% |
| 6. Texas New Mexico Power Co | Electric Utility | 929,130 | 1.18% |
| 7. Genesis Ranch LLC | Ranch | 892,200 | 1.13% |
| 8. David Tennyson Etux | Residential Land | 831,010 | 1.06% |
| 9. Taunton Land & Cattle LLC | Residential Land | 812,937 | 1.03% |
| 10. Edward Karper, Sr. Et Al | Residential Land | 725,500 | 0.92% |
| Total | | <u>\$ 23,180,977</u> | <u>29.44%</u> |

⁽¹⁾ Source: Young County Appraisal District.

⁽²⁾ Based upon certified assessed values for 2023/2024, Young Wind, LLC will be the largest taxpayer with approximately 82% of Net Taxable Assessed Value attributed to its projects. See "OTHER INFORMATION - Concentration of Tax Base."

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

| <u>Taxing Jurisdiction</u> | <u>As Of</u> | <u>Total Debt</u>^(a) | <u>Estimated % Overlapping</u> | <u>Overlapping Debt</u> |
|--|---------------------|--|---------------------------------------|--------------------------------|
| Young Co | 6/30/2023 | \$0 | 5.64% | \$ <u>0</u> |
| Estimated (Net) Overlapping Debt | | | | \$ <u>0</u> |
| Newcastle ISD ^(b) | | \$16,055,645 | | <u>16,055,645</u> |
| Total Direct & Estimated Overlapping Debt | | | | <u>\$16,055,645</u> |
| As a % of Certified 2023-24 Taxable Assessed Valuation | | | | 2.94% |

^(a) Gross Debt

^(b) Includes the Bonds. .

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DEBT INFORMATION

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

| Fiscal Year Ended 8/31 | <u>OUTSTANDING DEBT</u> ⁽¹⁾ | | | | <u>PLUS: THE BONDS</u> | | | |
|--|--|------------------------|-----------------------------|----------------------------|------------------------|----------------|---------------|--|
| | Sinking Fund Payment (\$) | Gross Interest (\$) | Subsidy (\$) ⁽²⁾ | Total Debt Service (\$) | Principal (\$) | Interest (\$) | Total (\$) | Total Debt Service Requirements (\$) |
| 2023 | | | | | | 12,629.17 | 12,629.17 | 12,629.17 |
| 2024 | 300,215.00 | 253,395.00 | (247,500) | 306,110.00 | 800,000.00 | 737,750.00 | 1,537,750.00 | 1,843,860.00 |
| 2025 | 300,215.00 | 253,395.00 | (247,500) | 306,110.00 | 780,000.00 | 698,250.00 | 1,478,250.00 | 1,784,360.00 |
| 2026 | 300,215.00 | 253,395.00 | (247,500) | 306,110.00 | 765,000.00 | 659,625.00 | 1,424,625.00 | 1,730,735.00 |
| 2027 | - | - | - | - | 750,000.00 | 621,750.00 | 1,371,750.00 | 1,371,750.00 |
| 2028 | - | - | - | - | 740,000.00 | 584,500.00 | 1,324,500.00 | 1,324,500.00 |
| 2029 | - | - | - | - | 730,000.00 | 547,750.00 | 1,277,750.00 | 1,277,750.00 |
| 2030 | - | - | - | - | 725,000.00 | 511,375.00 | 1,236,375.00 | 1,236,375.00 |
| 2031 | - | - | - | - | 720,000.00 | 475,250.00 | 1,195,250.00 | 1,195,250.00 |
| 2032 | - | - | - | - | 720,000.00 | 439,250.00 | 1,159,250.00 | 1,159,250.00 |
| 2033 | - | - | - | - | 715,000.00 | 403,375.00 | 1,118,375.00 | 1,118,375.00 |
| 2034 | - | - | - | - | 720,000.00 | 367,500.00 | 1,087,500.00 | 1,087,500.00 |
| 2035 | - | - | - | - | 725,000.00 | 331,375.00 | 1,056,375.00 | 1,056,375.00 |
| 2036 | - | - | - | - | 730,000.00 | 295,000.00 | 1,025,000.00 | 1,025,000.00 |
| 2037 | - | - | - | - | 740,000.00 | 258,250.00 | 998,250.00 | 998,250.00 |
| 2038 | - | - | - | - | 755,000.00 | 220,875.00 | 975,875.00 | 975,875.00 |
| 2039 | - | - | - | - | 770,000.00 | 182,750.00 | 952,750.00 | 952,750.00 |
| 2040 | - | - | - | - | 785,000.00 | 143,875.00 | 928,875.00 | 928,875.00 |
| 2041 | - | - | - | - | 805,000.00 | 104,125.00 | 909,125.00 | 909,125.00 |
| 2042 | - | - | - | - | 825,000.00 | 63,375.00 | 888,375.00 | 888,375.00 |
| 2043 | - | - | - | - | 855,000.00 | 21,375.00 | 876,375.00 | 876,375.00 |
| | 900,645.00 | 760,185.00 | (742,500) | 918,330.00 | \$15,155,000.00 | 7,680,004.17 | 22,835,004.17 | 23,753,334.17 |
| Average Annual Debt Service Requirements | | | | | | \$1,131,111.15 | | |
| Maximum Annual Debt Service Requirement..... | | | | | | \$1,843,860.00 | | |

⁽¹⁾ Projected outstanding debt, as of 8/31/23. The entire principal amount of the District's \$4,500,000 Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 are scheduled to mature on 8/31/2026. Prior sinking fund payments for those bonds have been deducted from the total principal amount of debt outstanding.

⁽²⁾ Subsidy payments were reduced by 5.7% with respect to payments processed on or after October 1, 2022 and on or before September 30, 2023 due to the Federal budget sequester. See "OTHER INFORMATION – Effects of Sequestration" for additional information regarding the effects of the sequestration.

TABLE 8 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

After the issuance of the Bonds, the District will have \$5,500,000 authorized but unissued unlimited tax bonds. The District does not anticipate issuing additional debt this fiscal year.

TABLE 9 - OTHER OBLIGATIONS

The District had no obligations outstanding other than obligations supported by interest and sinking fund taxes as of April 30, 2023.

TABLE 10 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY**For Fiscal Year Ended August 31st**

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|---------------------|---------------------|---------------------|
| REVENUES: | | | | | |
| Local and Intermediate Sources | \$ 868,991 | \$ 978,142 | \$ 881,079 | \$ 920,548 | \$ 829,121 |
| State Program Revenues | 2,402,961 | 2,043,116 | 1,625,391 | 1,659,941 | 1,736,646 |
| Federal Program Revenues | - | - | - | - | - |
| Total Revenues | <u>\$ 3,271,952</u> | <u>\$ 3,021,258</u> | <u>\$ 2,506,470</u> | <u>\$ 2,580,489</u> | <u>\$ 2,566,487</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| Instruction | \$ 1,492,899 | \$ 1,712,761 | \$ 1,457,394 | \$ 1,240,181 | \$ 1,187,348 |
| Instructional Resources and Media Services | 8,012 | 7,375 | 12,305 | 16,810 | 21,557 |
| Curriculum and Instructional Staff Development | 10,851 | 13,063 | 25,565 | 11,855 | 17,130 |
| School Leadership | 178,156 | 188,407 | 149,705 | 172,599 | 162,455 |
| Guidance, Counseling and Evaluation Services | 2,701 | 2,463 | 2,049 | 6,727 | 27,406 |
| Health Services | 6,768 | 6,309 | 6,667 | 6,329 | 6,318 |
| Student (Pupil) Transportation | 167,352 | 196,845 | 26,594 | 33,854 | 113,040 |
| Food Services | - | 4,727 | 2,477 | 3,459 | 3,237 |
| Extracurricular Activities | 238,010 | 252,017 | 117,959 | 147,951 | 152,297 |
| General Administration | 423,286 | 223,306 | 252,917 | 215,183 | 194,834 |
| Facilities Maintenance and Operations | 347,693 | 408,728 | 265,269 | 186,597 | 177,386 |
| Security and Monitoring Services | 16,244 | 23,935 | 10,150 | 1,986 | 4,656 |
| Data Processing Services | 46,538 | 41,228 | 34,271 | 35,667 | 31,802 |
| Community Services | - | - | - | - | 4,583 |
| Debt Service: | | | | | |
| Interest on Long-Term Liabilities | - | - | - | - | - |
| Bond Issuance Cost and Fees | - | - | - | - | - |
| Capital Outlay: | | | | | |
| Facilities Acquisition and Construction | 232,468 | 194,506 | - | 239,112 | 282,181 |
| Intergovernmental: | | | | | |
| Payments to Fiscal Agent/Member Districts of SSA | 58,241 | 38,474 | 29,760 | 26,317 | 22,847 |
| Other Intergovernmental Charges | 34,245 | 27,265 | 24,548 | 23,630 | 25,659 |
| Total Expenditures | <u>\$ 3,263,464</u> | <u>\$ 3,341,409</u> | <u>\$ 2,417,630</u> | <u>\$ 2,368,257</u> | <u>\$ 2,434,736</u> |
| Excess (Deficit) Revenues Over (Under) | | | | | |
| Expenditures | <u>8,488</u> | <u>(320,151)</u> | <u>88,840</u> | <u>212,232</u> | <u>131,751</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| Sale of Real and Personal Property | 2,850 | - | - | - | - |
| Transfers In | - | - | - | - | - |
| Transfers Out (Use) | - | (18,129) | (35,191) | (20,944) | (22,216) |
| Total Other Financing Sources (Uses) | <u>2,850</u> | <u>(18,129)</u> | <u>(35,191)</u> | <u>(20,944)</u> | <u>(22,216)</u> |
| Net Change in Fund Balances | 11,338 | (338,280) | 53,649 | 191,288 | 109,535 |
| Fund Balances - September 1 (Beginning) | <u>2,028,276</u> | <u>2,366,556</u> | <u>2,312,907</u> | <u>2,121,619</u> | <u>2,012,084</u> |
| Fund Balance – August 31 (Ending) | <u>\$ 2,039,614</u> | <u>\$ 2,028,276</u> | <u>\$ 2,366,556</u> | <u>\$ 2,312,907</u> | <u>\$ 2,121,619</u> |

Source: The District's audited financial statements.

TABLE 11 - GENERAL OPERATING FUND COMPARATIVE BALANCE SHEET^(a)**For Fiscal Year Ended August 31st**

| | 2022 | 2021 | 2020 | 2019 | 2018 |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| ASSETS | | | | | |
| Cash and Cash Equivalents | \$ 1,819,152 | \$ 1,779,244 | \$ 2,288,648 | \$ 2,149,114 | \$ 1,889,663 |
| Property Taxes - Delinquent | 206,911 | 210,242 | 205,171 | 48,840 | 51,240 |
| Allowance for Uncollectible Taxes | (47,829) | (48,027) | (31,763) | (17,433) | (24,894) |
| Due from Other Governments | 287,872 | 352,428 | 141,427 | 218,474 | 250,203 |
| Due from Other Funds | 35,321 | 38,924 | 105,542 | - | 68,272 |
| Prepayments | - | - | 6,260 | - | - |
| Total Assets | <u>\$ 2,301,427</u> | <u>\$ 2,332,811</u> | <u>\$ 2,715,285</u> | <u>\$ 2,446,397</u> | <u>\$ 2,234,484</u> |
| LIABILITIES | | | | | |
| Accounts Payable | \$ 32,173 | \$ 57,470 | \$ 14,309 | \$ 8,612 | \$ 9,227 |
| Payroll Deductions and Withholdings Payable | - | - | 1,072 | - | - |
| Accrued Wages Payable | 58,412 | 72,451 | 111,409 | 74,999 | 66,240 |
| Due to Other Funds | - | 1,370 | 1,370 | 1,370 | - |
| Due to Other Governments | - | - | 35,868 | - | - |
| Accrued Expenditures | 12,146 | 11,029 | 11,293 | 17,102 | 11,052 |
| Total Liabilities | <u>\$ 102,731</u> | <u>\$ 142,320</u> | <u>\$ 175,321</u> | <u>\$ 102,083</u> | <u>\$ 86,519</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | | |
| Unavailable Revenue – Property Taxes | 159,082 | 162,215 | 173,408 | 31,407 | 26,346 |
| Total Deferred Inflows of Resources | 159,082 | 162,215 | 173,408 | 31,407 | 26,346 |
| FUND BALANCES | | | | | |
| Nonspendable Fund Balance: | | | | | |
| Prepaid Items | - | - | 6,260 | - | - |
| Restricted Fund Balance: | | | | | |
| Retirement of Long-Term Debt | - | - | - | - | - |
| Committed Fund Balance: | | | | | |
| Construction | 95,000 | 95,000 | 95,000 | 95,000 | 95,000 |
| Capital Expenditures for Equipment | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Assigned Fund Balance: | | | | | |
| Other Assigned Fund Balance | 25,000 | 25,000 | 25,000 | 25,000 | 25,000 |
| Unassigned Fund Balance | 1,894,614 | 1,883,276 | 2,215,296 | 2,167,907 | 1,976,619 |
| Total Fund Balances | <u>\$ 2,039,614</u> | <u>\$ 2,028,276</u> | <u>\$ 2,366,556</u> | <u>\$ 2,312,907</u> | <u>\$ 2,121,619</u> |
| Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 2,301,427</u> | <u>\$ 2,332,811</u> | <u>\$ 2,715,285</u> | <u>\$ 2,446,397</u> | <u>\$ 2,234,484</u> |

^(a) Source: The District's audited financial statements.**TABLE 12 - CURRENT INVESTMENTS**

As of April 30, 2023, the District's investable funds amounted to \$2,733,345. The following summary itemizes the District's investment portfolio by type:

| | Percent | Book Value | Market Value |
|-----------------|----------------|-------------------|---------------------|
| Cash | 62.30 % | \$ 1,702,780 | \$ 1,702,780 |
| Investment Pool | 37.70 % | \$ 1,030,565 | \$ 1,030,565 |
| Total | 100.00% | \$ 2,733,345 | \$ 2,733,345 |

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APPENDIX B

NEWCASTLE INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT

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NEWCASTLE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2022

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NEWCASTLE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2022

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CERTIFICATE OF BOARD

Newcastle Independent School District
Name of School District

Young
County

252-902
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and ___approved
- ___disapproved for the year ended August 31, 2022, at a meeting of the board of school trustees of such school district on the
8th day of December, 2022.

Signature of Board Secretary

Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Newcastle Independent School District
P.O. Box 129
Newcastle, Texas 76372

Report on the Audit of the Financial Statements

Opinions

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account principles generally accepted in the United States of America.

Basis for Opinions

I conducted my 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. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements related to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Change in Accounting Principle

As described in Note I.E.3. to the financial statements, the District adopted new accounting pronouncement, GASB Statement No. 87, *Leases* during the year. My opinion is not modified with respect to this matter.

Responsibility of Management for the Financial Statements

The District's 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 the District's ability to continue as a going concern for twelve months beyond the financial statement due date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit with 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*, I:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

I am 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 I identify during the audit.

Required Supplementary Information

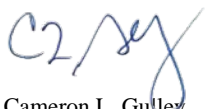
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements, the required TEA schedules and the schedule of expenditures of federal awards, as required by Title I U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining statements, the required TEA schedules and the schedule of expenditures of federal awards listed in the table of contents 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*, I have also issued my report dated December 8, 2022, on my consideration of the District's internal control over financial reporting and on my 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 my 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Cameron L. Gulley
Certified Public Accountant
Eastland, Texas

December 8, 2022

Newcastle Independent School District

Board President
Tradd Strawbridge

P.O. Box 129
940-846-3531
Newcastle, TX 76372

Superintendent
Shane Mallory

Board Secretary
Anthony Ford

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Newcastle Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2022. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

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

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

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) 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, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the District into one activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's fund type - governmental - use the following accounting approaches.

Governmental funds - All of the District's basic 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 basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 16 and 17. 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 analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities increased from \$4,580,302 to \$4,894,100. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from \$847,144 to \$906,681. Current and other assets increased by \$87 thousand due to increases in cash and receivables. Capital assets increased by \$113 thousand due to asset additions in excess of depreciation expense. Long-term liabilities decreased by \$232 thousand due to the effects of net pension (NPL) and other post-employment benefit (OPEB) liabilities. Other liabilities decreased by \$62 thousand due to ending accrued payroll and accounts payable. Deferred resource outflows and inflows related to NPL and OPEB liabilities increased by \$133 thousand and \$314 thousand, respectively.

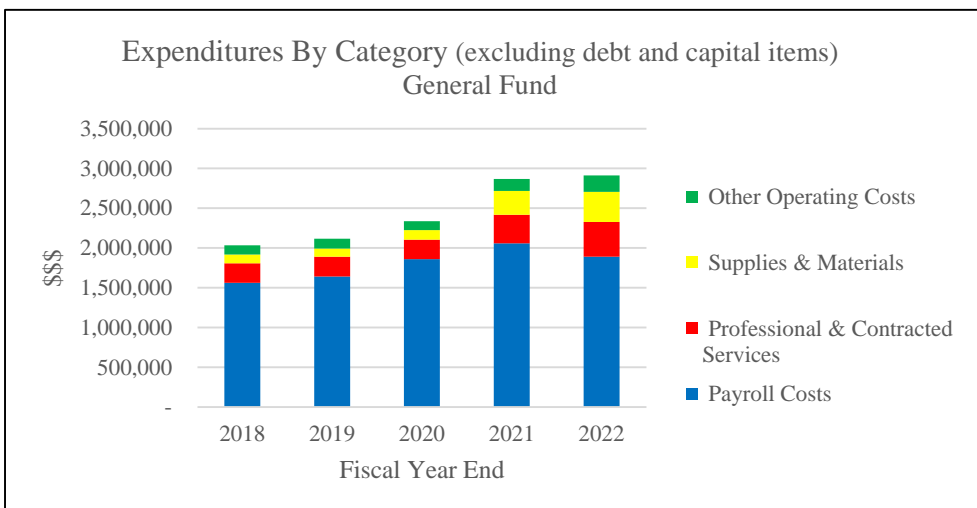
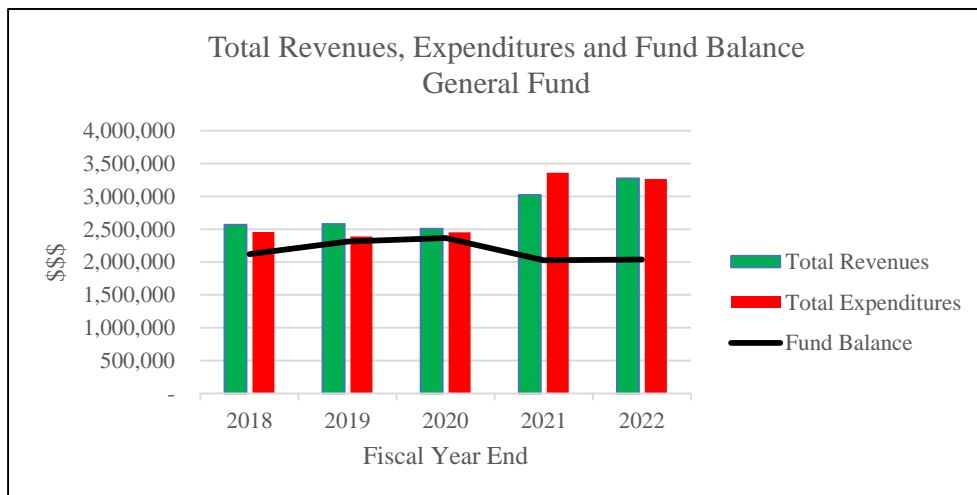
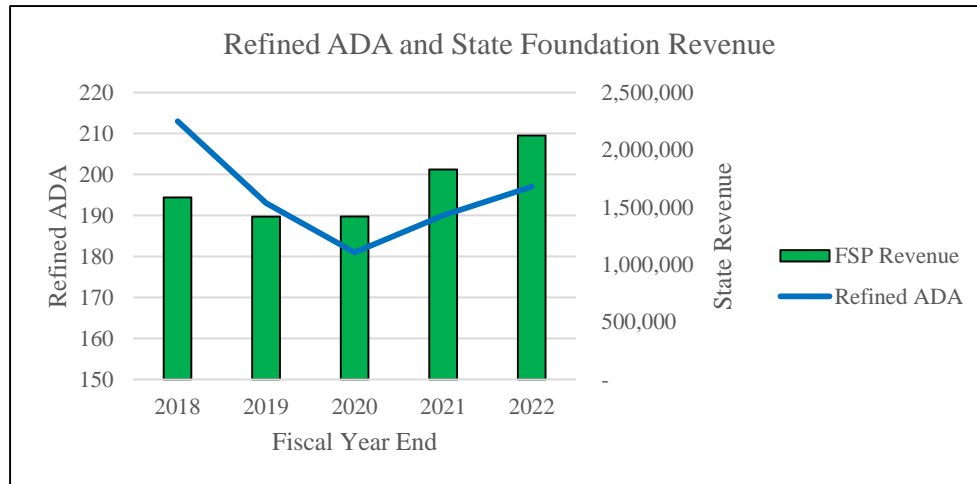
Total revenues increased by \$349 thousand for the year. Property taxes decreased \$69 thousand due to valuation decreases of 10% net of tax rate increases. State aid-formula grants increased by \$393 thousand for the year due to property valuation reductions and increase in average daily attendance. Miscellaneous revenue decreased by \$169 thousand due to reduced investment income. Operating grants and contributions increased \$210 thousand due to federal grants.

Total expenses increased by \$158 thousand for the year. However, excluding the effects on expenses of NPL and OPEB accruals total expenses increased by \$444 thousand. Total payroll costs increased by \$288 thousand; contract services increased by \$63 thousand; athletic and other supplies increased by \$14 thousand; and other operating expenses increased by \$55 thousand. Expense variances (net of NPL and OPEB accruals) were due to the following: instruction, instructional leadership, student support services, and extracurricular activities were mostly due to payroll costs; child nutrition was due to food costs; general administration was due to payroll and professional fees; and payments to shared service arrangement were for additional special education services.

| Table I Net Position | | | |
|---|------------------------------------|------------------------------------|-------------------------------------|
| | Governmental Activities 2022 | Governmental Activities 2021 | Variance Increase/ (Decrease) |
| Current and other assets | \$ 5,961,987 | \$ 5,874,773 | \$ 87,214 |
| Capital assets | 4,873,686 | 4,760,295 | 113,391 |
| Deferred resource outflows for TRS | 737,582 | 604,767 | 132,815 |
| Total assets and deferred resource outflows | 11,573,255 | 11,239,835 | 333,420 |
| Long-term liabilities | 5,623,263 | 5,855,303 | (232,040) |
| Other liabilities | 150,391 | 212,252 | (61,861) |
| Deferred resource inflows for TRS | 905,501 | 591,978 | 313,523 |
| Total liabilities and deferred resource inflows | 6,679,155 | 6,659,533 | 19,622 |
| Net position: | | | |
| Net investment in capital assets | 373,686 | 260,295 | 113,391 |
| Restricted for debt service and other | 3,613,733 | 3,472,863 | 140,870 |
| Unrestricted | 906,681 | 847,144 | 59,537 |
| Total net position | \$ 4,894,100 | \$ 4,580,302 | \$ 313,798 |

| Table II Changes in Net Position | | | |
|---|------------------------------------|------------------------------------|---|
| | Governmental Activities 2022 | Governmental Activities 2021 | Variance Favorable/ (Unfavorable) |
| Revenues: | | | |
| Program Revenues: | | | |
| Charges for services | \$ 21,546 | \$ 38,129 | \$ (16,583) |
| Operating grants and contributions | 794,386 | 584,101 | 210,285 |
| General Revenues: | | | |
| Property taxes | 1,071,158 | 1,140,433 | (69,275) |
| State aid - formula grants | 2,295,778 | 1,902,936 | 392,842 |
| Other | (111,131) | 57,581 | (168,712) |
| Total Revenues | 4,071,737 | 3,723,180 | 348,557 |
| Expenses: | | | |
| Instruction, curriculum and media services | 2,061,814 | 2,083,344 | 21,530 |
| Instructional and school leadership | 168,392 | 200,647 | 32,255 |
| Student support services | 129,721 | 110,846 | (18,875) |
| Child nutrition | 184,026 | 163,253 | (20,773) |
| Extracurricular activities | 262,049 | 285,687 | 23,638 |
| General administration | 413,758 | 238,501 | (175,257) |
| Plant maintenance, security & data processing | 425,015 | 431,407 | 6,392 |
| Debt service | 20,678 | 20,657 | (21) |
| Payments related to shared service arrangements | 58,241 | 38,474 | (19,767) |
| Other intergovernmental charges | 34,245 | 27,265 | (6,980) |
| Total Expenses | 3,757,939 | 3,600,081 | (157,858) |
| Increase (Decrease) in Net Position | 313,798 | 123,099 | 190,699 |
| Net Position - beginning of year | 4,580,302 | 4,457,203 | 123,099 |
| Net Position - end of year | \$ 4,894,100 | \$ 4,580,302 | \$ 313,798 |

The following charts depict trend information for the past five years.



THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$5,596,157, an increase of \$153,412 in the District's Governmental Funds from last year's fund balance of \$5,442,745. The primary reasons for the net increase are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 and 75 whose impacts are only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District's budget two times during the year. The most significant budget amendments were in instruction for additional payroll costs; extracurricular activities for athletic supplies; general administration for professional fees; facilities maintenance and operations for repairs and maintenance; and facilities acquisition and construction for new building acquisitions.

The District's General Fund balance of \$2,039,614 reported on pages 14 and 39 differs from the General Fund's budgetary fund balance of \$1,313,010 reported in the budgetary comparison schedule on page 39 due to state and local revenues being more than budgeted and overall expenditures being less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2022, the District had \$9,205,484 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Following were asset additions for the year.

Asset additions:

| | | |
|------------------------------------|----|----------------|
| 2017 Ford transit van | \$ | 54,284 |
| 2021 Chevrolet suburban | | 64,892 |
| Residence - superintendent housing | | 232,468 |
| Total asset additions | \$ | <u>351,644</u> |

Debt

The District had one outstanding long-term debt instrument used to finance school construction. The bond payable was a qualified school construction bond. Stated interest on the bond totaled 5.631% of which the federal government subsidized 5.50% of the interest rate resulting in a net interest cost to the District of 0.131%. Annual debt service requirements will approximate \$306,000 annually until final maturity in 2026.

Following is a summary of outstanding debt for the past two years:

| | 2022 | 2021 |
|---------------|--------------|--------------|
| Bonds payable | \$ 4,500,000 | \$ 4,500,000 |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should continue to maintain its financial health. A budget adopted for 2022-23 reflected tax rates at \$1.0118 for maintenance and operations and \$0.43 for debt service. General fund revenues were budgeted at approximately \$3.12 million and expenditures at approximately \$2.74 million for a projected budget surplus of \$376 thousand. Therefore, the District expects that its general fund balance will be approximately \$2.4 million at August 31, 2023.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Newcastle Independent School District, P.O. Box 129, Newcastle, Texas 76372.

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BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

| Data Control Codes | Primary Government |
|---|----------------------------|
| | Governmental Activities |
| ASSETS | |
| 1110 Cash and Cash Equivalents | \$ 1,881,442 |
| 1220 Property Taxes - Delinquent | 281,588 |
| 1230 Allowance for Uncollectible Taxes | (65,316) |
| 1240 Due from Other Governments | 506,133 |
| 1250 Accrued Interest | 11,088 |
| Capital Assets: | |
| 1510 Land | 19,329 |
| 1520 Buildings, Net | 4,148,815 |
| 1530 Furniture and Equipment, Net | 423,045 |
| 1580 Construction in Progress | 232,468 |
| 1590 Infrastructure, Net | 50,029 |
| 1800 Restricted Assets | 3,347,052 |
| 1000 Total Assets | 10,835,673 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| 1705 Deferred Outflow Related to TRS Pension | 332,930 |
| 1706 Deferred Outflow Related to TRS OPEB | 404,652 |
| 1700 Total Deferred Outflows of Resources | 737,582 |
| LIABILITIES | |
| 2110 Accounts Payable | 35,225 |
| 2140 Interest Payable | 833 |
| 2160 Accrued Wages Payable | 97,724 |
| 2200 Accrued Expenses | 16,609 |
| Noncurrent Liabilities: | |
| Due in More than One Year: | |
| 2502 Bonds, Notes, Loans, Leases, etc. | 4,500,000 |
| 2540 Net Pension Liability (District's Share) | 337,284 |
| 2545 Net OPEB Liability (District's Share) | 785,979 |
| 2000 Total Liabilities | 5,773,654 |
| DEFERRED INFLOWS OF RESOURCES | |
| 2605 Deferred Inflow Related to TRS Pension | 358,812 |
| 2606 Deferred Inflow Related to TRS OPEB | 546,689 |
| 2600 Total Deferred Inflows of Resources | 905,501 |
| NET POSITION | |
| 3200 Net Investment in Capital Assets and Right-to-Use Lease Assets | 373,686 |
| Restricted: | |
| 3820 Restricted for Federal and State Programs | 33,393 |
| 3850 Restricted for Debt Service | 3,580,340 |
| 3900 Unrestricted | 906,681 |
| 3000 Total Net Position | \$ 4,894,100 |

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

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

| Data Control Codes | 1 | Program Revenues | | 6 Primary Gov. Governmental Activities |
|---|--|-------------------------|--|--|
| | | 3 | 4 | |
| | | Charges for Services | Operating Grants and Contributions | |
| | Expenses | | | Net (Expense) Revenue and Changes in Net Position |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| 11 Instruction | \$ 2,040,988 | \$ 1,202 | \$ 571,999 | \$ (1,467,787) |
| 12 Instructional Resources and Media Services | 8,006 | - | - | (8,006) |
| 13 Curriculum and Instructional Staff Development | 12,820 | - | - | (12,820) |
| 23 School Leadership | 168,392 | - | (3,302) | (171,694) |
| 31 Guidance, Counseling, and Evaluation Services | 39,195 | - | 38,105 | (1,090) |
| 33 Health Services | 6,768 | - | - | (6,768) |
| 34 Student (Pupil) Transportation | 83,758 | - | (508) | (84,266) |
| 35 Food Services | 184,026 | 9,849 | 196,667 | 22,490 |
| 36 Extracurricular Activities | 262,049 | 10,495 | (1,215) | (252,769) |
| 41 General Administration | 413,758 | - | (5,015) | (418,773) |
| 51 Facilities Maintenance and Operations | 353,382 | - | (1,498) | (354,880) |
| 52 Security and Monitoring Services | 26,251 | - | (254) | (26,505) |
| 53 Data Processing Services | 45,382 | - | (593) | (45,975) |
| 72 Debt Service - Interest on Long-Term Debt | 20,003 | - | - | (20,003) |
| 73 Debt Service - Bond Issuance Cost and Fees | 675 | - | - | (675) |
| 93 Payments Related to Shared Services Arrangements | 58,241 | - | - | (58,241) |
| 99 Other Intergovernmental Charges | 34,245 | - | - | (34,245) |
| [TP] TOTAL PRIMARY GOVERNMENT: | \$ 3,757,939 | \$ 21,546 | \$ 794,386 | (2,942,007) |
| | | | | |
| Data Control Codes | General Revenues: | | | |
| | Taxes: | | | |
| MT | Property Taxes, Levied for General Purposes | | | 764,018 |
| DT | Property Taxes, Levied for Debt Service | | | 307,140 |
| SF | State Aid - Formula Grants | | | 2,295,778 |
| IE | Investment Earnings | | | (191,821) |
| MI | Miscellaneous Local and Intermediate Revenue | | | 80,690 |
| TR | Total General Revenues | | | 3,255,805 |
| CN | Change in Net Position | | | 313,798 |
| NB | Net Position - Beginning | | | 4,580,302 |
| NE | Net Position - Ending | | | \$ 4,894,100 |

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

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

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | Other Funds | Total Governmental Funds |
|--|-----------------------|----------------------------|-------------------|--------------------------------|
| ASSETS | | | | |
| 1110 Cash and Cash Equivalents | \$ 1,819,152 | \$ 34,404 | \$ 27,886 | \$ 1,881,442 |
| 1220 Property Taxes - Delinquent | 206,911 | 74,677 | - | 281,588 |
| 1230 Allowance for Uncollectible Taxes | (47,829) | (17,487) | - | (65,316) |
| 1240 Due from Other Governments | 287,872 | 130,804 | 87,457 | 506,133 |
| 1250 Accrued Interest | - | 11,088 | - | 11,088 |
| 1260 Due from Other Funds | 35,321 | - | - | 35,321 |
| 1800 Restricted Assets | - | 3,347,052 | - | 3,347,052 |
| 1000 Total Assets | <u>\$ 2,301,427</u> | <u>\$ 3,580,538</u> | <u>\$ 115,343</u> | <u>\$ 5,997,308</u> |
| LIABILITIES | | | | |
| 2110 Accounts Payable | \$ 32,173 | \$ - | \$ 3,052 | \$ 35,225 |
| 2160 Accrued Wages Payable | 58,412 | - | 39,312 | 97,724 |
| 2170 Due to Other Funds | - | 198 | 35,123 | 35,321 |
| 2200 Accrued Expenditures | 12,146 | - | 4,463 | 16,609 |
| 2000 Total Liabilities | <u>102,731</u> | <u>198</u> | <u>81,950</u> | <u>184,879</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| 2601 Unavailable Revenue - Property Taxes | 159,082 | 57,190 | - | 216,272 |
| 2600 Total Deferred Inflows of Resources | <u>159,082</u> | <u>57,190</u> | <u>-</u> | <u>216,272</u> |
| FUND BALANCES | | | | |
| Restricted Fund Balance: | | | | |
| 3450 Federal or State Funds Grant Restriction | - | - | 33,393 | 33,393 |
| 3480 Retirement of Long-Term Debt | - | 3,523,150 | - | 3,523,150 |
| Committed Fund Balance: | | | | |
| 3510 Construction | 95,000 | - | - | 95,000 |
| 3530 Capital Expenditures for Equipment | 25,000 | - | - | 25,000 |
| Assigned Fund Balance: | | | | |
| 3590 Other Assigned Fund Balance | 25,000 | - | - | 25,000 |
| 3600 Unassigned Fund Balance | 1,894,614 | - | - | 1,894,614 |
| 3000 Total Fund Balances | <u>2,039,614</u> | <u>3,523,150</u> | <u>33,393</u> | <u>5,596,157</u> |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 2,301,427</u> | <u>\$ 3,580,538</u> | <u>\$ 115,343</u> | <u>\$ 5,997,308</u> |

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

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

EXHIBIT C-2

| | |
|---|---------------------|
| Total Fund Balances - Governmental Funds | \$ 5,596,157 |
| 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 \$8,853,840 and the accumulated depreciation was (\$4,093,545). 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. | 260,295 |
| 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 capital outlays and debt principal payments is to increase net position. | 351,644 |
| 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 \$332,930, a deferred resource inflow in the amount of \$358,812, and a net pension liability in the amount of \$337,284. This resulted in a decrease in net position. | (363,166) |
| 4 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$404,652, a deferred resource inflow in the amount of \$546,689, and a net OPEB liability in the amount of \$785,979. This resulted in a decrease in net position. | (928,016) |
| 5 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | (238,253) |
| 6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue 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. | 215,439 |
| 19 Net Position of Governmental Activities | \$ 4,894,100 |

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

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

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | Other Funds | Total Governmental Funds |
|--|-----------------------|----------------------------|----------------|--------------------------------|
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 868,991 | \$ 109,943 | \$ 9,850 | \$ 988,784 |
| 5800 State Program Revenues | 2,402,961 | 19,416 | 6,962 | 2,429,339 |
| 5900 Federal Program Revenues | - | - | 815,187 | 815,187 |
| 5020 Total Revenues | 3,271,952 | 129,359 | 831,999 | 4,233,310 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 1,492,899 | - | 587,377 | 2,080,276 |
| 0012 Instructional Resources and Media Services | 8,012 | - | - | 8,012 |
| 0013 Curriculum and Instructional Staff Development | 10,851 | - | - | 10,851 |
| 0023 School Leadership | 178,156 | - | - | 178,156 |
| 0031 Guidance, Counseling, and Evaluation Services | 2,701 | - | 38,105 | 40,806 |
| 0033 Health Services | 6,768 | - | - | 6,768 |
| 0034 Student (Pupil) Transportation | 167,352 | - | - | 167,352 |
| 0035 Food Services | - | - | 173,124 | 173,124 |
| 0036 Extracurricular Activities | 238,010 | - | - | 238,010 |
| 0041 General Administration | 423,286 | - | - | 423,286 |
| 0051 Facilities Maintenance and Operations | 347,693 | - | - | 347,693 |
| 0052 Security and Monitoring Services | 16,244 | - | - | 16,244 |
| 0053 Data Processing Services | 46,538 | - | - | 46,538 |
| Debt Service: | | | | |
| 0072 Interest on Long-Term Liabilities | - | 20,003 | - | 20,003 |
| 0073 Bond Issuance Cost and Fees | - | 675 | - | 675 |
| Capital Outlay: | | | | |
| 0081 Facilities Acquisition and Construction | 232,468 | - | - | 232,468 |
| Intergovernmental: | | | | |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 58,241 | - | - | 58,241 |
| 0099 Other Intergovernmental Charges | 34,245 | - | - | 34,245 |
| 6030 Total Expenditures | 3,263,464 | 20,678 | 798,606 | 4,082,748 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | 8,488 | 108,681 | 33,393 | 150,562 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7912 Sale of Real and Personal Property | 2,850 | - | - | 2,850 |
| 1200 Net Change in Fund Balances | 11,338 | 108,681 | 33,393 | 153,412 |
| 0100 Fund Balance - September 1 (Beginning) | 2,028,276 | 3,414,469 | - | 5,442,745 |
| 3000 Fund Balance - August 31 (Ending) | \$ 2,039,614 | \$ 3,523,150 | \$ 33,393 | \$ 5,596,157 |

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

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

EXHIBIT C-4

| | |
|---|-------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ 153,412 |
| 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 capital outlays and debt principal payments is to increase net position. | 351,644 |
| 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. | (238,253) |
| 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 decrease net position. | (4,337) |
| 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 \$100,295. 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 \$55,911. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$5,894. The net result was an increase in the change in net position. | 38,490 |
| 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 \$23,149. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling \$15,904. 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 \$5,597. The net result was an increase in the change in net position. | 12,842 |
| Change in Net Position of Governmental Activities | \$ 313,798 |

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

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

EXHIBIT E-1

| | Private Purpose Trust Fund | Custodial Fund |
|-------------------------------|----------------------------------|-------------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 4,650 | \$ 52,434 |
| Total Assets | <u>4,650</u> | <u>\$ 52,434</u> |
| NET POSITION | | |
| Restricted for Scholarships | 4,650 | - |
| Restricted for Other Purposes | <u>-</u> | <u>52,434</u> |
| Total Net Position | <u><u>\$ 4,650</u></u> | <u><u>\$ 52,434</u></u> |

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

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

| | Private Purpose Trust Fund | Custodial Fund |
|--|----------------------------------|-------------------------|
| ADDITIONS: | | |
| Contributions to Student Groups | \$ - | \$ 150 |
| Miscellaneous Revenue - Student Activities | - | 71,298 |
| Contributions, Gifts and Donations | 6,935 | - |
| Total Additions | <u>6,935</u> | <u>71,448</u> |
| DEDUCTIONS: | | |
| Supplies and Materials | - | 73,096 |
| Other Deductions | 7,635 | - |
| Total Deductions | <u>7,635</u> | <u>73,096</u> |
| Change in Fiduciary Net Position | (700) | (1,648) |
| Total Net Position - September 1 (Beginning) | <u>5,350</u> | <u>54,082</u> |
| Total Net Position - August 31 (Ending) | <u><u>\$ 4,650</u></u> | <u><u>\$ 52,434</u></u> |

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

NEWCASTLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AT AND FOR THE YEAR ENDED AUGUST 31, 2022

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Other Post-Employment Benefits (OPEB). 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.

The District applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

Interfund activities between governmental funds appear as due to/due froms 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 froms on the government-wide Statement of Activities.

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

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

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

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Proprietary Fund Types, Fiduciary Funds and Custodial 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. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. 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.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

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

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

Governmental Funds:

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

Fiduciary Funds:

4. **Private Purpose Trust Funds.** The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District.
5. **Custodial Funds.** The District accounts for resources held for others in a custodial capacity in custodial funds. The District's Custodial Fund is the "Newcastle Student Activity Fund."

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type 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. The District implemented GASB 87 for reporting leases during this reporting period. A right-to-use lease is defined as a contract that conveys control over another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a "long-term" lease provided in GASB 87. The right-to-use lease liability is reported in the government-wide statements. The lease liability is calculated as the present value of the reasonably certain expected payments made over the term of the lease and the interest included in the lease payments is recorded as an expense. There were no leases material to the financial statements that were recorded during the year audited.

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.

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

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

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

| <u>Asset:</u> | <u>Years</u> |
|-----------------------|--------------|
| Buildings | 40 |
| Building Improvements | 40 |
| Vehicles | 5-10 |
| Equipment | 7 |
| Technology Equipment | 5 |

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.
7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.
9. 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. Items reported as deferred outflows of resources are as follows:

| | |
|--|------------|
| Deferred charges related to TRS retirement | \$ 332,930 |
| Deferred charges related to TRS OPEB | \$ 404,652 |

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

| | |
|--|------------|
| Deferred charges related to TRS retirement | \$ 358,812 |
| Deferred charges related to TRS OPEB | \$ 546,689 |

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

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

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. (However, none of these were significant.)
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District had the following functional categories that exceeded its final amended budget by more than \$2,500:

| Functional Category | Amount Over Budget | Explanation |
|---------------------|--------------------|-------------|
| None. | | |

C. DEFICIT FUND EQUITY

None.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2022, the following are the District's cash and cash equivalents with respective maturities and credit rating:

| Type of Deposit | Fair Value | Percent | Maturity < 1 Yr | Maturity 1-10 Yrs | Maturity > 10 Yrs | Credit Rating |
|--|---------------------|-------------|---------------------|----------------------|----------------------|------------------|
| Cash: | | | | | | |
| Money market and FDIC insured accounts | \$ 1,622,418 | 84% | \$ 1,622,418 | | | N/A |
| Cash on hand | 560 | 0% | 560 | | | N/A |
| Investment Pool | 315,548 | 16% | 315,548 | | | AAA |
| Total Cash and Cash Equivalents | <u>\$ 1,938,526</u> | <u>100%</u> | <u>\$ 1,938,526</u> | | | |
| Restricted Cash: | | | | | | |
| Money market mutual fund | \$ 337,668 | 10% | \$ 337,668 | | | AAA |
| Certificates of deposit | 3,009,384 | 90% | | 3,009,384 | | N/A |
| Total Restricted Cash | <u>\$ 3,347,052</u> | <u>100%</u> | <u>\$ 337,668</u> | <u>\$ 3,009,384</u> | | |

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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 and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in commercial paper, corporate bonds and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2022, all of the District's investments were rated AAA. Therefore, the District was not exposed to credit risk.

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. The District was not exposed to custodial credit risk.

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance. The District was not exposed to interest rate risk.

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

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.

At August 31, 2022, the District had no investments other than money market deposits, investment pools and certificates of deposit.

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.

C. DELINQUENT TAXES RECEIVABLE

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

The composition of interfund balances as of August 31, 2022 is as follows:

| Fund | Receivable | Payable | Purpose | Current? |
|-----------------------------|------------------|------------------|--------------------|----------|
| General fund | \$ 35,321 | | Temporary advances | Yes |
| Debt service fund | | 198 | Temporary advances | Yes |
| Nonmajor governmental funds | | 35,123 | Temporary advances | Yes |
| Total | <u>\$ 35,321</u> | <u>\$ 35,321</u> | | |

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

| Fund | Transfers In | Transfers Out | Purpose |
|-------|--------------|---------------|---------|
| None. | | | |

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2022 were as follows:

| | Property Taxes (net) | Other Government | Total Receivables |
|-------------------------------|-------------------------|---------------------|----------------------|
| Governmental Activities: | | | |
| General fund | \$ 159,082 | \$ 287,872 | \$ 446,954 |
| Debt service fund | 57,190 | 130,804 | 187,994 |
| Nonmajor governmental funds | | 87,457 | 87,457 |
| Total Governmental Activities | <u>\$ 216,272</u> | <u>\$ 506,133</u> | <u>\$ 722,405</u> |

Payables at August 31, 2022 were as follows:

| | Accounts | Salaries and Benefits | Total Payables |
|-------------------------------|------------------|--------------------------|-------------------|
| Governmental Activities: | | | |
| General fund | \$ 32,173 | \$ 70,558 | \$ 102,731 |
| Nonmajor governmental funds | 3,052 | 43,875 | 46,927 |
| Total Governmental Activities | <u>\$ 35,225</u> | <u>\$ 114,433</u> | <u>\$ 149,658</u> |

F. CAPITAL ASSET ACTIVITY

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

| | Balance 8/31/2021 | Additions | Disposals | Balance 8/31/2022 |
|---|----------------------|-------------------|-----------|----------------------|
| Governmental activities: | | | | |
| Land and improvements | \$ 19,329 | | | \$ 19,329 |
| Buildings and improvements | 7,661,810 | | | 7,661,810 |
| Furniture and equipment | 1,116,955 | 119,176 | | 1,236,131 |
| Construction in progress | 0 | 232,468 | | 232,468 |
| Infrastructure | 55,746 | | | 55,746 |
| Totals | <u>8,853,840</u> | <u>351,644</u> | | <u>9,205,484</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | 3,361,711 | 151,284 | | 3,512,995 |
| Furniture and equipment | 728,728 | 84,358 | | 813,086 |
| Infrastructure | 3,106 | 2,611 | | 5,717 |
| Total accumulated depreciation | <u>4,093,545</u> | <u>238,253</u> | | <u>4,331,798</u> |
| Governmental activities capital assets, net | <u>\$ 4,760,295</u> | <u>\$ 113,391</u> | | <u>\$ 4,873,686</u> |

Depreciation expense was charged to functions/programs of the primary government as follows:

| | |
|--|-------------------|
| Governmental activities: | |
| 11 - Instruction | \$ 100,607 |
| 13 - Curriculum and instructional staff development | 1,969 |
| 23 - School leadership | 6,244 |
| 34 - Student (pupil) transportation | 43,699 |
| 35 - Food services | 13,828 |
| 36 - Extracurricular activities | 30,223 |
| 41 - General administration | 14,835 |
| 51 - Facilities maintenance and operations | 14,034 |
| 52 - Security and monitoring services | 11,183 |
| 53 - Data processing | 1,631 |
| Total depreciation expense - governmental activities | <u>\$ 238,253</u> |

G. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

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

| Description | Interest Rate Payable | Amounts Original Issue | Amounts Outstanding 9/1/2021 | Issued | Retired | Amounts Outstanding 8/31/2022 |
|---|-----------------------------|------------------------------|------------------------------------|--------|---------|-------------------------------------|
| Bonds Payable: | | | | | | |
| Unlimited tax qualified school construction bond, taxable series 2011 | 5.63% | \$ 4,500,000 | \$ 4,500,000 | | | \$ 4,500,000 |

Newcastle ISD Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 -

The bonds were issued on February 11, 2011 for the purpose of construction and renovation of facilities and were issued in accordance with Texas law. The original issue was for \$4,500,000, maturing in a lump sum on August 15, 2026, with a stated interest rate of 5.631%. Interest payments are due semi-annually on February 15th and August 15th each year beginning in 2012 and continuing thereafter until final maturity. Bonds due on or after August 15, 2020 are callable at par on August 15, 2019 or any principal maturity date thereafter.

The interest rate was subsidized by the U.S. Government for 5.50% paid semi-annually each year beginning with the stated maturity schedules set forth above. Additionally, the bonds require an annual escrow deposit to be made with the registered agent of the bonds of \$296,987 on August 15, 2012 and \$300,215 on each August 15th thereafter to be used to make the final lump sum principal payment on August 15, 2026.

H. DEBT SERVICE REQUIREMENTS - BONDS AND LONG-TERM NOTES PAYABLE

Future debt service requirements are as follows:

| Year Ended August 31, | Bonds Payable | | | | |
|--------------------------|---------------|--------------|-----------------------|-----------------------|-----------------------|
| | Principal | Interest | U.S. Gov't Subsidy | Escrow Requirement | Total Requirements |
| 2023 | \$ 0 | \$ 253,395 | \$ (247,500) | \$ 300,215 | \$ 306,110 |
| 2024 | 0 | 253,395 | (247,500) | 300,215 | 306,110 |
| 2025 | 0 | 253,395 | (247,500) | 300,215 | 306,110 |
| 2026 | 4,500,000 | 253,395 | (247,500) | (4,199,785) | 306,110 |
| Totals | \$ 4,500,000 | \$ 1,013,580 | \$ (990,000) | \$ (3,299,140) | \$ 1,224,440 |

I. DEFINED BENEFIT PENSION PLAN

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

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

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

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

| <u>Net Pension Liability</u> | <u>Total</u> |
|---|--------------------------|
| Total Pension Liability | \$ 227,273,463,630 |
| Less: Plan Fiduciary Net Position | (201,807,002,496) |
| Net Pension Liability | <u>\$ 25,466,461,134</u> |
| Net Position as a percentage of Total Pension Liability | 88.79% |

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 grand fathered, 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.

| Contribution Rates | | |
|--|-------|-------|
| | 2021 | 2022 |
| Member | 7.70% | 8.00% |
| Non-Employer Contributing Entity (State) | 7.50% | 7.75% |
| Employers | 7.50% | 7.75% |

| | |
|--|------------|
| Current fiscal year District contributions | \$ 100,295 |
| Current fiscal year Member contributions | \$ 172,597 |
| Measurement year NECE contributions | \$ 113,780 |

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

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

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

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% of the member's salary beginning in fiscal year 2021, gradually increasing to 2% in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

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

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

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

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 |
| Actuarial Assumptions: | |
| Single Discount Rate | 7.25% |
| Long-term expected Investment Rate of Return | 7.25% |
| Municipal bond rate as of August 2020 | 1.95% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" |
| Inflation | 2.3% |
| Salary Increases | 3.05% to 9.05% including inflation |
| Benefit Changes During the Year | None |
| Ad hoc Post-Employment Benefit Changes | None |

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

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

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 (Including Credit Sensitive Investments) | 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% |
| Expected Return | <u>100%</u> | | <u>6.90%</u> |

¹ Absolute Return includes Credit Sensitive Investments.

² Target allocations are based on the FY2021 policy model.

³ Capital Market Assumptions come from Aon Hewitt (as of 08/31/2021).

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 2021 Net Pension Liability.

| | 1% Decrease in Discount Rate (6.25%) | Discount Rate (7.25%) | 1% Increase in Discount Rate (8.25%) |
|---|--|--------------------------|--|
| District's proportionate share of the net pension liability | \$ 737,020 | \$ 337,284 | \$ 12,978 |

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2022, the District reported a liability of \$337,284 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:.

| | |
|--|---------------------|
| District's proportionate share of the collective net pension liability | \$ 337,284 |
| State's proportionate share that is associated with the District | 678,992 |
| Total | <u>\$ 1,016,276</u> |

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

At August 31, 2021 the District's proportion of the collective net pension liability was 0.0013244257% which was an increase of 0.0000885638% from its proportion measured as of August 31, 2020.

Changes Since the Prior Actuarial Valuation. Changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period are as follows:

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, the District recognized pension expense of \$64,520 and revenue of \$2,715 for support provided by the State in the Government-Wide Statement of Activities.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Difference between expected and actual economic experiences | \$ 564 | \$ 23,745 |
| Changes in actuarial assumptions | 119,223 | 51,971 |
| Differences between projected and actual investment earnings | | 282,808 |
| Changes in proportion and differences between the District's contributions and the proportionate share of contributions | 112,848 | 288 |
| Total as of August 31, 2021 measurement date | \$ 232,635 | \$ 358,812 |
| Contributions paid to TRS subsequent to the measurement date | 100,295 | |
| Total as of August 31, 2022 fiscal year end | <u>\$ 332,930</u> | <u>\$ 358,812</u> |

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

| Fiscal year ended August 31, | Amount |
|------------------------------|-------------|
| 2023 | \$ (13,525) |
| 2024 | \$ (16,108) |
| 2025 | \$ (40,148) |
| 2026 | \$ (65,056) |
| 2027 | \$ 7,289 |
| Thereafter | \$ 1,371 |

J. 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 benefit 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 Annual Comprehensive 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/acfr.pdf#ACFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512)542-6592.

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2021 are as follows:

| <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 a percentage of total OPEB liability | 6.18% |

Benefits Provided. TRS-Care provides a basic health insurance coverage 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 the high-deductible health plans. Eligible Medicare retirees and dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

The General Appropriations Act passed by the 86th Legislature included funding to maintain TRS Care premiums at their current level through 2021. The 86th legislature also passed SB 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures.

The following premium rates for retirees with Medicare Part A and Part B became effective January 1, 2018 and are reflected in the following table.

| TRS-Care Plan Premium Rates Effective January 1, 2018 - December 31, 2021 | | |
|--|----------|--------------|
| | Medicare | Non-Medicare |
| Retiree or surviving spouse | \$ 135 | \$ 200 |
| Retiree and spouse | 529 | 689 |
| Retiree or surviving spouse and children | 468 | 408 |
| Retiree and family | 1,020 | 999 |

Contributions. Contribution rates for 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 plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for the plan 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 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

| Contribution Rates | | |
|---|-------|-------|
| | 2021 | 2022 |
| Active employee | 0.65% | 0.65% |
| Non-employer contributing entity (State) | 1.25% | 1.25% |
| Employers | 0.75% | 0.75% |
| Federal/private funding remitted by employers | 1.25% | 1.25% |

| | |
|--|-----------|
| Current fiscal year District contributions | \$ 23,149 |
| Current fiscal year member contributions | \$ 14,024 |
| Measurement year NECE contributions | \$ 21,327 |

All employers whose employees are covered by the TRS pension plan are also required to pay a surcharge of \$535 per month when employee a retiree of the TRS.

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

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for 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, 2021 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 mortality projection scale MP-2018.

The initial medical trend rates were 8.50% for Medicare retirees and 7.10% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.50% 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% |
| Discount Rate | 1.95% as of August 31, 2021 |
| Aging Factors | Based on plan specific experience |
| Expenses | Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs. |
| Projected Salary Increases | 3.05% to 9.05%, including inflation |
| Election Rates | Normal Retirement: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65. |
| Ad hoc post-employment benefit changes | None |

Discount Rate. A single discount rate of 1.95% was used to measure the total OPEB liability. There was a change of (0.38%) 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 source of the municipal bond rate was 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the Net OPEB Liability:

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

| | 1% Decrease in Discount Rate (0.95%) | Current Single Discount Rate (1.95%) | 1% Increase in Discount Rate (2.95%) |
|--|--|--|--|
| District's proportionate share of net OPEB liability | \$ 948,072 | \$ 785,979 | \$ 658,407 |

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

| | 1% Decrease | Current Healthcare Cost Trend Rate | 1% Increase |
|--|-------------|--|-------------|
| District's proportionate share of net OPEB liability | \$ 636,617 | \$ 785,979 | \$ 986,386 |

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2022, the District reported a liability of \$785,979 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 | \$ 785,979 |
| State's proportionate share that is associated with the District | 1,053,037 |
| Total | <u>\$ 1,839,016</u> |

The net OPEB liability was measured as of August 31, 2021 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The 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 0.0020375637% which was an increase of 0.0002135209% 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 OPEB liability since the prior measurement period:

1. The discount rate changed from 2.33% as of August 31, 2020 to 1.95% as of August 31, 2021. This change increased the total OPEB liability (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 (\$28,558) and revenue of (\$38,865) 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 Outflow of Resources | Deferred Inflow of Resources |
|--|----------------------------------|---------------------------------|
| Differences between expected and actual actuarial experience | \$ 33,840 | \$ 380,469 |
| Changes in actuarial assumptions | 87,056 | 166,220 |
| Differences between projected and actual investment earnings | 853 | |
| Changes in proportion and difference between the District's contributions and the proportionate share of contributions | 259,754 | |
| Total as of August 31, 2021 measurement date | \$ 381,503 | \$ 546,689 |
| Contributions paid to TRS subsequent to the measurement date | 23,149 | |
| Total as of August 31, 2022 fiscal year end | <u>\$ 404,652</u> | <u>\$ 546,689</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, | Amount |
|------------------------------|-------------|
| 2023 | \$ (46,249) |
| 2024 | \$ (46,269) |
| 2025 | \$ (46,263) |
| 2026 | \$ (25,574) |
| 2027 | \$ 2,436 |
| Thereafter | \$ (3,267) |

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. The District participates in 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 Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Texas Insurance Code Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.25% for 2020 thru 2022. The contribution rate for the district was 0.75% for 2020 thru 2022. The contribution rate for active employees was 0.65% of the district payroll for 2020 thru 2022. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.25% for 2020 thru 2022.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf to the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2022, 2021 and 2020 are as follows:

| Contribution Rates and Contribution Amounts | | | | | | |
|---|--------|-----------|-------|-----------|-----------------|-----------|
| Year | Member | | State | | School District | |
| | Rate | Amount | Rate | Amount | Rate | Amount |
| 2022 | 0.65% | \$ 14,024 | 1.25% | \$ 26,968 | 0.75% | \$ 16,086 |
| 2021 | 0.65% | \$ 12,475 | 1.25% | \$ 23,991 | 0.75% | \$ 14,394 |
| 2020 | 0.65% | \$ 10,864 | 1.25% | \$ 20,892 | 0.75% | \$ 12,542 |

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2022, 2021 and 2020 were \$8,388, \$8,090 and \$7,555, respectively.

Active Employee Health Care Coverage

Plan Description. 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. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

L. CHANGES IN LONG-TERM LIABILITIES

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

| | Beginning Balance | Additions | Retirements | Ending Balance | Due Within One Year |
|-----------------------|----------------------|-------------------|-------------------|---------------------|------------------------|
| Bonds payable | \$ 4,500,000 | | | \$ 4,500,000 | \$ 0 |
| Net pension liability | 661,902 | | 324,618 | 337,284 | 0 |
| Net OPEB liability | 693,401 | 108,496 | 15,918 | 785,979 | 0 |
| Total | <u>\$ 5,855,303</u> | <u>\$ 108,496</u> | <u>\$ 340,536</u> | <u>\$ 5,623,263</u> | <u>\$ 0</u> |

M. UNAVAILABLE/UNEARNED REVENUE

Unavailable and unearned revenue at year-end consisted of the following:

| Fund | Unavailable Revenue (levied but uncollected property taxes) |
|-------------------|--|
| General fund | \$ 159,082 |
| Debt service fund | 57,190 |
| Total | <u>\$ 216,272</u> |

N. DUE FROM STATE AND FEDERAL AGENCIES

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. They are reported on the combined financial statements as Due from Other Governments.

| Fund | State Grants | Federal Grants | Total |
|-----------------------------|-------------------|-------------------|-------------------|
| General fund | \$ 287,872 | | \$ 287,872 |
| Debt service fund | 14,108 | 116,696 | 130,804 |
| Nonmajor governmental funds | 30,311 | 57,146 | 87,457 |
| Total | <u>\$ 332,291</u> | <u>\$ 173,842</u> | <u>\$ 506,133</u> |

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

| Description | General Fund | Debt Service Fund | Other Governmental Funds | Total |
|--|-------------------|-------------------|--------------------------|-------------------|
| Property taxes | \$ 756,139 | \$ 304,042 | | \$ 1,060,181 |
| Penalties, interest and other tax-related income | 11,012 | 4,302 | | 15,314 |
| Food sales | | | 9,850 | 9,850 |
| Investment income | 6,580 | (198,401) | | (191,821) |
| Extracurricular student activities | 10,495 | | | 10,495 |
| Insurance proceeds | 5,724 | | | 5,724 |
| Chapter 313 application fee | 75,000 | | | 75,000 |
| Other income | 4,041 | | | 4,041 |
| Total | <u>\$ 868,991</u> | <u>\$ 109,943</u> | <u>\$ 9,850</u> | <u>\$ 988,784</u> |

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

Q. JOINT VENTURE SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for Special Education services with the Big 4 Special Services Co-op. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Olney ISD, 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 the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

The District also participates in various shared service arrangements with the Education Service Center Region 9. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 9 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

R. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2022, the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the "Fund") with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

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 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 the District has not additional liability beyond the contractual obligations for payment of contributions.

Workers' Compensation

The District has established a partially self-funded workers' compensation plan by participating in the Claims Administrative Services, Inc. self-insured workers' compensation program administered by Texas Educational Insurance Association (the "Association"). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers' compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$11,005 in unpaid claims (which have been accrued to the financial statements if considered material) and an estimated balance of \$3,674 in incurred but not reported claims (which have not been accrued). Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable at August 31, 2022, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the fund as they become due.

Unemployment Compensation

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

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

S. GENERAL FUND FEDERAL SOURCE REVENUES

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

| Program or Service | Assistance Listing # | Amount |
|--------------------|-------------------------|-------------|
| None. | | <u>\$ 0</u> |

T. SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 8, 2022; the date which the financial statements were available for distribution. There were none noted.

REQUIRED SUPPLEMENTARY INFORMATION

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

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|--|------------------|--------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 741,313 | \$ 741,313 | \$ 868,991 | \$ 127,678 |
| 5800 State Program Revenues | 2,237,690 | 2,237,690 | 2,402,961 | 165,271 |
| 5900 Federal Program Revenues | 13,800 | 13,800 | - | (13,800) |
| 5020 Total Revenues | 2,992,803 | 2,992,803 | 3,271,952 | 279,149 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 Instruction | 1,304,203 | 1,568,735 | 1,492,899 | 75,836 |
| 0012 Instructional Resources and Media Services | 9,542 | 10,742 | 8,012 | 2,730 |
| 0013 Curriculum and Instructional Staff Development | 14,186 | 14,186 | 10,851 | 3,335 |
| 0023 School Leadership | 182,759 | 205,879 | 178,156 | 27,723 |
| 0031 Guidance, Counseling, and Evaluation Services | 7,500 | 7,500 | 2,701 | 4,799 |
| 0033 Health Services | 7,700 | 8,700 | 6,768 | 1,932 |
| 0034 Student (Pupil) Transportation | 211,815 | 211,815 | 167,352 | 44,463 |
| 0035 Food Services | 4,706 | 4,706 | - | 4,706 |
| 0036 Extracurricular Activities | 201,119 | 276,119 | 238,010 | 38,109 |
| 0041 General Administration | 258,192 | 486,387 | 423,286 | 63,101 |
| 0051 Facilities Maintenance and Operations | 254,386 | 406,491 | 347,693 | 58,798 |
| 0052 Security and Monitoring Services | 21,369 | 21,369 | 16,244 | 5,125 |
| 0053 Data Processing Services | 44,187 | 50,187 | 46,538 | 3,649 |
| Capital Outlay: | | | | |
| 0081 Facilities Acquisition and Construction | - | 300,000 | 232,468 | 67,532 |
| Intergovernmental: | | | | |
| 0093 Payments to Fiscal Agent/Member Districts of SSA | 38,013 | 68,013 | 58,241 | 9,772 |
| 0099 Other Intergovernmental Charges | 28,169 | 38,169 | 34,245 | 3,924 |
| 6030 Total Expenditures | 2,587,846 | 3,678,998 | 3,263,464 | 415,534 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | 404,957 | (686,195) | 8,488 | 694,683 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7912 Sale of Real and Personal Property | - | - | 2,850 | 2,850 |
| 8911 Transfers Out (Use) | (29,071) | (29,071) | - | 29,071 |
| 7080 Total Other Financing Sources (Uses) | (29,071) | (29,071) | 2,850 | 31,921 |
| 1200 Net Change in Fund Balances | 375,886 | (715,266) | 11,338 | 726,604 |
| 0100 Fund Balance - September 1 (Beginning) | 2,028,276 | 2,028,276 | 2,028,276 | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 2,404,162 | \$ 1,313,010 | \$ 2,039,614 | \$ 726,604 |

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

| | Measurement Year Ended August 31, | | | | | | | |
|---|-----------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| District's Proportion of the Net Pension Liability (Asset) | 0.0013244257% | 0.0012358619% | 0.0010905910% | 0.0009395185% | 0.0009149280% | 0.0009177424% | 0.0009635000% | 0.0003756000% |
| District's Proportionate Share of Net Pension Liability (Asset) | \$ 337,284 | \$ 661,902 | \$ 566,923 | \$ 517,134 | \$ 292,545 | \$ 346,801 | \$ 340,584 | \$ 100,329 |
| States Proportionate Share of the Net Pension Liability (Asset) associated with the District | 678,992 | 1,228,746 | 1,104,872 | 1,243,121 | 758,397 | 917,122 | 866,608 | 753,266 |
| Total | \$ 1,016,276 | \$ 1,890,648 | \$ 1,671,795 | \$ 1,760,255 | \$ 1,050,942 | \$ 1,263,923 | \$ 1,207,192 | \$ 853,595 |
| District's Covered Payroll | \$ 1,919,269 | \$ 1,671,326 | \$ 1,418,704 | \$ 1,335,515 | \$ 1,313,691 | \$ 1,284,682 | \$ 1,226,297 | \$ 1,182,931 |
| District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll | 17.57% | 39.60% | 39.96% | 38.72% | 22.27% | 27.00% | 27.77% | 8.48% |
| Plan Fiduciary Net Position as a % of Total Pension Liability | 88.79% | 75.54% | 75.24% | 73.74% | 82.17% | 78.00% | 78.43% | 83.25% |

Note: Only eight years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

NEWCASTLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2022

| | Fiscal Year Ended August 31, | | | | | | | |
|---|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
| Contractually Required Contribution | \$ 100,295 | \$ 55,911 | \$ 52,244 | \$ 37,663 | \$ 31,077 | \$ 29,986 | \$ 29,159 | \$ 28,530 |
| Contribution in Relation to Contractually Required Contribution | (100,295) | (55,911) | (52,244) | (37,663) | (31,077) | (29,986) | (29,159) | (28,530) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's Covered Payroll | \$ 2,157,462 | \$ 1,919,269 | \$ 1,671,326 | \$ 1,418,704 | \$ 1,335,515 | \$ 1,313,691 | \$ 1,284,682 | \$ 1,226,297 |
| Contributions as a % of Covered Payroll | 4.65% | 2.91% | 3.13% | 2.65% | 2.33% | 2.28% | 2.27% | 2.33% |

Note: Only eight years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

NEWCASTLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2022

| | Measurement Year Ended August 31, | | | | |
|--|-----------------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2021 | 2020 | 2019 | 2018 | 2017 |
| District's Proportion of the Net OPEB Liability (Asset) | 0.0020375637% | 0.0018240428% | 0.0016464165% | 0.0015743841% | 0.0014993236% |
| District's Proportionate Share of the Net OPEB Liability (Asset) | \$ 785,979 | \$ 693,401 | \$ 778,611 | \$ 786,104 | \$ 652,000 |
| State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District | 1,053,037 | 931,765 | 1,034,599 | 1,150,888 | 1,045,489 |
| Total | <u>\$ 1,839,016</u> | <u>\$ 1,625,166</u> | <u>\$ 1,813,210</u> | <u>\$ 1,936,992</u> | <u>\$ 1,697,489</u> |
| District's Covered Payroll | \$ 1,919,269 | \$ 1,671,326 | \$ 1,418,704 | \$ 1,335,515 | \$ 1,313,691 |
| District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll | 40.95% | 41.49% | 54.88% | 58.86% | 49.63% |
| Plan Fiduciary Net Position as a % of Total OPEB Liability | 6.18% | 4.99% | 2.66% | 1.57% | 0.91% |

Note: Only five years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

NEWCASTLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2022

| | Fiscal Year Ended August 31, | | | | |
|---|------------------------------|--------------|--------------|--------------|--------------|
| | 2022 | 2021 | 2020 | 2019 | 2018 |
| Contractually Required Contribution | \$ 23,149 | \$ 15,904 | \$ 13,900 | \$ 11,794 | \$ 11,006 |
| Contribution in Relation to Contractually Required Contribution | (23,149) | (15,904) | (13,900) | (11,794) | (11,006) |
| Contribution Deficiency (Excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| District's Covered Payroll | \$ 2,157,462 | \$ 1,919,269 | \$ 1,671,326 | \$ 1,418,704 | \$ 1,335,515 |
| Contributions as a % of Covered Payroll | 1.07% | 0.83% | 0.83% | 0.83% | 0.82% |

Note: Only five years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

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

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level.

Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms.

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

Changes of assumptions.

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

Other Post-Employment Benefit Plan

Changes of benefit terms.

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

Changes of assumptions.

See Footnote J page 33 for changes in assumptions that affected measurement of the total OPEB liability during the measurement period.

COMBINING SCHEDULES

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

| Data Control Codes | | 211 ESEA I, A Improving Basic Program | 240 National Breakfast and Lunch Program | 255 ESEA II,A Training and Recruiting | 270 ESEA V, B,2 Rural & Low Income |
|--------------------------|--|--|---|--|---|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ - | \$ 27,886 | \$ - | \$ - |
| 1240 | Due from Other Governments | 6,978 | 10,862 | 989 | 4,812 |
| 1000 | Total Assets | <u>\$ 6,978</u> | <u>\$ 38,748</u> | <u>\$ 989</u> | <u>\$ 4,812</u> |
| LIABILITIES | | | | | |
| 2110 | Accounts Payable | \$ - | \$ 3,052 | \$ - | \$ - |
| 2160 | Accrued Wages Payable | 6,262 | 2,067 | 888 | - |
| 2170 | Due to Other Funds | - | - | - | 4,812 |
| 2200 | Accrued Expenditures | 716 | 236 | 101 | - |
| 2000 | Total Liabilities | <u>6,978</u> | <u>5,355</u> | <u>989</u> | <u>4,812</u> |
| FUND BALANCES | | | | | |
| Restricted Fund Balance: | | | | | |
| 3450 | Federal or State Funds Grant Restriction | - | 33,393 | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>33,393</u> | <u>-</u> | <u>-</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 6,978</u> | <u>\$ 38,748</u> | <u>\$ 989</u> | <u>\$ 4,812</u> |

EXHIBIT H-1

| 281 ESSER II CRRSA Act Supplemental | 282 ESSER III ARP Act | 289 Other Federal Special Revenue Funds | 410 State Instructional Materials | Total Nonmajor Governmental Funds |
|--|-----------------------------|--|--|--|
| \$ - | \$ - | \$ - | \$ - | \$ 27,886 |
| 13,154 | 19,362 | 989 | 30,311 | 87,457 |
| <u>\$ 13,154</u> | <u>\$ 19,362</u> | <u>\$ 989</u> | <u>\$ 30,311</u> | <u>\$ 115,343</u> |
| \$ - | \$ - | \$ - | \$ - | \$ 3,052 |
| 11,816 | 17,391 | 888 | - | 39,312 |
| - | - | - | 30,311 | 35,123 |
| 1,338 | 1,971 | 101 | - | 4,463 |
| <u>13,154</u> | <u>19,362</u> | <u>989</u> | <u>30,311</u> | <u>81,950</u> |
| - | - | - | - | 33,393 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>33,393</u> |
| <u>\$ 13,154</u> | <u>\$ 19,362</u> | <u>\$ 989</u> | <u>\$ 30,311</u> | <u>\$ 115,343</u> |

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

| Data Control Codes | | 211 ESEA I, A Improving Basic Program | 240 National Breakfast and Lunch Program | 255 ESEA II,A Training and Recruiting | 270 ESEA V, B,2 Rural & Low Income |
|--------------------------|---|--|---|--|---|
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ - | \$ 9,850 | \$ - | \$ - |
| 5800 | State Program Revenues | - | 2,271 | - | - |
| 5900 | Federal Program Revenues | 102,227 | 194,396 | 10,522 | 14,219 |
| 5020 | Total Revenues | 102,227 | 206,517 | 10,522 | 14,219 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 64,122 | - | 10,522 | 14,219 |
| 0031 | Guidance, Counseling, and Evaluation Services | 38,105 | - | - | - |
| 0035 | Food Services | - | 173,124 | - | - |
| 6030 | Total Expenditures | 102,227 | 173,124 | 10,522 | 14,219 |
| 1200 | Net Change in Fund Balance | - | 33,393 | - | - |
| 0100 | Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ - | \$ 33,393 | \$ - | \$ - |

| 281 ESSER II CRRSA Act Supplemental | 282 ESSER III ARP Act | 289 Other Federal Special Revenue Funds | 410 State Instructional Materials | Total Nonmajor Governmental Funds |
|--|-----------------------------|--|--|--|
| \$ - | \$ - | \$ - | \$ - | \$ 9,850 |
| - | - | - | 4,691 | 6,962 |
| 133,871 | 350,029 | 9,923 | - | 815,187 |
| 133,871 | 350,029 | 9,923 | 4,691 | 831,999 |
| 133,871 | 350,029 | 9,923 | 4,691 | 587,377 |
| - | - | - | - | 38,105 |
| - | - | - | - | 173,124 |
| 133,871 | 350,029 | 9,923 | 4,691 | 798,606 |
| - | - | - | - | 33,393 |
| - | - | - | - | - |
| \$ - | \$ - | \$ - | \$ - | \$ 33,393 |

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REQUIRED TEA SCHEDULES

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

| Last 10 Years Ended August 31 | (1) | (2) | (3) Assessed/Appraised Value for School Tax Purposes | |
|----------------------------------|-------------|--------------|---|------------|
| | Tax Rates | | | |
| | Maintenance | Debt Service | | |
| 2013 and prior years | Various | Various | \$ | Various |
| 2014 | 1.170000 | 0.470000 | | 78,153,715 |
| 2015 | 1.170000 | 0.390000 | | 91,199,244 |
| 2016 | 1.170000 | 0.470000 | | 74,155,805 |
| 2017 | 1.170000 | 0.470000 | | 61,583,214 |
| 2018 | 1.170000 | 0.470000 | | 64,313,915 |
| 2019 | 1.170000 | 0.470000 | | 73,604,281 |
| 2020 | 1.068350 | 0.380000 | | 91,482,751 |
| 2021 | 1.050000 | 0.420000 | | 80,079,856 |
| 2022 (School year under audit) | 1.051700 | 0.420000 | | 72,080,431 |
| 1000 TOTALS | | | | |

| (10) Beginning Balance 9/1/2021 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2022 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 10,418 | \$ - | \$ 51 | \$ 41 | \$ (294) | \$ 10,032 |
| 1,419 | - | 190 | 116 | - | 1,113 |
| 1,503 | - | 276 | 92 | - | 1,135 |
| 1,194 | - | 165 | 66 | - | 963 |
| 1,112 | - | 63 | 25 | - | 1,024 |
| 914 | - | 23 | 9 | - | 882 |
| 1,446 | - | 583 | 234 | - | 629 |
| 247,300 | - | 1,079 | 384 | 191 | 246,028 |
| 20,895 | - | 10,433 | 4,173 | (1,495) | 4,794 |
| - | 1,060,808 | 743,276 | 298,901 | (3,643) | 14,988 |
| <u>\$ 286,201</u> | <u>\$ 1,060,808</u> | <u>\$ 756,139</u> | <u>\$ 304,041</u> | <u>\$ (5,241)</u> | <u>\$ 281,588</u> |

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

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|--|------------------|-------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 5,300 | \$ 5,300 | \$ 9,850 | \$ 4,550 |
| 5800 State Program Revenues | 500 | 500 | 2,271 | 1,771 |
| 5900 Federal Program Revenues | 112,500 | 112,500 | 194,396 | 81,896 |
| 5020 Total Revenues | 118,300 | 118,300 | 206,517 | 88,217 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0035 Food Services | 147,371 | 179,446 | 173,124 | 6,322 |
| 6030 Total Expenditures | 147,371 | 179,446 | 173,124 | 6,322 |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | (29,071) | (61,146) | 33,393 | 94,539 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7915 Transfers In | 29,071 | 29,071 | - | (29,071) |
| 1200 Net Change in Fund Balances | - | (32,075) | 33,393 | 65,468 |
| 0100 Fund Balance - September 1 (Beginning) | - | - | - | - |
| 3000 Fund Balance - August 31 (Ending) | \$ - | \$ (32,075) | \$ 33,393 | \$ 65,468 |

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

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|--------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 326,426 | \$ 326,426 | \$ 109,943 | \$ (216,483) |
| 5800 State Program Revenues | 3,300 | 3,300 | 19,416 | 16,116 |
| 5020 Total Revenues | 329,726 | 329,726 | 129,359 | (200,367) |
| EXPENDITURES: | | | | |
| Debt Service: | | | | |
| 0071 Principal on Long-Term Liabilities | 300,215 | 300,215 | - | 300,215 |
| 0072 Interest on Long-Term Liabilities | 253,395 | 253,395 | 20,003 | 233,392 |
| 0073 Bond Issuance Cost and Fees | 1,000 | 1,000 | 675 | 325 |
| 6030 Total Expenditures | 554,610 | 554,610 | 20,678 | 533,932 |
| 1200 Net Change in Fund Balances | (224,884) | (224,884) | 108,681 | 333,565 |
| 0100 Fund Balance - September 1 (Beginning) | 3,414,469 | 3,414,469 | 3,414,469 | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 3,189,585 | \$ 3,189,585 | \$ 3,523,150 | \$ 333,565 |

NEWCASTLE INDEPENDENT SCHOOL DISTRICT
USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS
FOR THE YEAR ENDED AUGUST 31, 2022

Section A: Compensatory Education Programs

| | | |
|-----|--|--------|
| AP1 | Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year? | Yes |
| AP2 | Does the LEA have written policies and procedures for its state compensatory education program? | Yes |
| AP3 | List the total state allotment funds received for state compensatory education programs during the district's fiscal year. | 200739 |
| AP4 | List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. | 174569 |

Section B: Bilingual Education Programs

| | | |
|-----|---|------|
| AP5 | Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year? | Yes |
| AP6 | Does the LEA have written policies and procedures for its bilingual education program? | Yes |
| AP7 | List the total state allotment funds received for bilingual education programs during the LEA's fiscal year. | 1791 |
| AP8 | List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25,35) | 1593 |

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Cameron L. Gulley

CERTIFIED PUBLIC ACCOUNTANT

P. O. Box 163
Eastland, Texas 76448
(325)669-9795
cgulley@txol.net

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Board of Trustees
Newcastle Independent School District
P.O. Box 129
Newcastle, Texas 76372

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Newcastle Independent School District (the "District") as of and for the year ended August 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated December 8, 2022.

Report on Internal Control Over Financial Reporting

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

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

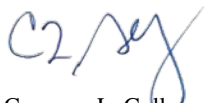
My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify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

Report on Compliance and Other Matters

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

Purpose of this Report

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



Cameron L. Gulley
Certified Public Accountant
Eastland, Texas

December 8, 2022

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

| Finding | Statement of Condition | Material Weakness? | Questioned Costs |
|---------|------------------------|--------------------|------------------|
| | None. | | |

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

I. Summary of Auditor's Results

A. Financial Statements

| | |
|---|----------------|
| Type of auditor's report issued: | Unmodified. |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | No. |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported. |
| Noncompliance material to financial statements noted? | No. |

B. Federal Awards

| | |
|---|--------------------|
| Type of auditor's report issued on compliance for major programs: | Unmodified. |
| Internal control over major programs: | |
| Material weakness(es) identified? | No. |
| Significant deficiency(ies) identified that are not considered to be material weaknesses? | None reported. |
| Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? | No. |
| Major programs are as follows: | |
| 84.425D - ESSER II - CRRSA Act | \$ 133,871. |
| 84.425U - ESSER III - American Rescue Plan | 350,029. |
| Total major programs | <u>\$ 483,900.</u> |
| Threshold used to distinguish between type A and type B programs: | \$ 750,000. |
| Auditee qualified as low-risk auditee? | No. |

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

III. Findings and Questioned Costs for Federal Awards

None.

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

None required.

FEDERAL AWARDS SECTION

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

Board of Trustees
Newcastle Independent School District
P. O. Box 129
Newcastle, Texas 76372

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

In my opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2022.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

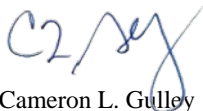
Report on Internal Control over Compliance

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

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

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

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



Cameron L. Gulley
Certified Public Accountant
Eastland, Texas

December 8, 2022

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

EXHIBIT K-1

| (1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE | (2) Federal Assistance Listing # | (3) Pass-Through Entity Identifying Number | (4) Federal Expenditures |
|--|---|---|--------------------------------|
| <u>U.S. Department of Agriculture</u> | | | |
| Passed Through Texas Department of Agriculture: | | | |
| School Breakfast Program * | 10.553 | 71402201 | \$ 63,086 |
| National School Lunch Program - cash assistance * | 10.555 | 71302101 | 110,643 |
| National School Lunch Program - noncash assistance * | 10.555 | N/A | 9,740 |
| National School Lunch Program - supply chain assistance grant * | 10.555 | 6TX300400 | 10,313 |
| Total FAL #10.555 | | | <u>130,696</u> |
| COVID-19 - P-EBT Admin Cost Reimbursement | 10.649 | 21-6TX109S9009 | 614 |
| Total Passed Through Texas Department of Agriculture | | | <u>194,396</u> |
| Total U.S. Department of Agriculture | | | <u>194,396</u> |
| <u>U.S. Department of Education</u> | | | |
| Direct Programs: | | | |
| ESSA Title V, Part B, Subpart 2 - Rural and Low-Income Schools Program | 84.358 | N/A | 14,219 |
| Total Direct Programs | | | <u>14,219</u> |
| Passed Through Texas Education Agency: | | | |
| ESSA Title I Part A - Improving Basic Programs | 84.010A | 22610101252902 | 95,250 |
| ESSA Title I Part A - Improving Basic Programs | 84.010A | 23610101252902 | 6,977 |
| Total FAL #84.010 | | | <u>102,227</u> |
| ESSA Title II, Part A - Teacher and Principal Training and Recruiting | 84.367A | 22694501252902 | 9,533 |
| ESSA Title II, Part A - Teacher and Principal Training and Recruiting | 84.367A | 23694501252902 | 989 |
| Total FAL #84.367 | | | <u>10,522</u> |
| COVID-19 - ESSER II - CRRSA Act * | 84.425D | 21521001005901 | 133,871 |
| COVID-19 - ESSER III - American Rescue Plan * | 84.425U | 21528001005901 | 350,029 |
| Total FAL #84.425 | | | <u>483,900</u> |
| ESSA Title IV, Part A, Subpart 1 - Student Support and Academic Enrichment | 84.424A | 22680101252902 | 8,934 |
| ESSA Title IV, Part A, Subpart 1 - Student Support and Academic Enrichment | 84.424A | 23680101252902 | 989 |
| Total FAL #84.424 | | | <u>9,923</u> |
| Total Passed Through Texas Education Agency | | | <u>606,572</u> |
| Total U.S. Department of Education | | | <u>620,791</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 815,187</u> |

* Clustered programs

The accompanying notes are an integral part of this statement.

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

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund.
2. The accompanying schedule of expenditures of federal awards included the federal grant activity of the District and is presented on the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (both measurable and available) and expenditures in the accounting period in which the fund liability is incurred (if measurable) except for unmatured interest on General Long-Term Debt (which is recognized when due) and certain compensated absences and claims and judgments (which are recognized when the obligations are expected to be liquidated with expendable available financial resources).

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 120 days beyond the federal project period ending date, in accordance with Section H, Period of Performance, 2 CFR Section 200.344(b).
4. Non-monetary assistance received from the Commodity Supplemental Food Program is recorded in fair market value of the commodities received and disbursed. The revenue and expenditures are reported in the Child Nutrition Special Revenue Fund using the CFDA numbers of the programs under which the USDA donated the commodities.
5. The District has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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LEON | ALCALA

ATTORNEYS AT LAW

August 9, 2023

Re: Newcastle Independent School District Unlimited Tax School Building Bonds, Series 2023 (the “Bonds”)

Ladies and Gentlemen:

We have acted as Bond Counsel to the captioned issuer (the “District”) in connection with the issuance of the Bonds, which are being issued in the aggregate original principal amount of \$15,155,000. The Bonds are authorized by an order adopted by the Board of Trustees of the District on July 20, 2023 (the “Order”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

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

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

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non-legal advice. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Finally, our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

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

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect. The Bonds constitute valid and legally binding obligations of the District, and the Bonds have been authorized and delivered in accordance with law.
- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

Respectfully submitted,

Leon | Alcala, PLLC

APPENDIX D

FORM OF SPECIAL TAX COUNSEL'S OPINION

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

(Final Opinion)

Ladies and Gentlemen:

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

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

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

The opinion expressed herein is based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinion may be affected by actions taken or omitted or events occurring after the original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties

Greenberg Traurig, LLP | Attorneys at Law

1000 Louisiana Street | Suite 6700 | Houston, Texas 77002 | T +1 713.374.3500 | F +1 713.374.3505

Albany. Amsterdam. Atlanta. Austin. Berlin*. Boston. Charlotte. Chicago. Dallas. Delaware. Denver. Fort Lauderdale. Houston. Las Vegas. London*. Long Island. Los Angeles. Mexico City*. Miami. Milan*. Minneapolis. New Jersey. New York. Northern Virginia. Orange County. Orlando. Philadelphia. Phoenix. Portland. Sacramento. Salt Lake City. San Diego. San Francisco. Seoul*. Shanghai. Silicon Valley. Tallahassee. Tampa. Tel Aviv*. Tokyo*. Warsaw*. Washington, D.C. West Palm Beach. Westchester County.

Operates as: *Greenberg Traurig Germany, LLP; **A separate UK registered legal entity; *Greenberg Traurig, S.C.; *Greenberg Traurig Santa Maria; ***Greenberg Traurig LLP Foreign Legal Consultant Office; *A branch of Greenberg Traurig, P.A., Florida, USA; #GT Tokyo Horitsu Jimusho and Greenberg Traurig Gaiokokuhojimubegoshi Jimusho; *Greenberg Traurig Nowakowska-Zimoch Wsokinski sp.k.

other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. We have reviewed and assumed the accuracy of the opinion of Leon Alcala, PLLC as bond counsel of even date herewith as to the validity and enforceability of the Bonds and the power of the Board to levy and pledge the annual ad valorem tax as set forth therein. Our services did not include financial or other non-legal advice.

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

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

Faithfully yours,

APPENDIX E

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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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 federal Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2022 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2022 and for a description of the financial results of the PSF for the year ended August 31, 2022, the most recent year for which audited financial information regarding the Fund is available. The 2022 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2022 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation’s Investment Policy Statement (the “IPS”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar. A list of the Fund’s equity and fixed

income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See "Management Transition to the PSF Corporation" for a discussion of the PSF Corporation audit. At its November 2022 quarterly board meeting, the SBOE considered new regulations for the administration of the Bond Guarantee Program. Two readings and a publication period are required for modifications to the Texas Administrative Code, and such process (the "Regulatory Recodification") was completed in February 2023, with the new regulations becoming effective March 1, 2023. The Regulatory Recodification was taken as an acknowledgment of the new role and powers that are delegated to the PSF Corporation. Among other regulations affecting the Fund that were restructured include the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (recodified in part and replaced in part by the IPS).

Management and Administration of the Fund

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

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

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

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

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

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

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

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

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

Management Transition to the PSF Corporation

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

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

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

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

| <u>State Fiscal Biennium</u> | <u>2008-09</u> | <u>2010-11</u> | <u>2012-13</u> | <u>2014-15</u> | <u>2016-17</u> | <u>2018-19</u> | <u>2020-21</u> | <u>2022-23</u> | <u>2024-25</u> |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|--------------------|
| <u>SBOE Distribution Rate¹</u> | 3.5% | 2.5% | 4.2% | 3.3% | 3.5% | 3.7% | 2.974% | 4.18% | 3.32% ² |

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

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

Asset Allocation of Fund Portfolios

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

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

PSF 2022 Strategic Asset Allocations

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

PSF Corporation 2023 Strategic Asset Allocation

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

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

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

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

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

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

Comparative Investment Schedule - PSF(SBOE)¹

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

¹ In millions of dollars.

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

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

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Comparative Investment Schedule - PSF(SLB)

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

| | <u>As of 8-31-22</u> | <u>As of 8-31-21</u> | <u>Increase (Decrease)</u> | <u>Percent Change</u> |
|---|--------------------------|--------------------------|--------------------------------|---------------------------|
| Asset Class | | | | |
| Discretionary Real Assets Investments | | | | |
| Externally Managed | | | | |
| Real Assets Investment Funds ¹ | | | | |
| Energy/Minerals | \$2,718.6 | \$1,707.5 | \$1,011.1 | 59.2% |
| Infrastructure | 1,622.7 | 1,652.3 | (29.6) | -1.8% |
| Real Estate | <u>1,921.2</u> | <u>1,276.8</u> | <u>644.4</u> | 50.5% |
| Internally Managed Direct | | | | |
| Real Estate | 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 | <u>1,257.5</u> | <u>699.2</u> | <u>558.3</u> | 79.8% |
| Total PSF(SLB) | | | | |
| Investments | \$13,842.0 | \$8,687.2 | \$5,154.8 | 59.3% |

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

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

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

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Education Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are

satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of March 2023 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 7.36%. At March 20, 2023, there were 188 active open-enrollment charter schools in the State and there were 1,095 charter school campuses authorized under such charters, though as of such date, 190 of such campuses are not currently serving students for various reasons; therefore, there are 905 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

In the event of default, holders of guaranteed charter district bonds will receive all payments due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Education Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district's paying agent an amount necessary to pay the maturing or matured principal or interest. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Education Commissioner is required to instruct the Comptroller to transfer from the PSF to the district’s paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding “intercept” feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld

will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the "State Capacity Limit") and that imposed by regulations and a notice issued by the IRS (the "IRS Limit", with the limit in effect at any given time being the "Capacity Limit"). From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 on the basis of receipt of the IRS Notice.

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 (“SB 389”) was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner may reduce the multiplier to maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

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

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

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

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

The State Capacity Limit increased from \$135,449,634,408 on August 31, 2021 to \$148,789,725,175 on August 31, 2022 (but at such date the IRS Limit (\$117,318,653,038) remained the lower of the two, so it is the current Capacity Limit for the Fund).

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table “Permanent School Fund Guaranteed Bonds” below. Effective March 1, 2023, the Act, as amended through the Regulatory Recodification, provides that the SBOE may establish a percentage of the Capacity Limit to be reserved from use in guaranteeing bonds (the “Capacity Reserve”). The SDBGP Rules provide for a maximum Capacity Reserve for the overall Guarantee Program of 5% and provide that the amount of the Capacity Reserve may be increased or decreased by a majority vote of the SBOE based on changes in the cost value, asset allocation, and risk in the portfolio, or may be increased or decreased by the Education Commissioner as necessary to prudently manage fund capacity and preserve the AAA credit rating of the Guarantee Program (subject to ratification or rejection by the SBOE at the next meeting for which an item can be posted). The CDBGP Rules provide for an additional reserve of CDBGP Capacity determined by calculating an equal percentage as established by the SBOE for the Capacity Reserve, applied to the CDBGP Capacity. Effective March 1, 2023, the Capacity Reserve is 0.25%. The Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program.

As of January 2023, the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site projected a remaining capacity under the IRS Limit of \$194.1 million out of the approximately \$117.3 billion of authorized capacity. Effective March 1, 2023, the change in the Capacity Reserve from 5% to 0.25%, as discussed above, freed up approximately \$5.9 billion in Guarantee Program capacity. No representation is made as to how quickly the additional capacity from changing the Capacity Reserve will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. Additional capacity could become available for new applicants from time to time, through, among other measures, the principal retirement of outstanding guaranteed bonds. As the amount of guaranteed bonds approaches the IRS Limit, the SBOE continues to seek changes to the existing federal tax law requirements regarding the Guarantee Program with the objective of obtaining an increase in the IRS Limit. Such changes include regulatory modifications and implementation of federal legislation, and no assurances can be given as to the timing of the foregoing or the SBOE’s success in that undertaking.

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At March 17, 2023, the Charter District Reserve Fund contained \$85,259,403, which represented approximately 2.18% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

Open-enrollment charter schools in the State may not charge tuition and, unlike school districts, charter districts have no taxing power. Funding for charter district operations is largely from amounts appropriated by the Legislature. Additionally, the amount of State payments a charter district receives is based on a variety of factors, including the enrollment at the schools operated by a charter district, and may be affected by the State's economic performance and other budgetary considerations and various political considerations.

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

As a general rule, the operation of a charter school involves fewer State requirements and regulations for charter holders as compared to other public schools, but the maintenance of a State-granted charter is dependent upon ongoing compliance with State law and regulations, which are monitored by TEA. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter

operator, or, as a last resort, the dissolution of an open-enrollment charter school. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

As described above, the Act includes a funding “intercept” function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the “educator of last resort” for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under “The Charter District Bond Guarantee Program,” the Act established the Charter District Reserve Fund, 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 “OTHER INFORMATION – Ratings” herein.

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Valuation of the PSF and Guaranteed Bonds

| Permanent School Fund Valuations | | |
|----------------------------------|---------------------------|-----------------------------|
| Fiscal Year Ended 8/31 | Book Value ⁽¹⁾ | Market Value ⁽¹⁾ |
| 2018 | \$ 33,860,358,647 | \$ 44,074,197,940 |
| 2019 | 35,288,344,219 | 46,464,447,981 |
| 2020 | 36,642,000,738 | 46,764,059,745 |
| 2021 | 38,699,895,545 | 55,582,252,097 |
| 2022 ⁽²⁾ | 42,511,350,050 | 56,754,515,757 |

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

⁽²⁾ At August 31, 2022, mineral assets, sovereign and other lands and discretionary internal investments, investments with external managers, and cash managed by the SLB had book values of approximately \$13.4 million, \$180.6 million, \$5,433.0 million, and \$1,257.5 million, respectively, and market values of approximately \$5,622.2 million, \$699.8 million, \$6,262.5 million, and \$1,257.52 million, respectively.

| Permanent School Fund Guaranteed Bonds | |
|--|---------------------------------|
| At 8/31 | Principal Amount ⁽¹⁾ |
| 2018 | \$79,080,901,069 |
| 2019 | 84,397,900,203 |
| 2020 | 90,336,680,245 |
| 2021 | 95,259,161,922 |
| 2022 | 103,239,495,929 ⁽²⁾ |

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

⁽²⁾ At August 31, 2022 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$156,825,227,335, of which \$53,585,731,406 represents interest to be paid. As shown in the table above, at August 31, 2022, there were \$103,239,495,929 in principal amount of bonds guaranteed under the Guarantee Program. Using the IRS Limit of \$117,318,653,038 (the IRS Limit is currently the Capacity Limit), net of the Capacity Reserve, as of March 17, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of March 17, 2023, the amount of outstanding bond guarantees represented 89.46% of the Capacity Limit (which is currently the IRS Limit). March 17, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

| Fiscal Year Ended 8/31 | <u>School District Bonds</u> | | <u>Charter District Bonds</u> | | <u>Totals</u> | |
|------------------------------|------------------------------|---------------------------------|-------------------------------|--|-------------------------|---------------------------------|
| | No. of <u>Issues</u> | Principal <u>Amount (\$)</u> | No. of <u>Issues</u> | Principal <u>Amount</u> <u>(\$)</u> | No. of <u>Issues</u> | Principal <u>Amount (\$)</u> |
| 2018 | 3,249 | 77,647,966,069 | 44 | 1,432,935,000 | 3,293 | 79,080,901,069 |
| 2019 | 3,297 | 82,537,755,203 | 49 | 1,860,145,000 | 3,346 | 84,397,900,203 |
| 2020 | 3,296 | 87,800,478,245 | 64 | 2,536,202,000 | 3,360 | 90,336,680,245 |
| 2021 | 3,346 | 91,951,175,922 | 83 | 3,307,986,000 | 3,429 | 95,259,161,922 |
| 2022 ⁽²⁾ | 3,348 | 99,528,099,929 | 94 | 3,711,396,000 | 3,442 | 103,239,495,929 |

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

⁽²⁾ At March 17, 2023 (based on unaudited data, which is subject to adjustment), there were \$104,953,879,666 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,296 school district issues, aggregating \$101,038,728,666 in principal amount and 99 charter district issues, aggregating \$3,915,151,000 in principal amount. At March 17, 2023 the projected guarantee capacity available was \$5,413,975,055 (based on unaudited data, which is subject to adjustment).

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

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

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

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

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

PSF Returns Fiscal Year Ended 8-31-2022¹

| <u>Portfolio</u> | <u>Return</u> | Benchmark <u>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.

