OFFICIAL STATEMENT
Dated: July 31, 2023

Ratings: Moody's "Aaa" (PSF)
S&P "AAA" (PSF)
(See "OTHER INFORMATION – Ratings," "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and APPENDIX D)

<u>NEW ISSUE</u>: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under current law and subject to conditions described in the Section herein "Tax Exemption," interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum tax, and (c) is taken into account in determining adjusted financial statement income for applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. A holder may be subject to other federal tax consequences as described in the Section herein "TAX EXEMPTION."

$187,400,000
WALLER INDEPENDENT SCHOOL DISTRICT
(Waller and Harris Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023A

Dated Date: August 1, 2023 **Due: February 15, as shown on Page ii**
Interest Accrual Date: Date of Delivery (defined below)

Payment Terms…The $187,400,000 Waller Independent School District Unlimited Tax School Building Bonds, Series 2023A (the "Bonds") will be issued in the principal amounts shown on page ii hereof. Interest on the Bonds will accrue from the date of their initial delivery (the "Date of Delivery") to the underwriters of the Bonds listed below (the "Underwriters"), at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on August 31, 2023 (an irregular interest payment date) and thereafter on February 15 and August 15 of each year, until stated maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by Computershare Trust Company, N.A., Minneapolis, Minnesota (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" and "THE BONDS – Paying Agent/Registrar."

Authority for Issuance…The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 45, Texas Education Code, Chapter 1371, Texas Government Code, and an election held within Waller Independent School District (the "District") on November 8, 2022. The Bonds are direct obligations of the District, payable from an annual 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 the sale and the issuance of the Bonds and an officer's pricing certificate authorized and executed pursuant to such order. See "THE BONDS – Authority for Issuance." **An application has been filed and conditional approval has been received by the District for the payment of the principal of and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and APPENDIX D.**

Purpose…Proceeds from the sale of the Bonds will be used for (i) the construction of three new elementary schools, (ii) the purchase of the necessary sites for school buildings, (iii) safety and security upgrades for all instructional facilities, (iv) the purchase of new school buses, and (v) the payment of the costs associated with the issuance of the Bonds. See "THE BONDS - Purpose" and "- Sources and Uses of Funds."

CUSIP PREFIX: 932493
MATURITY, INTEREST RATES, INITIAL REOFFERING YIELDS & 9 DIGIT CUSIP NUMBERS
See Maturity Schedule on Page ii

Redemption…The District reserves the right, at its option, to redeem Bonds maturing on and after February 15, 2034, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption, as further described herein. See "THE BONDS – Optional Redemption." The Term Bonds (as defined herein) are additionally subject to mandatory sinking fund redemption as further described herein. See "THE BONDS – Mandatory Sinking Fund Redemption."

Legality…The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about August 22, 2023.

BOK Financial Securities, Inc.

Jefferies **SAMCO Capital** **Stephens Inc.**

MATURITY SCHEDULE

$187,400,000
WALLER INDEPENDENT SCHOOL DISTRICT
(Waller and Harris Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023A

$85,215,000 Serial Bonds

Maturity Date (2/15) [1]	Principal Amount	Interest Rate	Initial Yield [2][3]	CUSIP Number [4]
2026	$ 2,525,000	6.000%	3.150%	932493 LD9
2027	2,680,000	6.000%	2.990%	932493 LE7
2028	2,845,000	6.000%	2.990%	932493 LF4
2029	3,020,000	6.000%	2.950%	932493 LG2
2030	3,205,000	6.000%	2.910%	932493 LH0
2031	3,405,000	6.000%	2.890%	932493 LJ6
2032	3,615,000	6.000%	2.940%	932493 LK3
2033	6,470,000	5.000%	2.980%	932493 LL1
2034	6,800,000	5.000%	3.020%	932493 LM9
2035	7,150,000	5.000%	3.080%	932493 LN7
2036	7,515,000	5.000%	3.160%	932493 LP2
2037	7,905,000	5.000%	3.280%	932493 LQ0
2038	8,310,000	5.000%	3.350%	932493 LR8
2039	4,035,000	5.000%	3.490%	932493 LS6
***	***	***	***	***
2042	7,670,000	5.000%	3.740%	932493 LV9
2043	8,065,000	5.000%	3.790%	932493 LW7

(Interest to accrue from the Date of Delivery)

$102,185,000 Term Bonds

$46,000,000 Term Bonds due February 15, 2048 [1][5] Interest Rate 4.000% Yield 4.300% [2] CUSIP Number 932493 LX5 [4]
$56,185,000 Term Bonds due February 15, 2053 [1][5] Interest Rate 4.000% Yield 4.350% [2] CUSIP Number 932493 LY3 [4]

(Interest to accrue from the Date of Delivery)

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(1) The Bonds maturing on and after February 15, 2034 are subject to optional redemption, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2033 or any date thereafter at par plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption."
(2) The initial yields are established by, and are the sole responsibility of the Underwriters and may subsequently be changed.
(3) The initial yields are calculated to the earlier of maturity or the first optional redemption date.
(4) CUSIP numbers have been assigned to this issue by the CUSIP Global Services managed by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. Neither the District, the Financial Advisor, nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
(5) The Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as further described herein. See "THE BONDS – Mandatory Sinking Fund Redemption."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. 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 EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY NEW YORK, NEW YORK ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED IN "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND TEA, RESPECTIVELY.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES 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.

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

The cover page contains certain information for general reference only and is not intended as a summary of this offering. 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 in the Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of the transaction, but the Underwriters do not guarantee 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 specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this offering document for any purpose.

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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 Waller Independent School District (the "District") is a political subdivision located in Waller and Harris Counties, Texas, approximately 45 miles northwest of the City of Houston's central business district. The District is approximately 328 square miles in area. See "INTRODUCTION – Description of the District."
The Bonds	The Bonds are issued as $187,400,000 Waller Independent School District Unlimited Tax School Building Bonds, Series 2023A (the "Bonds"). The Bonds are issued and mature as shown on page ii hereof. See "THE BONDS – Description of the Bonds."
Payment of Interest	Interest on the Bonds will accrue from the date of their initial delivery to the underwriters of the Bonds listed on the cover page hereof, at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on August 31, 2023 (an irregular interest payment date) and thereafter on February 15 and August 15 of each year, until stated maturity or prior redemption. See "THE BONDS – Description of the Bonds."
Authority for Issuance	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including, particularly, Chapter 45, Texas Education Code, Chapter 1371, Texas Government Code, as amended, an election held within the District on November 8, 2022, an order approved by the Board of Trustees of the District and an officer's pricing certificate authorized and executed pursuant to such order. See "THE BONDS – Authority for Issuance."
Security	The Bonds constitute direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the payment of principal of and interest on the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE BONDS – Security and Source of Payment," "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and APPENDIX D.
Permanent School Fund Guarantee	The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and APPENDIX D.
Use of Proceeds	Proceeds from the sale of the Bonds will be used for (i) the construction of three new elementary schools, (ii) the purchase of the necessary sites for school buildings, (iii) safety and security upgrades for all instructional facilities, (iv) the purchase of new school buses, and (v) the payment of the costs associated with the issuance of the Bonds. See "THE BONDS – Purpose."
Redemption	The District reserves the right, at its option, to redeem Bonds maturing on and after February 15, 2034, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption as described herein. See "THE BONDS – Optional Redemption." Additionally, the Term Bonds (as defined herein) are subject to mandatory sinking fund redemption as further described herein. See "THE BONDS – Mandatory Sinking Fund Redemption" herein.
Tax Exemption	In the opinion of Hunton Andrews Kurth LLP, under current law and subject to conditions described in the Section herein "TAX EXEMPTION," interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the Section herein "TAX EXEMPTION."
Ratings	The Bonds are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by S&P Global Ratings, a division of S&P Global ("S&P"), by virtue of the guarantee of the Permanent School Fund of the State of Texas. The underlying ratings of the District are "A1" (negative outlook) by Moody's and "A+" (stable outlook) by S&P. See "OTHER INFORMATION – Ratings," "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and APPENDIX D.
Paying Agent/Registrar	The initial paying agent/registrar for the Bonds is Computershare Trust Company, N.A., Minneapolis, Minnesota (the "Paying Agent/Registrar"). See "THE BONDS – Paying Agent/Registrar."

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."

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population[(1)]	Taxable Assessed Valuation[(2)]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Tax Supported Debt Per Capita	Ratio of Tax Supported Debt To Taxable Assessed Valuation
2019	45,298	$3,494,856,366	$77,153	$114,125,000	$2,519	3.27%
2020	40,725	3,687,456,342	90,545	314,855,000	7,731	8.54%
2021	41,901	3,951,098,932	94,296	377,370,000	9,006	9.55%
2022	44,388	4,773,173,441	107,533	366,040,000	8,246	7.67%
2023	46,670	5,982,361,980	128,184	710,515,000 [(3)]	15,224 [(3)]	11.88% [(3)]

(1) Source: Municipal Advisory Council of Texas.
(2) Established by the Waller County Appraisal District and the Harris Central Appraisal District. Net of exemptions. Subject to change during ensuing years.
(3) Includes the Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2022	2021	2020	2019	2018
Beginning Fund Balance	$ 9,674,259	$ 4,955,205	$ 9,817,687	$ 14,485,213	$ 17,913,107
Total Revenues	87,395,400	79,563,103	72,259,272	67,983,906	65,358,501
Total Expenditures	(77,656,556)	(74,368,275)	(79,009,359)	(72,682,896)	(68,786,395)
Other Financing Sources (Net)	(103,406)	-	1,887,605	31,464	-
Special Items (Net)	471,508	(475,774)	-	-	-
Ending Fund Balance	$ 19,781,205 [(1)]	$ 9,674,259	$ 4,955,205 [(2)]	$ 9,817,687 [(2)]	$ 14,485,213 [(2)]

Source: The District's audited financial statements.
(1) A portion of the surplus being added to the general fund balance is attributable to the use of ESSER funding to offset eligible expenses in the general fund and one-time adjustments to State funding resulting from modifications made by TEA to stabilize attendance rates in light of the COVID-19 pandemic. For additional information, see "INFECTIOUS DISEASE OUTBREAK – COVID-19." The District currently estimates that it will have a general fund balance of approximately $17.4 million as of August 31, 2023. The estimated fund balance is unaudited information provided by the District. Such unaudited information has not been prepared or reviewed by the District's independent auditor and is subject to revision upon completion of the District's annual audit and the impact of events subsequent to the date of this official statement.
(2) Fund balance declines in fiscal years 2018 through 2020 are attributed to reductions in federal and state funding and necessary expenditures related to the COVID-19 Pandemic.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

Elected Officials

Board of Trustees	Office	Length of Service	Term Expires (May)
David Kaminski	President	25 years	2024
Maria Herrera	Vice President	4 years	2024
William Warren	Secretary	2 years	2026
Ronald Campbell	Member	10 years	2026
Jeff Flukinger	Member	< 1 year	2025
Bryan Lowe	Member	34 years	2025
Dr. Michael W. Prince	Member	13 years	2024

Selected Administrative Staff

Name	Position	Length of Service with the District
Kevin Moran	Superintendent	9 years
Audrey Ambridge	Chief Financial Officer	2 years

Consultants and Advisors

Auditors .... Whitley Penn, L.L.P.
Houston, Texas

Bond Counsel .... Hunton Andrews Kurth LLP
Houston, Texas

Financial Advisor .... Post Oak Municipal Advisors LLC
Houston, Texas

For additional information regarding the District, please contact:

Ms. Audrey Ambridge
Chief Financial Officer
Waller Independent School District
1918 Key Street
Waller, Texas 77484
(936) 931-3685 Phone

or

Ms. Francine Stefan
Executive Vice President
Post Oak Municipal Advisors LLC
820 Gessner Road, Suite 1350
Houston, Texas 77024
(713) 328-0992 Phone

Mr. Chris Parker
Vice President
Post Oak Municipal Advisors LLC
820 Gessner Road, Suite 1350
Houston, Texas 77024
(713) 328-0987 Phone

OFFICIAL STATEMENT

$187,400,000
WALLER INDEPENDENT SCHOOL DISTRICT
(Waller and Harris Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023A

INTRODUCTION

This Official Statement, which includes the cover page, page ii, and Appendices A and B hereto, provides certain information regarding the issuance by Waller Independent School District (the "District") of its Unlimited Tax School Building Bonds, Series 2023A (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 of the District (the "Board") on December 8, 2022, which authorized the issuance of the Bonds (the "Bond Order"), except as otherwise indicated herein. In the Bond Order, pricing of the Bonds and certain other matters were delegated to a pricing officer who approved and executed a pricing certificate which contains final pricing information for the Bonds. The Bond Order and the pricing certificate are collectively referred to herein as the "Order."

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District's Financial Advisor, Post Oak Municipal Advisors LLC, 820 Gessner Road, Suite 1350, Houston, Texas 77024.

Description of the District

The District is a political subdivision located in Waller and Harris Counties, Texas. The District is governed by a seven-member Board who 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. Support services are supplied by consultants and advisors. The District consists of approximately 328 square miles in Waller and Harris Counties, encompassing the Cities of Waller and Prairie View.

THE BONDS

Description of the Bonds

The Bonds are dated August 1, 2023 and mature on February 15 in each of the years and in the amounts shown on page ii hereof. Interest on the Bonds will accrue from the date of their initial delivery (the "Date of Delivery") to the underwriters of the Bonds listed on the cover page hereof (the "Underwriters"), at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on August 31, 2023 (an irregular interest payment date) and thereafter on February 15 and August 15 of each year, until stated maturity or prior redemption. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by Computershare Trust Company, N.A., Minneapolis, Minnesota (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" herein.

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, Chapter 1371, Texas Government Code, as amended, an election held within the District on November 8, 2022 and the Order.

Purpose

Proceeds from the sale of the Bonds will be used for (i) the construction of three new elementary schools, (ii) the purchase of the necessary sites for school buildings, (iii) safety and security upgrades for all instructional facilities, (iv) the purchase of new school buses, and (v) the payment of the costs associated with 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	
Principal Amount of Bonds	$ 187,400,000.00
Net Original Issue Premium	6,692,412.30
Total	$ 194,092,412.30
Uses of Funds	
Deposit to Construction Fund	$ 188,471,018.00
Deposit to Capitalized Interest Account	4,134,356.35
Costs of Issuance (1)	569,138.17
Underwriters' Discount	917,899.78
Total	$ 194,092,412.30

(1) Includes fees of Bond Counsel, the Financial Advisor, the Paying Agent/Registrar, the rating agency and other costs related to the issuance of the Bonds.

Security and Source of Payment

The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limit as to maximum rate or amount, on all taxable property located within the District, as provided in the Order. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein. Additionally, the payment of principal of and interest on the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State. See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program of the State (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed in "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the principal of and interest on the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State. In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund. In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund of the State. See "– Defeasance."

Optional Redemption

The District reserves the right, at its option, to redeem Bonds maturing on and after February 15, 2034, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Mandatory Sinking Fund Redemption

The Bonds maturing on February 15, 2048 and February 15, 2053 (collectively, the "Term Bonds") are subject to mandatory redemption prior to maturity on February 15 in each of the years and respective principal amounts set forth below at a redemption price equal to 100% of the principal amount plus accrued interest to the date of redemption:

Term Bonds due February 15, 2048	
Redemption Date (February 15)	Principal Amount
2044	$8,475,000
2045	8,830,000
2046	9,185,000
2047	9,560,000
2048*	9,950,000

Term Bonds due February 15, 2053	
Redemption Date (February 15)	Principal Amount
2049	$10,360,000
2050	10,780,000
2051	11,220,000
2052	11,675,000
2053*	12,150,000

* Stated maturity.

The Paying Agent/Registrar will select by lot or by any other customary method that results in a random selection the specific Term Bonds (or with respect to Term Bonds having a denomination in excess of $5,000, each $5,000 portion thereof) to be redeemed by mandatory redemption. The principal amount of Term Bonds required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the District, by the principal amount of any Term Bonds which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions of the Order and not previously credited to a mandatory sinking fund redemption.

Notice of Redemption

At least 30 days prior to the date fixed for any such redemption, the District shall cause a written notice of such redemption to be deposited in the United States mail, postage prepaid, addressed to each registered owner at the address shown 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 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

The 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 "- Book-Entry-Only System").

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, interest and redemption payments 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 (hereinafter defined) believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered Bonds in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for each stated maturity of the Bonds, 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"). 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.

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 MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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-only transfers through DTC (or a successor Securities depository). In that event, Bond certificates will be printed and delivered to DTC.

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.

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS – Transfer, Exchange, and Registration."

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is Computershare Trust Company, N.A., Minneapolis, Minnesota. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the United States or any state and legally authorized to serve as and perform the duties and services of 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.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption, as applicable, upon presentation at the principal office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS – Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close, and payment on such date shall have the same force and effect as if made on the original date payment was due.

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 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 its 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 its 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" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Record Date for Interest Payment

The record date ("Record Date") for the interest payable on the Bonds on the initial interest payment date of August 31, 2023 (an irregular interest payment date) means the Date of Delivery. For each interest payment date thereafter, the Record Date means the close of business on the last business day of the preceding month of 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 interest (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 holder 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.

Bondholders' 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 Bondholders 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 Bond holder 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. Chapter 1371, Texas Government Code ("Chapter 1371"), upon which the District is relying in its issuance of the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds, the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. A Bondholder'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 Bond holder 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 opinion of Bond 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.

Defeasance

The District reserves the right to redeem or defease the Bonds in any manner now or hereafter permitted by law. Under current Texas law, the District may deposit with the Registrar or with the Comptroller of the State either: (a) cash in an amount equal to the principal amount of and interest thereon to the date of maturity; or (b) pursuant to an escrow or trust agreement, cash and/or

(i) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; or (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board 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, and (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer 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 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, shall be sufficient to provide for the timely payment of the principal of and interest thereon to the date of maturity or earlier redemption; provided, however, that if any of the Bonds are to be redeemed prior to their respective dates of maturity, provision shall be made for the giving of notice of redemption as provided in the Order. Any surplus amount not required to accomplish such defeasance shall be returned to the District.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished 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 authorize.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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*, 490 S.W.3d 826 (Tex. 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements." The Court also noted that:

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

Possible Effects of Changes in Law on District Bonds

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations. While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax 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. The information contained herein under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding based on information available to the District as of the date of this Official Statement. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

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. A school district may not levy an M&O tax rate for the purpose of creating a surplus in M&O tax revenue for the purpose of paying the district's debt service. 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.

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. The formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) are designed to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding For School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement" herein.

State Compression Percentage. The "State Compression Percentage" (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 State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum 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 SCP (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the maximum statewide MCR multipled by 90%, so 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 served 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 certain additional allotments 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.

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. Additionally, school districts and open-enrollment charter schools are entitled to receive an allotment in the form of a formula transition grant, but they will not be entitled to an allotment beginning with the 2024-2025 school year. This grant is meant to ensure a smooth transition into the funding formulas enacted by the 86th Texas Legislature. Furthermore, if the total amount of allotments to which school districts and open-enrollment charter schools are entitled for a school year exceeds $400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of 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, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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.

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 regular session of the 88th Texas Legislature, 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. As of the date of this Official Statement, the Governor has called two special sessions of the 88th Texas Legislature. The second special session concluded on July 13, 2023.

During the second 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; (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 $5,000,000 or less to 20 percent; (vi) exclude 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 more than 75,000 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 the State's share of the cost of funding public education.

Implementation of the foregoing legislation is 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.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2023-2024 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

During the second called legislative session, the legislature passed legislation that will impact the rate of compression and affect the property tax exemptions applicable to school districts. The legislation will also result in the State becoming responsible for a larger percentage of school funding. For additional information related to the second called special session, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Session." For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts" herein.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

The District is authorized to levy an M&O tax rate pursuant to the approval of voters of the District at an election held on September 9, 1963 in accordance with the provision 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 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code ("Chapter 1207"), are not subject to the 50-cent 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 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued for new money purposes and are subject to the 50-cent Test. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test. The District may use Tier One funds in connection with the application of the 50-cent Test for the Bonds.

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.

Beginning with the 2020 tax year, 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.

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 Waller County and Harris Central Appraisal Districts (each an "Appraisal District" and collectively, the "Appraisal Districts"). Except as described below, each 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, each 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 each 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 applicable Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a $40,000 exemption of the appraised value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons 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. See "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT." The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

State Mandated Freeze on School District Taxes

Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homestead of persons sixty-five (65) years of age or older or of disabled persons above the amount of tax imposed in the year such homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves, and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older or 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 65 years old or older 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 outside the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside 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" and "AD VALOREM TAX PROCEDURES – District Application of Tax Code."

Tax Limitation Agreements

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

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 ("Chapter 313"), but it contains significantly different provisions than the prior program under Chapter 313. Under HB 5, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. HB 5 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under HB 5. Eligible projects must relate to manufacturing, provision of utility services, dispatchable electric generation (such as non-renewable energy), development of natural resources, critical infrastructure, or research and development for high-tech equipment or technology, and projects must create and maintain jobs and meet certain minimum investment requirements. 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 "AD VALOREM TAX PROCEDURES – District Application of Tax Code."

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal the determinations of each of the Appraisal Districts by timely initiating a protest with the applicable Appraisal Review Board. Additionally, taxing units such as the District may bring suit against the applicable 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.

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.

District Application of Tax Code

The District grants the State-mandated general residence homestead exemption of $40,000, and a $10,000 exemption to the market value of the residence homestead of persons 65 years of age or older as well as disabled persons. The District has not granted an additional exemption of 20% of 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 has adopted the tax freeze for citizens who are disabled or are 65 years of age or older. The District does not tax nonbusiness personal property or freeport property. The District has not taken action to tax Goods-in-Transit. The District does not participate in any tax increment reinvestment zones and has not adopted a tax abatement policy.

The District collects its own taxes. The District permits partial payments on accounts but does not permit split payments, and discounts are not allowed.

EMPLOYEES' BENEFIT PLANS

Pension Funds

Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, the District contributes at a rate determined by the State legislature, and the State contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by federally funded programs. For the year ended August 31, 2022, the State contributed $3,210,185 to the TRS on behalf of the District, District employees paid $4,932,574 and the District contributed $2,388,630. For more detailed information concerning the retirement plan, see "APPENDIX B – EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT" – Note 9.

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan now report a liability on the face of their government-wide financial statements. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

Other Post-Employment Benefits

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Plan"), a cost-sharing multiple-employer defined OPEB health care plan. The TRS-Care Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. The TRS-Care Plan is administered through a trust by the TRS Board of Trustees. Contribution rates are legally established in state statute by the Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care Plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding.

Funding for the TRS-Care Plan is provided by retiree premium contributions and contributions from the State, active employees, and school districts based upon public school district payroll. For the year ended August 31, 2022, the State contributed $941,010 to the TRS-Care Plan on behalf of the District, District employees paid $400,768 and the District contributed $544,668. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Plan, see "APPENDIX B – EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT" – Note 10.

GASB Statement No. 75 requires reporting entities, such as the District, to recognize their proportionate share of the net OPEB liability in the TRS-Care Plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. As of August 31, 2022, the District's proportionate share of the net OPEB liability and deferred outflow for the contributions made by the District subsequent to the measurement date were $24,632,785 and $544,668, respectively. The calculation of OPEB contributions is unaffected by the change. Such reporting began with the District's fiscal year ended August 31, 2018. To date, the District has met all funding requirements of the TRS-Care Plan.

FINANCIAL POLICIES

Basis of Accounting – 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 *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, the District complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* ("FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

General Fund – The General Fund is used to account for financial resources used for general operations. Any fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to other fund are accounted for in this fund.

Debt Service Fund – The Debt Service Fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

Special Revenue Funds – 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. Generally, unused balances are returned to the grantor at the close of specified project periods.

Budgetary Procedures – The Board adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the Special Revenue Funds, 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 budgeted to actual revenues and expenditures. For each of the funds for which a formal budget is adopted, the same basis of accounting is used to reflect actual revenues and expenditures recognized on the basis of generally accepted accounting principles.

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 canceled or appropriately provided for the subsequent year's budget.

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.

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 approved of a majority of the members of the Board. Amendments are presented to the Board at its regular meeting. 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 and are reflected in the official minutes of the Board.

INVESTMENTS

The District invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both State law and the District's investment policies are subject to change. See Table 14 in "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" for a description of the District's investments as of April 30, 2023.

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 "AAA" 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.

In addition to authorized investments described above, the Texas law provides that the District may invest in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. As used herein, corporate bond means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm, and does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding funds held for the payment of debt service, in corporate bonds or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board of Trustees of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment; (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds; and (3) identifies the funds eligible to be invested in corporate bonds. The District has taken these steps to authorize the investment of District funds in corporate bonds.

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.

INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, characterized as a pandemic by the World Health Organization for over three years (the "Pandemic"), negatively affected travel, commerce, the global supply chain, and financial markets globally, and may continue to negatively affect economic growth and financial markets worldwide.

On April 10, 2023, the President of the United States signed into law a bill that ended the national emergency declaration resulting from COVID-19, a respiratory disease caused by a strain of coronavirus, and on May 5, 2023, the World Health Organization declared the outbreak of COVID-19 over as a global health emergency. However COVID-19 continues to affect many parts of the world, including the United States and the State. The Pandemic affected enrollment and attendance for many school districts.

During the 2021-2022 school year, District funding generally returned to ADA-based funding. Pursuant to Texas Education Code, §25.081(b), the State Commissioner of Education approved a reduction in the minimum number of required minutes of operation for all school districts during the first through fourth six-week attendance reporting periods of the 2021–2022 school year. This adjustment ensured stabilized percentage attendance rates comparable to a more typical school year, rather than the low percentage attendance rates caused by the ongoing COVID-19 pandemic. This was a one-time adjustment for 2021-2022 school year offered solely for funding purposes. The District benefited by approximately $2 million in ADA funding from the reduction in the required minutes of operation. The return to funding based on actual attendance as districts transition back from Pandemic operations may have a negative impact on revenues available to districts for operations and maintenance.

In 2020 and 2021, Congress passed three stimulus bills, the Elementary and Secondary Emergency Education Relief Fund ("ESSER I"), the Elementary and Secondary School Emergency Relief Fund ("ESSER II") and the American Rescue Plan Elementary and Secondary School Emergency Relief Fund ("ESSER III"), that provided funding focused on school districts reopening and operating safely, as well as, addressing the impact of the coronavirus pandemic on students. The District was allocated ESSER I funding in the amount of $983,086, ESSER II funding in the amount of $4,399,198, and ESSER III funding in the amount of $9,883,165. See "APPENDIX A – GENERAL INFORMATION REGARDING THE DISTRICT – Table 12 – GENERAL FUND REVENUES AND EXPENDITURES HISTORY" for a discussion of the impact of ESSER funding on the District's General Fund balance.

With the changes made to the Finance System in HB 3, school funding in 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. See "APPENDIX A – GENERAL INFORMATION REGARDING THE DISTRICT." The return to funding based on actual attendance as the District transitions back from Pandemic operations may have a negative impact on revenues available to the District for operations and maintenance.

EXPOSURE TO OIL AND GAS INDUSTRY

In the past, the greater Houston area has been affected by adverse conditions in the oil and gas industry when they arise. 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 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. 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.

WEATHER EVENTS

The District is located near the Texas Gulf Coast. Land located in this area is susceptible to, and land within the District has experienced on several occasions in the last five years, high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a future weather event significantly damaged all or part of the properties comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Texas law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as floods and upon a gubernatorial or presidential declaration of disaster. See "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate." There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

In February 2021, much of Texas, including the District, was impacted by Winter Storm Uri. The District experienced historically low temperatures, ice and snow, and extended power outages. The District sustained damage to multiple campuses and support buildings. The District incurred $2,251,647 of costs due to emergency preparedness measures in advance of the storm as well as recovery and repair following the storm. All costs incurred, less a deductible of $5,000, have been reimbursed from insurance proceeds.

CYBERSECURITY

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

TAX EXEMPTION

Opinion of Bond Counsel

In the opinion of Bond Counsel, under current law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum tax, and (c) is taken into account in determining adjusted financial statement income for applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. Except as described in the Section herein "Designation for Purchase by Financial Institutions," no other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel's opinion is given in reliance upon certifications by representatives of the District as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The District has covenanted to comply with the current provisions of the Code regarding, among other matters, certain tax-exempt obligations, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the District to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. The District may in its discretion, but has not covenanted to, take any and all such actions as may be required by future changes in the Code and applicable regulations in order that interest on the Bonds remain excludable from gross income for federal income tax purposes.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, limitations and exclusions that are a part of the conclusions therein. See "Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions", 63 Bus. Law. 1277 (2008)" and "Legal Opinion Principles", 53 Bus. Law. 831 (May 1998), updated by "Statement of Opinion Practices", 74 Bus. Law. 801, 807 (2019). Purchasers of the Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Bonds.

Bond Counsel's opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of current law, but is not a guarantee of result or binding on the Internal Revenue Service (the "Service") or the courts. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may come to Bond Counsel's attention after the date of its opinion or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

Alternative Minimum Tax

Individuals. Bond Counsel's opinion states that under current law interest on the Bonds is not an item of preference and is not subject to the alternative minimum tax on individuals.

Applicable Corporations. Bond Counsel's opinion also states that under current law interest on the Bonds is taken into account in determining adjusted financial statement income for applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. Under current law, an "applicable corporation" generally is a corporation with average annual adjusted financial statement income for a 3-taxable-year period ending after December 31, 2021, that exceeds $1 billion.

Other Tax Matters

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

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, local, or foreign jurisdiction.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the District as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, federal or state legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

Original Issue Discount

Some of the Bonds were sold at initial sale prices that are less than their respective stated redemption prices payable at maturity (collectively, the "Discount Bonds"). The excess of (i) the stated redemption price at maturity of each maturity of the Discount Bonds, over (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Discount Bonds is sold will constitute original issue discount. Original issue discount will accrue for federal income tax purposes on a constant-yield-to-maturity method based on regular compounding; and a holder's basis in such a Bond will be increased by the amount of original issue discount treated for federal income tax purposes as having accrued on the Bond while the holder holds the Bond.

Under the Code, for purposes of determining a holder's adjusted basis in a Discount Bond, original issue discount treated as having accrued while the holder holds the Bond will be added to the holder's basis. Original issue discount will accrue on a constant-yield-to-maturity method based on semiannual compounding. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of a Discount Bond.

Prospective purchasers of Discount Bonds should consult their own tax advisors as to the calculation of accrued original issue discount and the state and local tax consequences of owning or disposing of such Bonds.

Bond Premium

Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

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 EMMA system at www.emma.msrb.org.

Annual Reports

The District will provide annually to the MSRB, within six (6) months after the end of each fiscal year of the District ending in and after 2023, (1) all quantitative financial information and operating data with respect to the District of the general type included in the Official Statement in APPENDIX A – Tables 1 through 6 and Tables 8 through 14, and including financial statements of the District, if audited financial statements of the District are then available, and (2) if not provided as part of such financial information and operating data, audited financial statements of the District, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within six (6) months after any such fiscal year end, then the District shall file unaudited financial statements within such 6-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available. The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by United States Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12").

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 submit a notice of such change to the MSRB, and the date of the new fiscal year end prior to the next date by which the District otherwise would be required to provide financial information and operating data.

Event Notices

The District will also provide timely notices of certain events to the MSRB (not in excess of ten (10) business days after the occurrence of the event). The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the District, any of which reflect financial difficulties. (Neither the Bonds nor the Order make any provision for debt service reserves, redemption provisions, liquidity enhancement, or credit 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."

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 order 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" shall mean, for purposes of the events in clauses (15) and (16), a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing, or planned debt obligation; or (iii) guarantee of (i) or (ii). The term "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. The District intends to comply with the events in clauses (15) and (16), and the definition of "Financial Obligation," with reference to Rule 15c2-12, any other applicable federal securities laws, and the guidance provided by the Commission in Release No. 34-83885 dated August 20, 2018 (the "2018 Release"), and any further amendments or written guidance provided by the Commission or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

All documents provided to the MSRB shall be accompanied by identifying information, as prescribed by the MSRB.

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. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

This 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 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 since such offering as well as such changed circumstances and (2) either (a) the Bondholders of a majority in aggregate principal 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 interest of the Bondholders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

During the last five (5) 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

The Bonds and the presently outstanding tax supported debt of the District are rated "Aaa" and "AAA" by Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings, a division of S&P Global Inc. ("S&P"), respectively by virtue of the guarantee of the Permanent School Fund of the State. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and APPENDIX D. The presently outstanding unenhanced tax-supported debt of the District is rated "A1" (negative outlook) by Moody's and "A+" (stable outlook) by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, 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 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. 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. See "OTHER INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital and savings and loan associations.

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

Registration and Qualification of Bonds for Sale

No registration statement relating to the Bonds has been filed with the SEC 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 opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and the opinion of Bond Counsel that the interest on the Bonds being excludable from gross income for purposes of federal income tax. The Form of Bond Counsel's Opinion is attached hereto as "APPENDIX C – FORM OF BOND COUNSEL'S OPINION."

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 statements and information under the captions and subcaptions "THE BONDS" (except for the information under the subcaptions "Book-Entry-Only System" and "Bondholders' Remedies," as to which no opinion need be expressed), and "CONTINUING DISCLOSURE OF INFORMATION" (except for the information under the subcaption "Compliance with Prior Undertakings," as to which no opinion need be expressed), and such firm is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and subcaptions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS," "TAX EXEMPTION," and "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," "– Legal Investments and Eligibility to Secure Public Funds in Texas" and "– Legal Matters" (except for the last paragraph as to which no opinion need be expressed), and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law.

The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Bracewell 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, Post Oak Municipal Advisors LLC 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 delivery 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 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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at a price of $193,174,512.52 (representing the principal amount of the Bonds, plus a net premium in the amount of $6,692,412.30, less an underwriting discount of $917,899.78). 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.

Additionally, the Underwriters may receive additional compensation from the District for additional services rendered including but not limited to the provision of certain investment services either directly or through a subsidiary.

The Underwriters have reviewed the information in this Official Statement in accordance with and as part of to their respective 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.

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. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included 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 will prove to be accurate.

Use of Audited Financial Statements

Whitley Penn, L.L.P., the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein as "APPENDIX B – EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT," any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement.

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 also approves the form and content of this Official Statement and any addenda, supplement, or amendment thereto and authorizes 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, as amended.

/s/ *David Kaminski*
President, Board of Trustees
Waller Independent School District

ATTEST:

/s/ *William Warren*
Secretary, Board of Trustees
Waller Independent School District

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

FINANCIAL INFORMATION REGARDING THE DISTRICT

TABLE 1 – VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2022/23 Market Valuation *(Excluding Fully Exempt Property)*			
Established by Waller County Appraisal District and Harris Central Appraisal District		$7,109,037,241	
Less Exemptions/Reductions at 100% Market Value:			
Homestead - State Mandated General	($360,557,178)		
Homestead - 10% Appraisal Cap Loss	(293,264,869)		
Homestead - State Mandated Over 65 or Disabled	(30,016,493)		
Homestead - Disabled Veterans & Surviving Spouse	(42,189,868)		
Freeport Exemption	(215,969,281)		
Pollution Control Exemption	(18,924,382)		
Other Exemptions	(815,676)		
Net Value Loss Due to Freeze	(164,937,514)	(1,126,675,261)	
2022/23 Taxable Assessed Valuation		$5,982,361,980	
Debt Payable from Ad Valorem Taxes:			
Outstanding Unlimited Tax Bonds *(as of May 31, 2023)*	$523,115,000		
Plus: The Bonds	187,400,000	$710,515,000	(1)
Estimated Interest and Sinking Fund Balance *(as of August 31, 2023)*		$21,768,633	(2)
Ratio of Tax Supported Debt to Taxable Assessed Valuation		11.88%	(1)
2022/23 Estimated Population		46,670	(3)
Per Capita Taxable Assessed Valuation		$128,184	
Per Capita Debt Payable from Ad Valorem Taxes		$15,224	(1)
2022/23 Student Enrollment		8,845	(4)
Per Student Taxable Assessed Valuation		$676,355	
Per Student Debt Payable from Ad Valorem Taxes		$80,330	(1)

(1) Includes the Bonds.

(2) Unaudited. Unaudited information has not been prepared or reviewed by the District's independent auditor. Such unaudited information is derived from internal account balances of the District and is subject to change.

(3) Source: Municipal Advisory Council of Texas.

(4) Source: Texas Education Agency - Public Electronic Information Management System ("PEIMS").

TABLE 2 – TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Assessed Value for Fiscal Year Ended August 31,					
	2023		2022		2021	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-family	$3,269,817,543	46.00%	$2,361,070,595	42.98%	$1,979,937,548	40.71%
Real, Residential, Multi-family	175,575,812	2.47%	161,406,102	2.94%	119,310,877	2.45%
Real, Vacant Platted Lots/Tracts	302,604,490	4.26%	216,152,775	3.93%	167,736,340	3.45%
Real, Acreage (Land Only)	142,917,640	2.01%	102,329,463	1.86%	75,361,634	1.55%
Real, Farm and Ranch Improvements	866,343,415	12.19%	737,388,865	13.42%	671,278,797	13.80%
Real, Commercial and Industrial	1,075,222,077	15.12%	845,135,546	15.38%	795,545,128	16.36%
Real, Oil, Gas and Other Minerals Reserves	1,840,120	0.03%	1,641,630	0.03%	1,693,130	0.03%
Real and Intangible Personal, Utilities	215,571,013	3.03%	187,014,167	3.40%	178,943,557	3.68%
Tangible Personal, Business	938,814,266	13.21%	797,339,166	14.51%	812,526,533	16.71%
Tangible Personal, Other	120,330,865	1.69%	83,871,048	1.53%	60,846,858	1.25%
Total Appraised Value Before Exemptions [1]	$7,109,037,241	100.00%	$5,493,349,357	100.00%	$4,863,180,402	100.00%
Less: Total Exemptions/Reductions	(1,126,675,261)		(720,175,916)		(912,081,470)	
Taxable Assessed Value	$5,982,361,980		$4,773,173,441		$3,951,098,932	

	Taxable Assessed Value for Fiscal Year Ended August 31,			
	2020		2019	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-family	$1,782,317,047	42.22%	$1,476,757,428	34.23%
Real, Residential, Multi-family	99,789,030	2.36%	58,449,461	1.35%
Real, Vacant Platted Lots/Tracts	148,905,508	3.53%	155,198,430	3.60%
Real, Acreage (Land Only)	54,721,005	1.30%	460,769,095	10.68%
Real, Farm and Ranch Improvements	559,542,854	13.26%	573,140,093	13.29%
Real, Commercial and Industrial	785,516,475	18.61%	736,147,627	17.06%
Real, Oil, Gas and Other Minerals Reserves	1,906,590	0.05%	1,867,850	0.04%
Real and Intangible Personal, Utilities	175,408,375	4.16%	135,202,061	3.13%
Tangible Personal, Business	577,450,455	13.68%	690,171,137	16.00%
Tangible Personal, Other	35,692,495	0.85%	26,331,740	0.61%
Total Appraised Value Before Exemptions [1]	$4,221,249,834	100.00%	$4,314,034,922	100.00%
Less: Total Exemptions/Reductions	(533,793,492)		(819,178,556)	
Taxable Assessed Value	$3,687,456,342		$3,494,856,366	

NOTE: Valuations shown are certified taxable assessed values reported by the Waller County Appraisal District and the Harris Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal Districts updates records.

[1] Excludes fully exempt property.

TABLE 3 – VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended (8/31)	Estimated District Population [1]	Taxable Assessed Valuation [2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year	Tax Supported Debt Per Capita	Ratio of Tax Supported Debt To Taxable Assessed Valuation
2019	45,298	$3,494,856,366	$77,153	$114,125,000	$2,519	3.27%
2020	40,725	3,687,456,342	90,545	314,855,000	7,731	8.54%
2021	41,901	3,951,098,932	94,296	377,370,000	9,006	9.55%
2022	44,388	4,773,173,441	107,533	366,040,000	8,246	7.67%
2023	46,670	5,982,361,980	128,184	710,515,000 [3]	15,224 [3]	11.88% [3]

[1] Source: Municipal Advisory Council of Texas.

[2] Established by the Waller County Appraisal District and the Harris Central Appraisal District. Subject to change during the ensuing year.

[3] Includes the Bonds.

TABLE 4 – TAX RATE, LEVY, AND COLLECTION HISTORY

Tax Year	Tax Rate	General Fund	Interest & Sinking Fund	Tax Levy	Collections [1] % Current	Collections [1] % Total	Fiscal Year Ending
2018	$1.44000	$1.04000	$0.40000	$50,105,274	97.28%	100.06%	8/31/2019
2019	1.37000	0.97000 [2]	0.40000	53,343,849	96.90%	99.25%	8/31/2020
2020	1.36640	0.96640 [2]	0.40000	57,898,933	97.07%	99.83%	8/31/2021
2021	1.32090	0.88090 [2]	0.44000	63,085,174	96.91%	99.42%	8/31/2022
2022	1.29460	0.85460 [2]	0.44000	78,653,563 [3]	93.68% [3]	96.01% [3]	8/31/2023

[1] Excludes penalties and interest.

[2] See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of the compression of maintenance and operations tax rates under HB 3.

[3] Source: The District's records as of April 30, 2023. Unaudited. Unaudited information has not been prepared or reviewed by the District's independent auditor. Such unaudited information is derived from internal account balances of the District and is subject to change.

TABLE 5 – TEN LARGEST TAXPAYERS [1]

Name of Taxpayer	Nature of Property	2022/23 Taxable Assessed Valuation	% of Taxable Assessed Valuation [2]
BNP LLC	Industrial Manufacturing	$275,189,883	4.60%
Goodman Manufacturing Co.	Industrial Manufacturing	241,601,798	4.04%
DXC Technology Services Inc.	Technology	118,372,852	1.98%
Seaway Crude Pipeline LP	Oil & Gas Pipeline	84,773,820	1.42%
Bridgeland Development LP	Residential	69,784,350	1.17%
Flowchem LLP	Manufacturing	56,043,147	0.94%
Centerpoint Energy	Electric Utility/Power Plant	50,121,642	0.84%
Sealy Kickapoo Road LLC	Industrial Manufacturing	40,999,985	0.69%
LGI Homes Texas LLC	Residential	40,615,139	0.68%
PV Apartments Inc.	Residential	36,092,790	0.60%
			16.94%

[1] Source: The Waller County Appraisal District and the Harris Central Appraisal District.

[2] Approximately 17% of the District's taxable assessed valuation is concentrated in its ten largest taxpayers. Adverse development affecting such taxpayers could adversely affect the taxable assessed valuation in the District resulting in less local tax revenue or future increase in ad valorem tax rates.

TABLE 6 – TAX ADEQUACY

Principal and Interest Requirements (2022/23)	$ 24,760,504 [1]
$0.4181 Tax Rate on 2022/23 Taxable Assessed Valuation at 99% Collection Produces	$ 24,762,133 [2]
Maximum Principal and Interest Requirements (2034/35)	$ 46,143,675 [1]
$0.7792 Tax Rate on 2022/23 Taxable Assessed Valuation at 99% Collection Produces	$ 46,148,419 [2]
Average Principal and Interest Requirements (2022/23 – 2052/53)	$ 39,536,791 [1]
$0.6676 Tax Rate on 2022/23 Taxable Assessed Valuation at 99% Collection Produces	$ 39,538,866 [2]

[1] Includes the Bonds.

[2] Based on 2022/23 taxable assessed valuation of $5,982,361,980. The District may be required to use Tier One funds in order to demonstrate compliance with the 50-cent Test. See "TAX RATE LIMITATIONS - I&S Tax Rate Limitations."

TABLE 7 – 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 bonds ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Entity	Gross Tax Supported Debt	As of	Estimated Percent Overlapping	Overlapping Tax Supported Debt
Waller Independent School District	$710,515,000 (1)	5/31/2023	100.00%	$710,515,000
Bauer Landing WC&ID	16,680,000	5/31/2023	100.00%	16,680,000
Harris County	1,770,442,125	5/31/2023	0.46%	8,144,034
Harris County Department of Education	20,185,000	5/31/2023	0.46%	92,851
Harris County Flood Control District	797,615,000	5/31/2023	0.46%	3,669,029
Harris County Hospital District	70,970,000	5/31/2023	0.46%	326,462
Harris County Municipal Utility District No. 319	52,875,000	5/31/2023	100.00%	52,875,000
Harris County Municipal Utility District No. 405	2,585,000	5/31/2023	100.00%	2,585,000
Harris County Municipal Utility District No. 434	32,675,000	5/31/2023	100.00%	32,675,000
Harris County Municipal Utility District No. 490	22,095,000	5/31/2023	23.54%	5,201,163
Harris County Municipal Utility District No. 531	26,240,000	5/31/2023	0.25%	65,600
Harris County Municipal Utility District No. 565	4,740,000	5/31/2023	100.00%	4,740,000
Harris County WC&ID No. 158	14,100,000	5/31/2023	59.73%	8,421,930
Harris County WC&ID No. 159	41,190,000	5/31/2023	0.37%	152,403
Northwest Freeway Municipal Utility District	8,115,000	5/31/2023	100.00%	8,115,000
Port of Houston Authority	445,749,397	5/31/2023	0.46%	2,050,447
Prairie View, City of	9,095,011	5/31/2023	100.00%	9,095,011
Waller County	71,955,000	5/31/2023	31.12%	22,392,396
Waller County Municipal Utility District No. 33	3,000,000	5/31/2023	100.00%	3,000,000
Waller, City of	18,830,000	5/31/2023	100.00%	18,830,000
Total Direct and Overlapping Debt				$909,626,326
Ratio of Total Direct and Overlapping Debt to 2022/23 Taxable Assessed Valuation				15.21%
Total Direct and Overlapping Debt per Capita				$19,491

Source: Municipal Advisory Council of Texas.
(1) Includes the Bonds.

TABLE 8 – TAX-SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending (8/31)	Outstanding Debt Service	Plus: The Bonds Principal	Interest	Total	Total Debt Service
2023	$ 24,549,985	$ -	$ 210,519	$ 210,519	$ 24,760,504
2024	28,158,250	-	8,204,388	8,204,388	36,362,638
2025	28,166,575	-	8,561,100	8,561,100	36,727,675
2026	27,456,075	2,525,000	8,485,350	11,010,350	38,466,425
2027	29,413,250	2,680,000	8,329,200	11,009,200	40,422,450
2028	30,605,950	2,845,000	8,163,450	11,008,450	41,614,400
2029	32,553,800	3,020,000	7,987,500	11,007,500	43,561,300
2030	32,553,200	3,205,000	7,800,750	11,005,750	43,558,950
2031	32,551,825	3,405,000	7,602,450	11,007,450	43,559,275
2032	32,547,525	3,615,000	7,391,850	11,006,850	43,554,375
2033	32,545,975	6,470,000	7,121,650	13,591,650	46,137,625
2034	32,552,950	6,800,000	6,789,900	13,589,900	46,142,850
2035	32,552,525	7,150,000	6,441,150	13,591,150	46,143,675
2036	32,547,925	7,515,000	6,074,525	13,589,525	46,137,450
2037	32,549,100	7,905,000	5,689,025	13,594,025	46,143,125
2038	31,113,575	8,310,000	5,283,650	13,593,650	44,707,225
2039	31,113,575	4,035,000	4,975,025	9,010,025	40,123,600
2040	31,113,400	-	4,874,150	4,874,150	35,987,550
2041	31,116,300	-	4,874,150	4,874,150	35,990,450
2042	31,115,850	7,670,000	4,682,400	12,352,400	43,468,250
2043	31,112,425	8,065,000	4,289,025	12,354,025	43,466,450
2044	31,109,525	8,475,000	3,917,900	12,392,900	43,502,425
2045	31,116,261	8,830,000	3,571,800	12,401,800	43,518,061
2046	31,107,773	9,185,000	3,211,500	12,396,500	43,504,273
2047	27,269,411	9,560,000	2,836,600	12,396,600	39,666,011
2048	27,270,478	9,950,000	2,446,400	12,396,400	39,666,878
2049	27,269,555	10,360,000	2,040,200	12,400,200	39,669,755
2050	27,275,278	10,780,000	1,617,400	12,397,400	39,672,678
2051	10,740,200	11,220,000	1,177,400	12,397,400	23,137,600
2052	10,738,500	11,675,000	719,500	12,394,500	23,133,000
2053	10,740,600	12,150,000	243,000	12,393,000	23,133,600
	$ 882,627,615	$ 187,400,000	$ 155,612,906	$ 343,012,906	$1,225,640,521

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Interest and Sinking Fund Balance, as of August 31, 2022	$21,768,633	
Plus: 2022/23 Budgeted Interest and Sinking Fund Taxes - Current	26,012,622	[1]
Plus: 2022/23 Budgeted Interest and Sinking Fund Taxes - Delinquent	355,447	[1]
Plus: 2022/23 Budgeted Other Local Revenue	213,300	[1]
Plus: Estimated Capitalized Interest from the Bonds	4,134,356	
Less: I&S Fund Tax Supported Debt Defeased in Fiscal Year Ending August 31, 2023	(4,998,775)	
Less: I&S Fund Tax Supported Debt Service Requirements, Fiscal Year Ending August 31, 2023	(24,760,504)	[2]
Estimated Interest and Sinking Fund Balance, as of August 31, 2023	$22,725,080	

[1] Source: The District's adopted budget for the 2022-23 fiscal year.
[2] Includes the Bonds.

TABLE 10 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Authorization Used to Date	Authorization Used This Issue [1]	Unused Authorization
School Buildings	11/8/2022	$363,471,018	$175,000,000	$188,471,018	$0

[1] Includes the Bonds and premium charged against voted authorization.

TABLE 11 – OTHER OBLIGATIONS

In fiscal year 2022, the District reported several leases in accordance with GASB Statement No. 87 Leases. The District is the lessee for copiers and postage machines. The District's incremental borrowing rate used to calculate the present value of the lease liability was 7.5% from the financial institution. The ending lease liability as of August 31, 2022 was $82,342. The District is required to make monthly payments of approximately $3,662. The copiers and postage machines have a three-to five-year useful life.

The future principal and interest lease payments as of August 31, 2022, were as follows:

Fiscal Year Ended (8/31)	Principal	Interest	Total
2023	$23,455	$5,380	$28,835
2024	25,276	3,559	28,835
2025	24,935	1,640	26,575
2026	8,113	320	8,433
2027	563	4	567
Total	$82,342	$10,903	$93,245

Source: The District's Annual Financial Report for the fiscal year ended August 31, 2022.

TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Year Ended August 31,				
	2022	2021	2020	2019	2018
Revenues:					
Local, Intermediate and Out-of-State	$ 46,686,753	$ 44,776,913	$ 38,187,460	$ 37,716,140	$ 32,972,213
State Program Revenues	36,644,274	33,081,256	33,185,121	29,314,108	31,308,435
Federal Program Revenues	4,064,373	1,704,934	886,691	953,658	1,077,853
Total Revenues	$ 87,395,400	$ 79,563,103	$ 72,259,272	$ 67,983,906	$ 65,358,501
Expenditures:					
Instruction	$ 45,863,800	$ 44,149,094	$ 47,658,235	$ 40,840,390	$ 38,144,048
Instruction Resources and Media Services	601,913	611,777	659,836	686,742	605,435
Curriculum and Instructional Staff Development	1,644,813	605,856	900,032	861,670	901,352
Instructional Leadership	1,332,308	2,418,616	2,243,187	2,214,207	2,127,833
School Leadership	3,910,984	3,818,723	4,201,253	4,172,969	3,761,898
Guidance, Counseling & Evaluation Services	2,918,962	2,865,241	2,927,606	2,783,260	2,191,593
Social Work Services	38,275	-	3,362	-	-
Health Services	490,721	402,450	399,616	455,299	430,019
Student Transportation	4,758,300	4,003,929	4,504,460	4,401,791	4,083,082
Extracurricular Activities	2,025,155	1,818,322	2,091,080	1,994,948	1,655,254
General Administration	2,921,814	3,004,853	3,124,108	2,944,217	2,663,331
Facilities Maintenance and Operations	7,070,927	7,203,690	6,392,665	6,696,688	7,157,093
Security and Monitoring Services	709,475	664,306	675,509	503,367	515,210
Data Processing Services	2,455,254	2,111,833	2,481,163	2,294,370	1,571,682
Community Services	3,531	61,158	69,845	75,845	68,377
Debt Service	28,269	-	-	-	-
Capital Outlay	11,494	-	131,359	1,252,580	2,407,059
Payments Related to Shared Services Agreements	180,718	-	-	-	-
Payments to Juvenile Justice Alt. Ed. Prgm.	3,994	-	-	-	-
Other Intergovernmental Charges	685,849	628,427	546,043	504,553	503,129
Total Expenditures	$ 77,656,556	$ 74,368,275	$ 79,009,359	$ 72,682,896	$ 68,786,395
Excess (Deficiency) of Revenues Over Expenditures	$ 9,738,844	$ 5,194,828	$ (6,750,087)	$ (4,698,990)	$ (3,427,894)
Other Financing Sources (Uses):					
Transfers In (Out)	$ -	$ -	$ 596,786	$ 31,464	$ -
Sale of Real or Personal Property	32,250	-	-	-	-
Proceeds from Leases	28,305	-	-	-	-
Property Tax Refunds	(163,961)	-	-	-	-
Other Resource	-	-	1,290,819	-	-
Total Other Financing Sources (Uses)	$ (103,406)	$ -	$ 1,887,605	$ 31,464	$ -
Special Items:					
Extraordinary Items (Source) - Disaster Recovery	$ 1,058,641	$ 1,188,006	$ -	$ -	$ -
Extraordinary Items (Use) - Disaster Recovery	(587,133)	(1,663,780)	-	-	-
Total Special Items	$ 471,508	$ (475,774)	$ -	$ -	$ -
Net Change in Fund Balance	$ 10,106,946 [1]	$ 4,719,054	$ (4,862,482) [2]	$ (4,667,526) [2]	$ (3,427,894) [2]
Beginning Fund Balance	9,674,259	4,955,205	9,817,687	14,485,213	17,913,107
Ending Fund Balance	$ 19,781,205	$ 9,674,259	$ 4,955,205	$ 9,817,687	$ 14,485,213

Source: The District's audited financial statements.

(1) A portion of the surplus being added to the general fund balance is attributable to the use of ESSER funding to offset eligible expenses in the general fund and one-time adjustments to State funding resulting from modifications made by TEA to stabilize attendance rates in light of the COVID-19 pandemic. For additional information, see "INFECTIOUS DISEASE OUTBREAK – COVID-19." The District currently estimates that it will have a general fund balance of approximately $17.4 million as of August 31, 2023. The estimated fund balance is unaudited information provided by the District. Such unaudited information has not been prepared or reviewed by the District's independent auditor and is subject to revision upon completion of the District's annual audit and the impact of events subsequent to the date of this official statement.

(2) Fund balance declines in fiscal years 2018 through 2020 are attributed to reductions in federal and state funding and necessary expenditures related to the COVID-19 Pandemic.

TABLE 13 – DEBT SERVICE FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Year Ended August 31,				
	2022	2021	2020	2019	2018
Revenues:					
Local, Intermediate and Out-of-State	$ 22,669,133	$ 18,247,916	$ 15,740,638	$ 14,316,740	$ 12,444,309
State Program Revenues	93,637	109,726	122,867	145,312	188,811
Total Revenues	$ 22,762,770	$ 18,357,642	$ 15,863,505	$ 14,462,052	$ 12,633,120
Expenditures:					
Principal on Long-Term Debt	$ 11,330,000	$ 5,295,000	$ 5,075,000	$ 4,105,000	$ 4,000,000
Interest on Long-Term Debt	13,985,488	13,637,008	8,481,049	5,337,675	5,143,366
Bond Issuance Costs and Fees	68,453	6,173	5,731	34,351	16,050
Total Expenditures	$ 25,383,941	$ 18,938,181	$ 13,561,780	$ 9,477,026	$ 9,159,416
Excess (Deficiency) of Revenues Over Expenditures	$ (2,621,171)	$ (580,539)	$ 2,301,725	$ 4,985,026	$ 3,473,704
Other Financing Sources (Uses):					
Property Tax Refunds	$ (67,864)	$ -	$ -	$ -	$ -
Premium or Discount on Issuance of Bonds	-	3,007,275	8,004,406	-	-
Payment to Escrow Agent	-	-	-	(2,915,623)	(2,201,653)
Total Other Financing Sources (Uses)	$ (67,864)	$ 3,007,275	$ 8,004,406	$ (2,915,623)	$ (2,201,653)
Net Change in Fund Balance	$ (2,689,035)	$ 2,426,736	$ 10,306,131	$ 2,069,403	$ 1,272,051
Beginning Fund Balance	24,457,668	22,030,932	11,724,801	9,655,398	8,383,347
Ending Fund Balance	$ 21,768,633	$ 24,457,668	$ 22,030,932	$ 11,724,801	$ 9,655,398

Source: The District's audited financial statements.

TABLE 14 – CURRENT INVESTMENTS

As of April 30, 2023, the District's investable funds were invested in the following categories:

Description	Book Value [1]	Market Value	Percent of Total Market Value
Texas Class Investment Pool	$ 197,085,207	$ 197,085,207	67.10%
LoneStar Investment Pool	83,034,775	83,034,775	28.27%
Bank Deposits	13,606,194	13,606,194	4.63%
	$ 293,726,176	$ 293,726,176	100.00%

[1] Unaudited.

APPENDIX B

EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2022

The information contained in this Appendix consists of excerpts from the Waller Independent School District Annual Financial Report for the Year Ended August 31, 2022, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

The District has not requested Whitley Penn LLP, CPAs, to reissue its audited financial statements and Whitley Penn LLP, CPAs, has not performed any procedures in connection with the Official Statement.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Waller Independent School District
Waller, Texas

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type 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 accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

To the Board of Trustees
Waller Independent School District

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *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 GAAS and *Government Auditing Standards*, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, pension information, and other-post employment benefit information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements, required Texas Education Agency (TEA) schedules, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements.

To the Board of Trustees
Waller Independent School District

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the Schedule L-1 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2023 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
January 12, 2023

As management of the Waller Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2022.

Financial Highlights

The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by $13,564,200 *(net position).* Of this amount, unrestricted net position amounted to a deficit of ($24,218,873). This deficit was caused by the net pension and net OPEB liabilities recognized in fiscal year 2022. This recognition of such liabilities does not affect the financial stability of the District nor does it change how the District conducts its financial decision making. Rather, the District is reflecting its portion of the liabilities that the State of Texas manages and operates.

- The District's total net position at year end increased by $5,167,495. The significant increase was mainly due to increase in property taxes, state aid, and charges for services.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $114,323,970, a decrease of $88,078,240 in comparison with the prior year. This decrease is primarily due to increases in construction on bond projects and expenditures related to COVID-19.
- During the year, the District's revenues for governmental activities in the amount of $123,278,426 exceeded total expenses of $118,128,424 by $5,150,002 .
- The general fund reported a fund balance this year of $19,781,205. Of this amount, $19,407,981 is for unassigned use by the District.
- The District's total bonded debt decreased by $11,330,000 (3 percent) during the current fiscal year. There was a cash defeasance in the amount of $4,978,059 during fiscal year 2022. The par amount of the refunded bonds was $4,930,000 of Unlimited Tax Refunding Bonds, Series 2012 and Series 2013.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplementary information.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. They include the Statement of Net Position and the Statement of Activities that 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.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The *Statement of Activities* presents information showing how the government's net position changed during the current fiscal year. All changes in net position are reported for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide detailed information about the District's most significant funds, not the District as a whole.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

Governmental funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the District's most significant funds. The District's major governmental funds are the General Fund, Debt Service Fund, and Capital Projects Fund. Data for the remaining governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The Texas Education Agency also requires the District to present a budgetary comparison statement for one of its special revenue funds (child nutrition) and the debt service fund.

Proprietary funds

These funds include the enterprise fund. The District's vending machine fund activity is reported in the enterprise fund.

Fiduciary fund

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 28 and Statement of Changes in Fiduciary Net Position on page 29.

Notes to the Financial Statements

The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found starting on page 31 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. Required supplementary information can be found starting on page 60 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $13,564,200 at the close of the most recent fiscal year.

The largest portion of the District's net position $12,629,342 reflects its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

As of August 31, 2022 and 2021, the District's net position included the following:

Table I
Waller Independent School District
Comparative Schedule of Net Position
August 31, 2022 and 2021

	Governmental Activities			Business-Type Activities		
	2022	2021	Change	2022	2021	Change
Current and Other Assets	$ 148,748,310	$ 218,965,221	$ (70,216,911)	$ 1,069	$ (21,932)	$ 23,001
Capital Assets	348,415,156	269,388,276	79,026,880	-	-	-
Total Assets	497,163,466	488,353,497	8,809,969	1,069	(21,932)	23,001
Deferred Charge on Refunding	2,150,837	2,768,128	(617,291)	-	-	-
Deferred Outflow - Pension	9,263,062	12,395,947	(3,132,885)	-	-	-
Deferred Outflow - OPEB	9,970,601	9,807,493	163,108	-	-	-
Total Deferred Outflows	21,384,500	24,971,568	(3,587,068)	-	-	-
Long-Term Liabilities	444,541,378	470,848,794	(26,307,416)	-	-	-
Other Liabilities	30,306,174	13,059,171	17,247,003	6,971	1,463	5,508
Total Liabilities	474,847,552	483,907,965	(9,060,413)	6,971	1,463	5,508
Deferred Inflow - Pension	12,996,943	3,469,764	9,527,179	-	-	-
Deferred Inflow - OPEB	17,133,369	17,760,937	(627,568)	-	-	-
Total Deferred Inflows	30,130,312	21,230,701	8,899,611	-	-	-
Net Position						
Net Investment in Capital Assets	12,629,342	17,757,301	(5,127,959)	-	-	-
Restricted	25,153,731	26,296,466	(1,142,735)	-	-	-
Unrestricted	(24,212,971)	(35,867,368)	11,654,397	(5,902)	(23,395)	17,493
Total Net Position	$ 13,570,102	$ 8,186,399	$ 5,383,703	$ (5,902)	$ (23,395)	$ 17,493

Approximately $12.6 million of the District's net position represent investments in capital assets net of related debt.

Changes in net position. The District's total revenues for governmental activities were $123.3 million. A portion, 55 percent, of the District's revenue comes from local property taxes, 26 percent comes from state aid – formula grants, while 17 percent relates to charges for services and operating grants, and the remaining 2 percent relates to investment earnings and other miscellaneous revenue.

Total cost of all programs and services for governmental activities was $118,128,424. The net position of the District's governmental activities for the current year increased by $5,150,002 .

Key elements of the governmental activities of the District are reflected in the following table.

Table II
Waller Independent School District
Comparative Schedule of Changes in Net Position
For the Years Ended August 31, 2022 and 2021

	Governmental Activities			Business-Type Activities		
	2022	2021	Change	2022	2021	Change
Revenues						
Program Revenues:						
Charges for Services	$ 2,281,931	$ 681,916	$ 1,600,015	$ 101,825	$ 35,960	$ 65,865
Operating Grants and Contributions	18,832,459	19,472,017	(639,558)	-	-	-
General Revenues:						
Property Taxes	68,114,405	62,729,357	5,385,048	-	-	-
State Aid - Formula Grants	32,519,137	28,866,309	3,652,828	-	-	-
Grants and contributions not restricted	-	-	-	-	3,358	(3,358)
Interest Earnings	1,026,736	376,827	649,909	-	-	-
Miscellaneous	-	-	-	-	-	-
Extraordinary item - disaster recovery	471,508	1,188,006	(716,498)	-	-	-
Special item - gain on sale of asset	32,250	-	32,250	-	-	-
Total Revenues	123,278,426	113,314,432	9,963,994	101,825	39,318	62,507
Expenses						
Instruction	52,303,621	52,618,650	(315,029)	-	-	-
Instrucitonal Resources and Media	690,799	661,871	28,928	-	-	-
Curriculum and staff development	2,698,676	659,525	2,039,151	-	-	-
Instructional leadership	1,498,452	3,747,545	(2,249,093)	-	-	-
School leadership	4,106,239	4,151,422	(45,183)	-	-	-
Guidance, counseling, and evaluation services	4,049,718	4,521,962	(472,244)	-	-	-
Social work services	59,077	41,088	17,989	-	-	-
Health services	601,412	429,218	172,194	-	-	-
Student transportation	5,081,636	4,299,765	781,871	-	-	-
Food service	4,390,580	3,688,426	702,154	-	-	-
Extracurricular activities	2,743,224	1,956,153	787,071	-	-	-
General administration	3,017,238	3,405,038	(387,800)	-	-	-
Facilities maintenance and operations	7,755,223	7,114,444	640,779	-	-	-
Security and monitoring services	808,120	696,295	111,825	-	-	-
Data processing services	2,825,026	3,747,003	(921,977)	-	-	-
Community services	94,461	178,135	(83,674)	-	-	-
Interest on long-term debt	12,319,708	12,526,293	(206,585)	-	-	-
Bond issuance costs and fees	68,453	553,148	(484,695)	-	-	-
Facilities maintenance and repairs	12,146,200	198,786	11,947,414	-	-	-
Payments related to shared services	180,718	-	180,718	-	-	-
Payments to Juvenile Justice Alternative Education Programs	3,994	-	3,994	-	-	-
Other governmental charges	685,849	628,427	57,422	-	-	-
Vending	-	-	-	84,332	58,066	26,266
Total Expenses	118,128,424	105,823,194	12,305,230	84,332	58,066	26,266
Increase (Decrease) in Net Position	5,150,002	7,491,238	(2,341,236)	17,493	(18,548)	36,041
Net Position - Beginning, restated	8,186,399	695,161	7,491,238	(23,395)	(4,847)	(18,548)
Net Position - Ending	$ 13,570,102	$ 8,186,399	$ 5,383,703	$ (5,902)	$ (23,395)	$ 17,493

Financial Analysis of the District's Funds

As the District completed the year, its governmental funds (as presented starting on 18) reported a combined fund balance of $114.3 million, which is a decrease of $88.1 million from last year.

Over the course of the year, the Board of Trustees revised the District's budget a number of times. These budget items fall into three categories. The first category includes amendments and supplemental appropriations that were provided shortly after the school year began. The second category involved moving funds from program areas that did not need or use all of the resources originally appropriated to them. The third category involved changes in state program revenues.

General Fund Budgetary Highlights

There were budget amendments for the 2021-2022 school year required to meet various needs throughout the District approved by the Board of Trustees. Final amended budget for student transportation were higher than the original budget by $1.6 million primarily due to additional bus drivers along with increased overtime and fuel costs.

Capital Asset and Long-Term Debt Activity

Capital Assets

At August 31, 2022, the District had $348.4 million (net of depreciation and amortization) invested in a broad range of capital assets, including land, buildings, furniture and equipment, and right-to-use assets used for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of $79,026,880 (including additions and deductions) over last year. Additional details on capital assets can be found in the notes to the financial statements.

	Governmental Activities	
	2022	2021
Land	$ 15,152,974	$ 15,152,974
Buildings and Improvements	342,303,798	175,183,286
Furniture and equipment	7,604,490	7,427,657
Vehicles	12,371,706	12,146,916
Right-to-use assets	103,721	-
Construction in Progress	34,326,882	119,613,832
Total	411,863,571	329,524,665
Accumulated Depreciation and Amortization		
Buildings and Improvements	(52,077,781)	(48,175,697)
Furniture and equipment	(3,461,129)	(3,546,364)
Vehicles	(7,885,314)	(8,414,328)
Right-to-use assets	(24,191)	-
Total Accumulated Depreciation and Amortization	(63,448,415)	(60,136,389)
Net Capital Assets	$ 348,415,156	$ 269,388,276

Long-Term Debt

At year-end, the District had $366.0 million in general obligation debt at a coupon interest rate of 2.0-5.0% outstanding. The District's general obligation bonds carried the highest possible rating, according to national rating agencies. Additional details on long-term debt can be found in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

The District's elected and appointed officials considered many factors when setting the fiscal year 2022-2023 budget and tax rates. Some of these factors include the changing economy, the impact of the coronavirus pandemic, statewide safety and security concerns, an increase in enrollment, an increase in property values while property tax rates have decreased due to the tax relief imposed by the 86th and 87th Texas Legislative Sessions. The District's property values and student enrollment have steadily increased on average 14% and 4%, respectively, over the last 7 years creating a need for additional teaching staff, instructional support staff and related instructional resources. These factors along with the District's budget priorities of creating and offering a competitive compensation package for employees, maintaining existing facilities while keeping up with enrollment growth, and increasing general operating fund balance to stabilize the District's financial condition were taken into consideration when adopting the budget for 2022-2023. The District's general operating fund balance is expected to increase by at least $1 million by the close of 2022-2023 fiscal year.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Audrey Ambridge, Chief Financial Officer, at (936) 931-0314.

BASIC FINANCIAL STATEMENTS

Waller
Independent School District

WALLER INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2022

Data Control Codes		Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total
	Assets			
1110	Cash and Cash Equivalents	$ 133,624,569	$ 1,069	$ 133,625,638
1120	Current Investments	2,183,433	-	2,183,433
1220	Property Taxes - Delinquent	4,800,778	-	4,800,778
1230	Allowance for Uncollectible Taxes	(83,890)	-	(83,890)
1240	Due from Other Governments	7,815,125	-	7,815,125
1290	Other Receivables, Net	6,180	-	6,180
1410	Prepaid Items	402,115	-	402,115
	Capital Assets Not Subject to Depreciation and Amortization:			
1510	Land	15,152,974	-	15,152,974
1580	Construction in Progress	34,326,882	-	34,326,882
	Capital Assets Net Of Depreciation and Amortization:			
1520	Buildings and Improvements, Net	290,226,017	-	290,226,017
1530	Furniture and Equipment, Net	8,629,753	-	8,629,753
1550	Right-to-use assets, net	79,530	-	79,530
1000	**Total Assets**	497,163,466	1,069	497,164,535
	Deferred Outflows Of Resources			
	Deferred Charge for Refunding	2,150,837	-	2,150,837
	Deferred Outflow Related to TRS Pension	9,263,062	-	9,263,062
	Deferred Outflow Related to TRS OPEB	9,970,601	-	9,970,601
1700	**Total Deferred Outflows of Resources**	21,384,500	-	21,384,500
	Liabilities			
2110	Accounts Payable	24,894,571	6,816	24,901,387
2140	Interest Payable	598,723	-	598,723
2160	Accrued Wages Payable	4,753,653	155	4,753,808
2180	Due to Other Governments	31,616	-	31,616
2300	Unearned Revenue	27,611	-	27,611
	Noncurrent Liabilities:			
2501	Due Within One Year	7,368,830	-	7,368,830
2502	Due in More Than One Year	400,499,952	-	400,499,952
2540	Net Pension Liability	12,039,811	-	12,039,811
2545	Net Other Post-Employment Benefits (OPEB) Liabilities	24,632,785	-	24,632,785
2000	**Total Liabilities**	474,847,552	6,971	474,854,523
	Deferred Inflows Of Resources			
	Deferred Inflows - Pension	12,996,943	-	12,996,943
	Deferred Outflows - OPEB	17,133,369	-	17,133,369
2600	**Total Deferred Inflows of Resources**	30,130,312	-	30,130,312
	Net Position			
3200	Net Investment in Capital Assets	12,629,342	-	12,629,342
	Restricted For:			
3820	Federal and State Programs	2,546,442	-	2,546,442
3850	Debt Service	22,607,289	-	22,607,289
3900	Unrestricted	(24,212,971)	(5,902)	(24,218,873)
3000	**Total Net Position**	$ 13,570,102	$ (5,902)	$ 13,564,200

WALLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2022

			Program Revenue	
Data Control Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions
	Primary government			
	Governmental activities:			
11	Instruction	$ 52,303,621	$ 768,905	$ 8,112,167
12	Instructional resources and media services	690,799	83,657	7,615
13	Curriculum and staff development	2,698,676	17,994	1,172,008
21	Instructional leadership	1,498,452	17,993	145,421
23	School leadership	4,106,239	44,982	50,703
31	Guidance, counseling, and evaluation services	4,049,718	35,986	1,219,530
32	Social work services	59,077	-	17,380
33	Health services	601,412	33,481	1,504,639
34	Student transportation	5,081,636	53,979	66,380
35	Food service	4,390,580	211,543	5,698,189
36	Extracurricular activities	2,743,224	798,380	(9,685)
41	General administration	3,017,238	35,986	849
51	Facilities maintenance and operations	7,755,223	143,060	429,389
52	Security and monitoring services	808,120	8,996	40,679
53	Data processing services	2,825,026	26,989	271,027
61	Community services	94,461	-	102,804
72	Interest on long-term debt	12,319,708	-	-
73	Bond issuance costs and fees	68,453	-	-
81	Facilities maintenance and repairs	12,146,200	-	3,364
93	Payments related to shared services arrangements	180,718	-	-
95	Payments to Juvenile Justice Alternative Education Programs	3,994	-	-
99	Intergovernmental charges	685,849	-	-
TG	**Total Governmental Activities**	118,128,424	2,281,931	18,832,459
	Business-type activities			
35	Vending	84,332	101,825	-
TB	**Total Business-Type Activities**	84,332	101,825	-
TP	**Total Primary Government**	$ 118,212,756	$ 2,383,756	$ 18,832,459

Data Control Codes	Functions/Programs	Net (Expense) Revenue and Changes in Net Position — Primary Government: Governmental Activities	Business-type Activities	Total
	Primary government			
	Governmental activities:			
11	Instruction	$ (43,422,549)	$ -	$ (43,422,549)
12	Instructional resources and media services	(599,527)	-	(599,527)
13	Curriculum and staff development	(1,508,674)	-	(1,508,674)
21	Instructional leadership	(1,335,038)	-	(1,335,038)
23	School leadership	(4,010,554)	-	(4,010,554)
31	Guidance, counseling, and evaluation services	(2,794,202)	-	(2,794,202)
32	Social work services	(41,697)	-	(41,697)
33	Health services	936,708	-	936,708
34	Student transportation	(4,961,277)	-	(4,961,277)
35	Food service	1,519,152	-	1,519,152
36	Extracurricular activities	(1,954,529)	-	(1,954,529)
41	General administration	(2,980,403)	-	(2,980,403)
51	Facilities maintenance and operations	(7,182,774)	-	(7,182,774)
52	Security and monitoring services	(758,445)	-	(758,445)
53	Data processing services	(2,527,010)	-	(2,527,010)
61	Community services	8,343	-	8,343
72	Interest on long-term debt	(12,319,708)	-	(12,319,708)
73	Bond issuance costs and fees	(68,453)	-	(68,453)
81	Facilities maintenance and repairs	(12,142,836)	-	(12,142,836)
93	Payments related to shared services arrangements	(180,718)	-	(180,718)
95	Payments to Juvenile Justice Alternative Education Programs	(3,994)	-	(3,994)
99	Intergovernmental charges	(685,849)	-	(685,849)
TG	**Total Governmental Activities**	(97,014,034)	-	(97,014,034)
	Business-type activities			
35	Vending	-	17,493	17,493
TB	**Total Business-Type Activities**	-	17,493	17,493
TP	**Total Primary Government**	(97,014,034)	17,493	(96,996,541)
	General revenues			
	Taxes:			
MT	Property Taxes, Levied for General Purposes	45,479,262	-	45,479,262
DT	Property Taxes, Levied for Debt Service	22,635,143	-	22,635,143
SF	State Aid - Formula Grants	32,519,137	-	32,519,137
IE	Investment Earnings	1,026,736	-	1,026,736
EXT	Extraordinary item - disaster recovery	471,508		471,508
SI	Special item - gain on sale of asset	32,250	-	32,250
TR	**Total General Revenues**	102,164,036	-	102,164,036
CN	Change in net position	5,150,002	17,493	5,167,495
NB	**Net Position - Beginning, Restated**	8,420,100	(23,395)	8,396,705
NE	**Net Position - Ending**	$ 13,570,102	$ (5,902)	$ 13,564,200

WALLER INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

August 31, 2022

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
	Assets			
1110	Cash and Cash Equivalents	$ 17,571,640	$ 19,712,808	$ 93,094,502
1120	Current Investments	-	2,183,433	-
	Receivables:			
1220	Delinquent Property Taxes Receivables	3,339,134	1,461,644	-
1230	Allowance for Uncollectible Taxes (Credit)	(59,624)	(24,266)	-
1240	Receivables from Other Governments	4,143,055	-	-
1260	Due from Other Funds	3,220,681	-	-
1290	Other Receivables	6,180	-	-
1410	Prepaid Items	373,224	-	813
1000	**Total Assets**	$ 28,594,290	$ 23,333,619	$ 93,095,315
	Liabilities, Deferred Inflows, and Fund Balances			
	Liabilities:			
2110	Accounts Payable	$ 1,086,843	$ 127,607	$ 23,231,006
2160	Accrued Wages Payable	4,387,505	-	1,203
2170	Due to Other Funds	-	-	139
2180	Payable to Other Governments	31,616	-	-
2300	Unearned Revenues	27,611	-	-
2000	**Total Liabilities**	5,533,575	127,607	23,232,348
	Deferred Inflows of Resources			
	Deferred Inflows - Property Taxes	3,279,510	1,437,379	-
2600	**Total Deferred Inflows of Resources**	3,279,510	1,437,379	-
	Fund Balances:			
	Non-Spendable:			
3430	Prepaid Items	373,224	-	-
	Restricted:			
3450	Federal/State Funds Grant Restrictions	-	-	-
3470	Capital Acquisitions And Contractual Oblig.	-	-	69,862,967
3480	Debt Service	-	21,768,633	-
	Committed:			
3545	Campus activities	-	-	-
3600	**Unassigned**	19,407,981	-	-
3000	**Total Fund Balances**	19,781,205	21,768,633	69,862,967
4000	**Total Liabilities, Deferred Inflows, and Fund Balances**	$ 28,594,290	$ 23,333,619	$ 93,095,315

Data Control Codes		Nonmajor Governmental Funds	Total Governmental Funds
	Assets		
1110	Cash and Cash Equivalents	$ 3,245,619	$ 133,624,569
1120	Current Investments	-	2,183,433
	Receivables:		
1220	Delinquent Property Taxes Receivables	-	4,800,778
1230	Allowance for Uncollectible Taxes (Credit)	-	(83,890)
1240	Receivables from Other Governments	3,672,070	7,815,125
1260	Due from Other Funds	-	3,220,681
1290	Other Receivables	-	6,180
1410	Prepaid Items	28,078	402,115
1000	**Total Assets**	$ 6,945,767	$ 151,968,991
	Liabilities, Deferred Inflows, and Fund Balances		
	Liabilities:		
2110	Accounts Payable	$ 449,115	$ 24,894,571
2160	Accrued Wages Payable	364,945	4,753,653
2170	Due to Other Funds	3,220,542	3,220,681
2180	Payable to Other Governments	-	31,616
2300	Unearned Revenues	-	27,611
2000	**Total Liabilities**	4,034,602	32,928,132
	Deferred Inflows of Resources		
	Deferred Inflows - Property Taxes	-	4,716,889
2600	**Total Deferred Inflows of Resources**	-	4,716,889
	Fund Balances:		
	Non-Spendable:		
3430	Prepaid Items	19,722	392,946
	Restricted:		
3450	Federal/State Funds Grant Restrictions	2,546,442	2,546,442
3470	Capital Acquisitions And Contractual Oblig.	-	69,862,967
3480	Debt Service	-	21,768,633
	Committed:		
3545	Other Committed	364,723	364,723
3600	**Unassigned**	(19,722)	19,388,259
3000	**Total Fund Balances**	2,911,165	114,323,970
4000	**Total Liabilities, Deferred Inflows, and Fund Balances**	$ 6,945,767	$ 151,968,991

Waller

Independent School District

WALLER INDEPENDENT SCHOOL DISTRICT *Exhibit C-2*

RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION

August 31, 2022

Data Control Codes		
	Total Fund Balance, Governmental Funds	$ 114,323,970
	Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
1	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation and amortization, where applicable.	348,415,156
2	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	4,716,889
3	Deferred charge on refunding	2,150,837
4	Deferred outflows relating to pension activities	9,263,062
5	Deferred outflows relating to other-post employment benefit	9,970,601
	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. Long-term liabilities at year end consist of:	
6	General obligation bonds	(366,040,000)
7	Premiums on issuance	(41,677,276)
8	Leases payable	(82,342)
9	Accrued compensated absences	(69,164)
10	Net pension liability	(12,039,811)
11	Net other-post employment benefit liability	(24,632,785)
12	Accrued interest payable	(598,723)
13	Deferred inflows relating to pension activities	(12,996,943)
14	Deferred inflows relating to other-post employment benefit	(17,133,369)
19	**Net Position of Governmental Activities**	$ 13,570,102

WALLER INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS

For the Year Ended August 31, 2022

Data Control Codes		General Fund	Debt Service Fund	Capital Projects Fund
	Revenues			
5700	Local and Intermediate Sources	$ 46,686,753	$ 22,669,133	$ 832,211
5800	State Program Revenues	36,644,274	93,637	-
5900	Federal Program Revenues	4,064,373	-	-
5020	**Total Revenues**	87,395,400	22,762,770	832,211
	Expenditures			
	Current:			
0011	Instruction	45,863,800	-	-
0012	Instruction Resources and Media Services	601,913	-	-
0013	Curriculum and Staff Development	1,644,813	-	-
0021	Instructional Leadership	1,332,308	-	-
0023	School Leadership	3,910,984	-	-
0031	Guidance, Counseling and Evaluation Services	2,918,962	-	-
0032	Social Work Services	38,275	-	-
0033	Health Services	490,721	-	-
0034	Student Transportation	4,758,300	-	1,480,912
0035	Food Services	-	-	-
0036	Extracurricular Activities	2,025,155	-	114,055
0041	General Administration	2,921,814	-	-
0051	Facilities Maintenance and Operations	7,070,927	-	273,301
0052	Security and Monitoring Services	709,475	-	-
0053	Data Processing Services	2,455,254	-	-
0061	Community Services	3,531	-	-
	Debt Service:			
0071	Principal on Long-Term Debt	21,379	11,330,000	-
0072	Interest on Long-Term Debt	6,890	13,985,488	-
0073	Bond Issuance Costs and Fees	-	68,453	-
	Capital Outlay:			
0081	Facilities Acquisition and Construction	11,494	-	95,926,790
	Intergovernmental:			
0093	Payments Related To Shared Services Arrangements	180,718	-	-
0095	Payments To Juvenile Justice Alt. Ed. Prgm.	3,994	-	-
0099	Other Intergovernmental Charges	685,849	-	-
6030	**Total Expenditures**	77,656,556	25,383,941	97,795,058
1100	Excess (Deficiency) of Revenues Over Expenditures	9,738,844	(2,621,171)	(96,962,847)
	Other Financing Sources (Uses):			
7912	Sale Of Real Or Personal Property	32,250	-	-
7913	Proceeds From Leases	28,305	-	-
8949	Property Tax Refunds	(163,961)	(67,864)	-
7080	**Total Other Financing Sources (Uses)**	(103,406)	(67,864)	-
	Extraordinary Items			
7919	Extraordinary Items (Source) - Disaster Recovery	1,058,641	-	-
8913	Extraordinary Items (Use) - Disaster Recovery	(587,133)	-	-
	Total Extraordinatry Items	471,508	-	-
1200	Net Change In Fund Balances	10,106,946	(2,689,035)	(96,962,847)
0100	**Fund Balance - September 1 (Beginning), restated**	9,674,259	24,457,668	166,825,814
3000	**Fund Balance - August 31 (Ending)**	$ 19,781,205	$ 21,768,633	$ 69,862,967

See notes to the financial statements.

WALLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2022

Data Control Codes		Nonmajor Governmental Funds	Total Governmental Funds
	Revenues		
5700	Local and Intermediate Sources	$ 1,104,858	$ 71,292,955
5800	State Program Revenues	519,714	37,257,625
5900	Federal Program Revenues	15,403,905	19,468,278
5020	**Total Revenues**	17,028,477	128,018,858
	Expenditures		
	Current:		
0011	Instruction	6,282,666	52,146,466
0012	Instruction Resources and Media Services	79,765	681,678
0013	Curriculum and Staff Development	1,233,311	2,878,124
0021	Instructional Leadership	167,687	1,499,995
0023	School Leadership	99,665	4,010,649
0031	Guidance, Counseling and Evaluation Services	1,297,989	4,216,951
0032	Social Work Services	17,380	55,655
0033	Health Services	114,833	605,554
0034	Student Transportation	103,688	6,342,900
0035	Food Services	4,769,440	4,769,440
0036	Extracurricular Activities	635,633	2,774,843
0041	General Administration	38,327	2,960,141
0051	Facilities Maintenance and Operations	271,921	7,616,149
0052	Security and Monitoring Services	41,906	751,381
0053	Data Processing Services	298,235	2,753,489
0061	Community Services	105,971	109,502
	Debt Service:		
0071	Principal on Long-Term Debt	-	11,351,379
0072	Interest on Long-Term Debt	-	13,992,378
0073	Bond Issuance Costs and Fees	-	68,453
	Capital Outlay:		
0081	Facilities Acquisition and Construction	3,364	95,941,648
	Intergovernmental:		
0093	Payments Related To Shared Services Arrangements	-	180,718
0095	Payments To Juvenile Justice Alt. Ed. Prgm.	-	3,994
0099	Other Intergovernmental Charges	-	685,849
6030	**Total Expenditures**	15,561,781	216,397,336
1100	Excess (Deficiency) of Revenues Over Expenditures	1,466,696	(88,378,478)
	Other Financing Sources (Uses):		
7912	Sale Of Real Or Personal Property	-	32,250
7913	Proceeds From Leases	-	28,305
8949	Property Tax Refunds	-	(231,825)
7080	**Total Other Financing Sources (Uses)**	-	(171,270)
	Special Item		
7919	Extraordinary Items (Source)	-	1,058,641
8913	Extraordinary Items (Use)	-	(587,133)
		-	471,508
1200	Net Change In Fund Balances	1,466,696	(88,078,240)
0100	**Fund Balance - September 1 (Beginning), restated**	1,444,469	202,402,210
3000	**Fund Balance - August 31 (Ending)**	$ 2,911,165	$ 114,323,970

WALLER INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2022

Data Control Codes		
	Net Change in Fund Balances - Total Governmental Funds	$ (88,078,240)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.	
1	Capitalized expenditures reclassified to assets.	85,837,050
2	Depreciation and amortization expense taken to Statement of Activities.	(6,166,158)
3	Net effect of other retirements and adjustments to capital assets	(719,428)
4	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	361,942
	Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
5	Principal paid on bonds and leases	11,351,379
6	Issuance of leases	(28,305)
	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
7	Increase in interest payable not recognized in the fund statements	18,683
8	Increase in accrued compensated absences payable	(69,164)
9	Amortization of premium/discount	2,177,641
10	Amortization of deferred charge on refunding	(617,291)
11	Changes in net pension liabilities and related deferred outflows and inflows of resources	668,919
12	Changes in net OPEB liabilities and related deferred outflows and inflows of resources	412,974
	Change in Net Position of Governmental Activities	$ 5,150,002

WALLER INDEPENDENT SCHOOL DISTRICT *Exhibit D-1*

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

August 31, 2022

	Business-type Activities
	Enterprise Fund
Assets	
Current assets:	
Cash and cash equivalents	$ 1,069
Total assets	1,069
Liabilities	
Current Liabilities:	
Accounts Payable	$ 6,816
Accrued Expenses	155
Total Liabilities	6,971
Net Position	
Unrestricted	(5,902)
Total Net Position	$ (5,902)

WALLER INDEPENDENT SCHOOL DISTRICT *Exhibit D-2*

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

PROPRIETARY FUNDS

For the Year Ended August 31, 2022

	Business-type Activities
	Enterprise Fund
Operating Revenues	
Local and Intermediate Sources	$ 101,825
Total Operating Revenues	101,825
Operating Expenses	
Payroll Costs	12,233
Supplies and Materials	72,099
Total Operating Expenses	84,332
Operating Income (Loss)	17,493
Net Position (Deficit) - September 1 (Beginning)	(23,395)
Net Position (Deficit) - August 31 (Ending)	$ (5,902)

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended August 31, 2022

	Business-type Activities
	Enterprise Fund
Cash Flows from Operating Activities	
Cash Received from User Charges	$ 101,825
Cash Payments for Suppliers	(100,756)
Net Cash Provided by Operating Activities	1,069
Cash and Cash Equivalents at Beginning of Year	-
Cash and Cash Equivalents at End of Year	$ 1,069
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities	
Operating Income (Loss)	$ 17,493
Change in Assets and Liabilities:	
Decrease (increase) in accounts payable	5,353
Decrease (increase) in accrued liabilities	155
Decrease (increase) in interfund payables	(21,932)
Net Cash Provided by (Used for) Operating Activities	$ 1,069

WALLER INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2022

	Custodial Fund
Assets	
Current Assets:	
Cash and cash equivalents	$ 235,156
Total Assets	$ 235,156
Net Position	
Restricted for student activities	$ 235,156

WALLER INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2022

	Custodial Fund
Additions	
Revenues from student activities	$ 405,651
Total Additions	405,651
Deductions	
Payments for student activities	373,201
Total Deductions	373,201
Change in net position	32,450
Net Position - Beginning, restated	202,706
Net Position - Ending	$ 235,156

See notes to the financial statements.

Note 1 - Summary of Significant Accounting Policies

The Waller Independent School District (the "District") is an independent 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 the registered voters of the District and has fiscal accountability over all activities within the jurisdiction of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in the Statement of Auditing Standards of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

The following is a summary of the most significant accounting policies.

A. Reporting Entity

The District's Board has responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgement for the lawfulexercise of those powers and duties by the Board. The District receives funding from local, state, and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's 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 Waller Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues. *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 and other items not properly included among program revenues are reported instead as *general revenues.*

Interfund activities between governmental funds and between governmental and proprietary funds appear as due to or due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Position. All interfund transactions between governmental funds and between governmental and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to or due from on the government-wide Statement of Net Position.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

B. Government-Wide and Fund Financial Statements (continued)

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, as do the proprietary and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenueas 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. The District considers all revenues available if they are collectible within 60 days after year end.

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

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

The District reports the following major governmental funds:

- G*eneral Fund* - The District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- *Debt Service Fund* - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
- *Capital Projects Fund* - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Additionally, the District reports the following fund type:

Governmental Funds:

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

Proprietary Funds:

- *Enterprise Funds* - The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has one enterprise fund.

- *Internal Service Funds* - Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has no internal service funds.

Fiduciary Funds:

- *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. The District has no Private Purpose Trust Funds.

- *Custodial Fund* - The District accounts for resources held for others in a custodial fund. This fund uses the economic resources measurement focus and accrual basis. The District's Custodial Fund is the Student Activity Fund.

D. Implementation of New Accounting Standards

The following GASB pronouncements were effective during fiscal year 2022.

GASB Statement No. 87 *Leases* was issued in June 2017 and was effective for periods beginning after June 15, 2021. This Statement established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District has evaluated the effects of this Statement and has determined that it does impact to the financial statements. The District has incorporated such leases into its capital assets and long-term liabilities on both the face of the financial statements and the note disclosures.

GASB Statement No. 89 *Accounting for Interest Cost Incurred before the end of a Construction Period,* was issued in June 2018 and was effective for periods beginning after December 15, 2020.This Statement requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost was incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of this Statement should be handled prospectively. The District has evaluated the effects of this Statement and has determined that it does not impact the financial statements.

Note 1 - Summary of Significant Accounting Policies (continued)

D. Implementation of New Accounting Standards (continued)

GASB Statement No. 93 *Replacement of Interbank Offered Rates* was issued in June 2020 and had various effective dates. The Statement establishes accounting and financial reporting requirements related to the replacement of the interbank offered rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. During the current fiscal year paragraphs 13 and 14 were effective and pertained to lease modifications. The District has evaluated the effects of this standard and has determined that this Statement does not impact its financial statements.

GASB Statement No. 97 *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32* was issued in June 2020. This Statement provides guidance regarding the financial reporting of defined contribution pension plans, defined contribution OPEB plans, and other employee benefit plans. The Statement will also enhance (1) information related to Section 457 plans that meet the definition of a pension plan and the benefits provided through those plans and (2) investment information for all Section 457 plans. Paragraphs 4 and 5 of the Statement were effective immediately whereas the remaining requirements of this Statement are effective for periods beginning after June 15, 2021. The District has evaluated the effects of this standard and has determined that this Statement does not impact to the financial statements.

GASB Statement No. 98 *The Annual Comprehensive Financial Report* in October 2021. This Statement establishes the term annual comprehensive financial report and its acronym ACFR. The requirements of the Statement are effective for fiscal years ending after December 15, 2021. The District has evaluated the effects of this standard and has determined that this Statement does not impact its financial statements.

E. Deposits and Investments

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.

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, investment pools, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments, with maturity of three months or less when purchased, to be cash equivalents. For cash management purposes, the District transfers balances to either a money market mutual or an externally pooled investment account. The cash is transferred back to the District as needed.

Investments consist primarily of U.S. government agency securities, commercial paper, and municipal bonds. The District's investments are carried at fair value based on quoted market prices at year end, in accordance with U.S. generally accepted accounting principles. Investments having a maturity of three months or less are reported as cash and cash equivalents. The District categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: 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. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79 *Certain Investment Pools and Pool Participants.*

Note 1 - Summary of Significant Accounting Policies (continued)

F. Receivables and Payables

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

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

G. Inventories and Prepaid Items

Inventories consisting of supplies and materials are stated at cost (average cost method) and they include consumable custodial, maintenance, transportation, instructional and office supplies. Inventories of governmental funds are recorded as expenditures when the supplies and materials are used or consumed (consumption method) rather than when purchased. Inventories of food commodities inventory are recorded at fair market value supplied by the Texas Department of Agriculture on the date received. Commodity inventory items are recorded as expenditures when distributed to individual campuses and revenue is recognized for an equal amount.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements using the consumption method of accounting.

H. Capital Assets

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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Land and construction in progress are not depreciated. Buildings, furniture and equipment, and right-to-use asset of the District are depreciated/amortized using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	20 - 40
Buildings and improvements	20 - 40
Vehicles	10
Office Equipment	5 - 25
Computer Equipment	5 - 25
Right-to-use leased equipment	3 - 5

Note 1 - Summary of Significant Accounting Policies (continued)

I. Long-Term Obligations

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 assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable is reported net of the applicable bond premium or discount.

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

J. Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of financial position as described below:

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

- *Deferred outflows of resources for refunding* **-** Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

- *Deferred outflows of resources for pension* - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments, 2) changes in actuarial assumptions, 3) differences between expected and actual actuarial experiences, and 4) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Note 1 - Summary of Significant Accounting Policies (continued)

J. Deferred Outflows/Inflows of Resources (continued)

- *Deferred outflows of resources for other post-employment benefits (OPEB)* - Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on plan investments, 2) changes in actuarial assumptions, 3) differences between expected and actual actuarial experiences, and 4) changes in the District's proportional share of net OPEB liabilities. The deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on plan investments will be amortized over a closed five-year period. The remaining OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with post-employment benefits through the plan.

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

- *Deferred inflows of resources for unavailable revenues* - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported property taxes that are unavailable as deferred inflows of resources on the fund financial statements.

- *Deferred inflows of resources for pension* - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from 1) differences between projected and actual earnings on pension plan investments, 2) changes in actuarial assumptions, 3) differences between expected and actual actuarial experiences, and 4) changes in the District's proportional share of pension liabilities. The deferred inflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The remaining pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- *Deferred inflows of resources for other post-employment benefits (OPEB)* **-** Reported in the government-wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions, 2) differences between expected and actual actuarial experiences, and 3) changes in the District's proportional share of net OPEB liabilities. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with post-employment benefits through the plan.

K. Pension

The fiduciary net position of 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' 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.

Note 1 - Summary of Significant Accounting Policies (continued)

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

M. Compensated Absences

Eligible employees in positions normally requiring 12 months of service annually shall receive paid vacation days in accordance with administrative regulations that address the following:

- Eligibility criteria;
- Accrual rates and availability;
- Request and approval processes;
- Accumulation and carryover limits; and
- Treatment of vacation days upon separation from service.

N. Fund Balance Classifications

The fund balance in governmental funds has been classified as follows to describe the nature and relative strength of the spending constraints:

- *Non-spendable fund balance* - Represents amounts that are not in spendable form, such as inventory and prepaids, or are required to be maintained intact.

- *Restricted fund balance* - Represents amounts constrained to specific purposes by their providers, such as grantors, bondholders, and higher levels of government, through constitutional provisions, or by enabling legislation.

- *Committed fund balance* - Represents amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority, i.e., Board of Trustees. To be reported as committed, amounts cannot be used for any other purpose unless the District’s Board of Trustees approves the changes by Board Resolution. Fund balance committed in the nonmajor governmental funds during the fiscal year is committed for campus activities.

- *Assigned fund balance* - Represents amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. The Board of Trustees has retained this authority.

- *Unassigned fund balance* - Represents amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District uses the restricted assets first whenever they will have to be returned if they are not used.

Note 1 - Summary of Significant Accounting Policies (continued)

O. Deficit Fund Balance or Net Position

Enterprise fund/business-type activities has a deficit fund balance/net position in the amount of $5,902. The District expects to eliminate this deficit from future revenues.

P. Data Control Codes

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

Q. Use of Estimates

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

R. Stewardship, Compliance, and Accountability

Budgetary Data

The Board of Trustees adopts an appropriated budget for the General Fund, Debt Service Fund, and the Food Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds and then compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in the Required Supplementary Information and the Debt Service Fund and the Food Service Fund Budget reports are presented in Exhibits J-3 and J-2, respectively.

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 after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. The appropriated budgets are prepared by fund and function. Once the budgets have been approved, they can only be amended at the fund and function level by approval of a majority of the members of the Board. 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. Within each fund-level budget, campus and district leaders are assigned expenditure budgets which they plan and control at the function/object level. All budget appropriations lapse at year end. Increasing or decreasing any one of the functional spending categories, or revenue object accounts and other resources require the approval of the Board. The District made several supplemental budgetary revisions throughout the year, primarily in the general fund. Expenditures in function 71 and 72 exceeded budgeted amounts by approximately $21,379 and $6,890, respectively. These amounts were for reclassification of lease payments to principal and interest payments due to the implementation of GASB No. 87, Leases.

Note 1 - Summary of Significant Accounting Policies (continued)

S. Leases

Lessee: The District is a lessee for a noncancellable lease of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of $5,000 or more.

At the commencement of a lease, the District initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

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

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

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

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Note 2 - Deposits and Investments

A. 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. At August 31, 2022, the carrying amount of the District's cash deposits (cash and interest-bearing accounts) was $1,881,541 and the bank balance was $3,131,407. The District's cash deposits at August 31, 2022 were entirely covered by FDIC Insurance or by pledged collateral held by the District's agent bank in the District's name.

B. 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. Waller Independent School District is in substantial compliance with the requirements of the Act and with local policies. Additional policies and contractual provisions governing investments for Waller Independent School District are specified below:

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2022, the district's investments were rated AAA.

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.

Note 2 - Deposits and Investments (continued)

B. Investments (continued)

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 activities, individual major funds, aggregate non-major funds, and fiduciary fund types than they are in the primary government. Usually, this limitation is 20%.

Interest Rate Risk: This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the District does not have a formal investment policy that limits investment maturities as means of managing exposure to fair value losses arising from increasing interest rates.

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.

As of August 31, 2022, the District’s cash and investment balances, the weighted average maturity, and the credit ratings of these investments were as follows:

	Carrying Value	Weighted Average Maturity (Days)	Credit Rating
Governmental Activities			
Cash and deposits	$ 1,645,316	N/A	N/A
Certificates of deposit	2,183,433	229	N/A
Investment Pools			
Lone Star Corporate Overnight Plus Fund	127,851,996	65	AAA
Lone Star Government Overnight Fund	4,127,257	87	AAA
	131,979,253		
Total Investments	134,162,686	68	
Total Governmental Activities	135,808,002		
Business-type Activities:			
Cash and deposits	1,069	N/A	N/A
Total Business-type Activities	1,069		
Fiduciary Funds			
Cash and deposits	235,156	N/A	N/A
Total Fiduciary Funds	235,156		
Total	$ 136,044,227		

Note 3 - Receivables and Unearned Revenues

Receivables as of August 31, 2022, for the District's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total
Governmental activities				
Property Taxes	$ 3,339,134	$ 1,461,644	$ -	$ 4,800,778
Due from other governments	4,143,055	-	3,672,070	7,815,125
Other Receivables	6,180	-	-	6,180
Gross receivables	7,488,369	1,461,644	3,672,070	12,622,083
Less: Allowance for doubtful accounts	(59,624)	(24,266)	-	(83,890)
Net total governmental activities	7,428,745	1,437,378	3,672,070	12,538,193
Net total receivables	$ 7,428,745	$ 1,437,378	$ 3,672,070	$ 12,538,193

Unearned revenue at year end consisted of the following:

	State Entitlements
General fund	$ 27,611
Total Unearned revenue	$ 27,611

Note 4 - Interfund Receivables, Payables, and Transfers

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” The District did not make any transfers for the fiscal year ended August 31, 2022.

As of August 31, 2022, the District's interfund balances were as follows:

	Receivable Fund	
Payable Fund	**General Fund**	**Total**
Nonmajor Governmental Funds	$ 3,220,542	$ 3,220,542
Capital Projects Fund	139	139
Total	$ 3,220,681	$ 3,220,681

Note 5 - Capital Assets

Capital asset activity for the governmental activities of the District for the year ended August 31, 2022, are as follows:

	Balance September 1, 2021 as restated	Additions	(Transfers, Adjustments, and Retirements)	August 31, 2022
Governmental Activities:				
Capital assets, not being depreciated/amortized:				
Land	$ 15,152,974	$ -	$ -	$ 15,152,974
Construction in progress	119,613,832	33,164,533	(118,451,483)	34,326,882
Total Capital assets, not being depreciated/amortized	134,766,806	33,164,533	(118,451,483)	49,479,856
Capital assets, being depreciated/amortized:				
Buildings & Improvements	175,183,286	168,425,274	(1,304,762)	342,303,798
Furniture & Equipment	7,427,657	941,107	(764,274)	7,604,490
Vehicles	12,146,916	1,729,314	(1,504,524)	12,371,706
Right-to-use leased equipment	75,416	28,305	-	103,721
Total Capital assets, being depreciated/amortized	194,833,275	171,124,000	(3,573,560)	362,383,715
Less accumulated depreciation/amortization for:				
Buildings & Improvements	(48,175,697)	(4,601,473)	699,389	(52,077,781)
Furniture & Equipment	(3,546,364)	(601,503)	686,738	(3,461,129)
Vehicles	(8,414,328)	(938,991)	1,468,005	(7,885,314)
Right-to-use leased equipment	-	(24,191)	-	(24,191)
Total Accumulated depreciation/amortization	(60,136,389)	(6,166,158)	2,854,132	(63,448,415)
Governmental Capital Assets	$ 269,463,692	$ 198,122,375	$ (119,170,911)	$ 348,415,156

Depreciation and amortization expense of the governmental activities was charged to the functions/programs as follows:

Function	Depreciation and Amortization Expense
Governmental Activities:	
Instruction	$ 3,684,255
Instructional resources and media services	48,171
Curriculum and staff development	131,779
Instructional leadership	107,212
School leadership	324,921
Guidance, counseling and evaluation services	233,603
Social work services	3,063
Health services	39,272
Student transportation	380,805
Extracurricular activities	162,072
General administration	233,832
Facilities maintenance and operations	563,618
Security and monitoring services	56,779
Data processing services	196,493
Community services	283
Total Governmental Activities	$ 6,166,158

Construction Commitments

The District has active construction projects as of August 31, 2022 including renovations and site improvements. All accumulated resources for capital projects are restricted. At August 31, 2022, estimated construction commitments with contractors were as follows:

Project	Approved Construction Budget	Construction in Progress	Remaining Commitment
Waller Junior High	$ 57,407,080	$ 27,183,104	$ 30,223,976
Renovation of Waller HS to Schultz Junior High	8,390,000	6,213,341	2,176,659
Renovation of Schultz JHS to Holleman ES	5,082,000	832,324	4,249,676
Roberts Road ES Security Vestibule	974,167	98,113	876,054
	$ 71,853,247	$ 34,326,882	$ 37,526,365

Note 6 - Long-Term Liabilities

General Obligation Bonds

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	Original Issuance Amount	Interest Rate (%)	Balance 9/1/21 as restated	Increase	Decrease	Balance 8/31/22	Due in One Year
Refunding Bonds, Series 2012	$ 9,180,000	2.00% to 3.00%	$ 4,665,000	$ -	$ (4,665,000)	$ -	$ -
Refunding Bonds, Series 2013	5,525,000	3.00% to 3.50%	1,900,000	-	(1,275,000)	625,000	300,000
Refunding Bonds, Series 2014	8,500,000	3.00% to 4.00%	4,545,000	-	(1,455,000)	3,090,000	1,515,000
Refunding Bonds, Series 2015	7,180,000	4%	7,180,000	-	-	7,180,000	-
Building Bonds, Series 2016	93,545,000	2.50% to 5.00%	85,465,000	-	(1,530,000)	83,935,000	1,610,000
Building Bonds, Series 2020	205,805,000	2.00% to 5.00%	205,805,000	-	(2,405,000)	203,400,000	2,520,000
Building Bonds, Series 2020A	67,810,000	2.00% to 5.00%	67,810,000	-	-	67,810,000	1,390,000
Total			377,370,000	-	(11,330,000)	366,040,000	7,335,000
Other District Obligations:							
Premium on Bonds			43,854,917	-	(2,177,641)	41,677,276	-
Leases Payable			75,416	28,305	(21,379)	82,342	23,455
Compensated Absences			-	69,164	-	69,164	10,375
Total Other Obligations			43,930,333	97,469	(2,199,020)	41,828,782	33,830
Total District Obligations			$ 421,300,333	$ 97,469	$ (13,529,020)	$ 407,868,782	$ 7,368,830

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2022. Debt service requirements for bonds are as follows:

Year Ending August 31,	Principal	Interest	Totals
2023	$ 7,335,000	$ 13,597,826	$ 20,932,826
2024	7,690,000	13,243,013	20,933,013
2025	7,755,000	12,875,650	20,630,650
2026	8,085,000	12,540,375	20,625,375
2027	8,415,000	12,198,725	20,613,725
2028-2032	55,185,000	53,867,525	109,052,525
2033-2037	68,240,000	40,808,225	109,048,225
2038-2042	73,185,000	28,687,950	101,872,950
2043-2047	82,970,000	15,051,295	98,021,295
2048-2052	47,180,000	2,416,910	49,596,910
	$ 366,040,000	$ 205,287,494	$ 571,327,494

In April 2022, the Board authorized the defeasance and optional redemption of certain outstanding maturities of the District's outstanding Unlimited Tax Refunding Bonds, Series 2012 in the amount of $3,945,000 and the Unlimited Tax Refunding Bonds, Series 2013 in the amount of $985,000 (the "refunded bonds"). On April 14, 2022, there was a deposit to Escrow Fund in the amount of $4,978,058.97 to defease $4,930,000 of the refunded bonds.

Prior Year's Refunding of Long Term Debt

In prior years, the District defeased certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2022, there are no defeased bonds outstanding.

Note 7 – Revenues from Local, Intermediate, and Out-of-State Sources

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

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds	Nonmajor Enterprise Fund
Property Taxes	$ 45,473,224	$ 22,511,064	$ -	$ -	$ 67,984,288	$ -
Tuition and Fees	86,361	-	-	-	86,361	-
Food Service Activity	-	-	-	236,334	236,334	101,825
Rent	62,092	-	-	-	62,092	-
Extracurricular Activities	128,725	-	-	-	128,725	-
Insurance Recovery	709,624	-	-	-	709,624	-
Investment Income	36,456	158,069	832,211	-	1,026,736	-
Donations and gifts	250	-	-	-	250	-
Local Grants	190,021	-	-	868,524	1,058,545	-
Total	$ 46,686,753	$ 22,669,133	$ 832,211	$ 1,104,858	$ 71,292,955	$ 101,825

Note 8 - Leases

In fiscal year 2022, the District reported several leases in accordance with GASB Statement No. 87 *Leases.* The District is the lessee for copiers and postage machines. The District's incremental borrowing rate used to calculate the present value of the lease liability was 7.5% from the financial institution. The ending lease liability as of August 31, 2022 was $82,342. The District is required to make monthly payments of approximately $3,662. The copiers and postage machines have a three-to five-year useful life.

The future principal and interest lease payments as of August 31, 2022, were as follows:

Year Ending August 31	Principal	Interest	Totals
2023	$ 23,455	$ 5,380	$ 28,835
2024	25,276	3,559	28,835
2025	24,935	1,640	26,575
2026	8,113	320	8,433
2027	563	4	567
	$ 82,342	$ 10,903	$ 93,245

Note 9 - 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at https://www.trs.texas.gov/TRS%20Documents/acfr-2021.pdf , selecting About TRS, then Publications, then Financial Reports or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698.

Benefits Provided

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

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

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

Note 9 - Defined Benefit Pension Plan (continued)

Contributions

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

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

	Contribution Rates Fiscal Year	
	2022	**2021**
Member (Employee)	8.00%	7.70%
Non-employer contributing agency (State)	7.75%	7.50%
District	7.75%	7.50%

	Fiscal Year 2022
Employer (District)	$ 2,388,630
Employee (Member)	4,932,574
Non-employer Contributing Entity On-behalf Contributions (State)	3,210,185

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

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

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

In addition to the employer contributions listed above, there is an additional surcharge an employer is subject to.

- All public schools, charter schools, and regional educational service centers must contribute 1.5 percent of the member's salary beginning in fiscal year 2020, gradually increasing to 2 percent 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.

Note 9 - Defined Benefit Pension Plan (continued)

Actuarial Assumptions

The total pension liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Component	Result
Valuation Date	August 31, 2020, rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
Municipal Bond Rate as of August 2020	1.95% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Last year ending August 31 in Projection Period (100 years)	2120
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2020. These assumptions are further described the 2020 TRS ACFR, which includes actuarial valuation report dated November 9, 2020.

Discount Rate

A single discount rate of 7.25 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.25 percent. The projection of 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 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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

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

Note 9 - Defined Benefit Pension Plan (continued)

Discount Rate (continued)

Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2021 are 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	18.00%	3.60%	0.94%
Non-U.S. Developed	13.00%	4.40%	0.83%
Emerging Markets	9.00%	4.60%	0.74%
Private Equity	14.00%	6.30%	1.36%
Stable Value			
Government Bonds	16.00%	-0.20%	0.01%
Absolute Return	0.00%	1.10%	0.00%
Stable Value Hedge Funds	5.00%	2.20%	0.12%
Real Return			
Real Estate	15.00%	4.50%	1.00%
Energy, Natural Resources & Infrastructure	6.00%	4.70%	0.35%
Commodities	0.00%	1.70%	0.00%
Risk Parity	8.00%	2.80%	0.28%
Leverage			
Cash	2.00%	-0.70%	-0.01%
Asset Allocation Leverage	-6.00%	-0.50%	0.03%
Inflation Expectation			2.20%
Volatility Drag[4]			-0.95%
Expected Return	100.00%		6.90%

[1] Absolute Return includes Credit Sensitive Investments.
[2] Target allocations are based on the fiscal year 2021 policy model.
[3] Capital Market Assumptions come from Aon Hewitt as of August 31, 2021.
[4] The volatility drag results from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis

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

	Discount Rate		
	1% Decrease (6.25%)	Current (7.25%)	1% Increase (8.25%)
District's proportional share of the net pension liability	$ 26,308,898	$ 12,039,811	$ 463,250

Note 9 - Defined Benefit Pension Plan (continued)

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

At August 31, 2022, the District reported a liability of $12,039,811 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	$	12,039,811
State's proportionate share that is associated with the District		19,414,825
Total	$	31,454,636

The District's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2020 through August 31, 2021.

At August 31, 2022, the District's proportion of the collective net pension liability was 0.0473% which was a decrease of 0.0001% from its proportion measured as of August 31, 2020.

All future statutorily required contributions will be made from the General Fund.

Changes Since the Prior Actuarial Valuation

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

For the year ended August 31, 2022, the District recognized pension expense of $1,718,842. The District also recognized an additional on-behalf revenue and expense of $77,618 representing for support provided by the State.

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

	Deferred Outflows of Resources		Deferred Inflows of Resources	
Differences between expected and actual experience	$	20,148	$	(847,612)
Changes in assumptions		4,255,838		(1,855,180)
Net difference between projected and actual earnings on pension plan investments		-		(10,095,225)
Changes in proportion and differences between District contributions and proportionate share of contributions		2,598,447		(198,926)
District contributions subsequent to the measurement date		2,388,629		-
Total	$	9,263,062	$	(12,996,943)

Note 9 - Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions (continued)

Deferred outflows of resources resulting from District contributions subsequent to the measurement date in the amount of $2,388,629 will be recognized as a reduction of the net pension liability in the year ended August 31, 2023. 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:

Year ended August 31,	Pension Expense Amount
2023	$ (724,681)
2024	(770,656)
2025	(1,741,377)
2026	(2,826,058)
2027	(34,552)
Thereafter	(25,186)
	$ (6,122,510)

Note 10 - Defined Other Post-Employment Benefit Plans

Plan Description

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

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

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2021.pdf, or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

Benefits Provided

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

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

Note 10 - Defined Other Post-Employment Benefit Plans (continued)

Benefits Provided (continued)

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

TRS-Care Monthly for Retirees	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 TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

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

	Contribution Rates	
	2022	2021
Member	0.65%	0.65%
Non-employer contributing agency	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding	1.25%	1.25%

	Fiscal Year 2022
Employer (District)	$ 544,668
Employee (Member)	400,768
Non-employer Contributing Entity On-behalf Contributions (State)	941,010

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

Note 10 - Defined Other Post-Employment Benefit Plans (continued)

Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2021. 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. In addition to the demographic assumptions, salary increases and inflation rates used for members of TRS are identical to the assumptions employed in the August 31, 2021 TRS annual pension actuarial valuation.

The rates of mortality, retirement, termination and disability incidence are identical to the assumptions used to value the pension liabilities of the Teacher Retirement System of Texas (TRS). The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017. The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables. The rates were projected on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018.

Component	**Result**
Valuation Date	August 31, 2020, rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	1.95% as of August 31, 2021
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs.
Projected Salary Increases	3.05% to 9.05% including inflation
Healthcare Trend Rates	The initial medical trend rates were 8.50 percent for Medicare retirees and 7.10 percent for non-Medicare retirees. There was an initial prescription drug trend rate of 8.50 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 percent over a period of 12 years.
Election Rates	Normal Retirement: 65 percent participation rate prior to age 65 and 40 percent participation rate after age 65. Pre-65 retirees: 25 percent are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

Note 10 - Defined Other Post-Employment Benefit Plans (continued)

Discount Rate

The plan is a pay-as-you-go plan. As such, a single discount rate must be used that is equal to the prevailing municipal bond rate. The single discount rate changed from 2.33 percent as of August 31, 2020 to 1.95 percent, as of August 31, 2021. This change increased the Total OPEB Liability. The following presents the Net OPEB Liability of the plan using the discount rate for 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher, as well as what the Net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower, .95 percent or one percentage point higher, 2.95 percent, than the AA/Aa rate. 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."

Discount Rate Sensitivity Analysis

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

		Discount Rate	
	1% Decrease (0.95%)	Current Rate (1.95%)	1% Increase (2.95%)
District's proportionate share of the Net OPEB Liability	$ 29,712,815	$ 24,632,785	$ 20,634,636

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

At August 31, 2022, the District reported a liability of $24,632,785 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	$ 24,632,785
State's proportionate share that is associated with District	33,002,442
Total	$ 57,635,227

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

At August 31, 2021, the District's proportion of the collective Net OPEB Liability was 0.0639% which was an increase of 0.0001% from its proportion measured as of August 31, 2020.

All future statutorily required contributions will be made from the General Fund.

Note 10 - Defined Other Post-Employment Benefit Plans (continued)

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEBs (continued)

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

	Healthcare Cost Trend Rate		
	1% Decrease	Current	1% Increase
District's proportionate share of the Net OPEB Liability	$ 19,951,739	$ 24,632,785	$ 30,913,585

Changes Since the Prior Actuarial Valuation

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

For the year ended August 31, 2022, the District recognized OPEB expense of $131,697. The District also recognized negative on-behalf expense and revenue of $1,218,042 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 1,060,558	$ (11,923,991)
Changes in actuarial assumptions	2,728,370	(5,209,378)
Difference between projected and actual investment earnings	26,744	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5,610,261	-
Contributions paid to TRS subsequent to the measurement date	544,668	-
Total	$ 9,970,601	$ (17,133,369)

The $544,668 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending August 31, 2023. 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:

Year ended August 31:	OPEB Expense Amount
2023	$ (1,641,183)
2024	(1,641,786)
2025	(1,641,621)
2026	(993,225)
2027	(115,397)
Thereafter	(1,674,224)
	$ (7,707,436)

Note 10 - Defined Other Post-Employment Benefit Plans (continued)

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2022, 2021, and 2020, the subsidy payments received by TRS-Care on-behalf of the District were $245,505, $272,780, and $254,556, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Note 11 - Accumulated Unpaid Vacation and Sick Leave Benefits

The balance of accumulated unpaid vacation and sick leave at August 31, 2022 was $69,164 and is presented as other long-term liabilities in the these financial statements.

Note 12 - Extraordinary Item – Disaster Recovery

During the fiscal year, District's facilities experienced damage due to frozen pipes and leaking roofs as the result of the historic winter weather event that occurred in February 2021. The extraordinary gain of $471,508 is the net of insurance recovery in the amount of $1,058,641 and the total expenditures of $587,133.

Note 13 - Prior Period Adjustments

In the current year, the following corrections came to the attention of management that necessitated adjusting beginning fund balance/net position for the following activities. The effect of these corrections is summarized as follows:

	Governmental Activities	Custodial Fund	Nonmajor Governmental Funds	Campus Acitivity Fund
Fund Balance/Net position at August 31, 2021, as previously reported	$ 8,186,399	$ 436,407	$ 1,210,768	$ -
Prior period adjustment:				
GASB No. 84 correction	233,701	(233,701)	233,701	233,701
Fund Balance/Net position at September 1, 2021, as restated	$ 8,420,100	$ 202,706	$ 1,444,469	$ 233,701

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

HUNTON
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August 22, 2023

WE HAVE ACTED as Bond Counsel for the Waller Independent School District (the "District") in connection with an issue of bonds (the "Bonds") described as follows:

WALLER INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023A, dated August 1, 2023, in the aggregate principal amount of $187,400,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the "Order") adopted by the Board of Trustees of the District authorizing their issuance.

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 and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District; 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. We have also examined executed Bond No. ICI-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. 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. 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.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(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 enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy,

insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

(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 all taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that under current law and subject to the restrictions hereinafter described, interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum tax and (c) may have to be taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. The opinion in (a) and (b) of the preceding sentence is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order that interest thereon not be included in gross income for federal income tax purposes. Failure by the District to comply with the Covenants (as defined below), among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. The District may in its discretion, but has not covenanted to, take any and all such actions as may be required by future changes in the Code and applicable regulations in order that interest on the Bonds remain excludable from gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters.

IN PROVIDING THE FOREGOING OPINIONS, Without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the District as to certain facts relevant to both our opinion and requirements of the Code. The District has covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents relating to the issuance of the Bonds (the “Covenants”).

IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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

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APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

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

History and Purpose

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

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

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

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

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

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

Management and Administration of the Fund

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

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

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

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

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

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

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

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

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

Management Transition to the PSF Corporation

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

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

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

At the inaugural meeting of the PSFC Board in January 2022, the PSFC Board appointed the Executive Administrator of the Fund as the interim chief executive officer of the PSF Corporation and in April 2022 the Executive Administrator of the Fund was confirmed as the chief executive officer of the PSF Corporation. In July 2023, the PSFC Board appointed an Acting chief executive officer to perform those duties while the PSFC Board conducts a search to hire a permanent replacement for the chief executive officer who retired a the end of March. The PSFC Board adopted bylaws governing how it will manage its affairs and conduct business. The chief executive officer reports to the PSFC Board. Any amendments to the PSF Corporation's articles of formation and bylaws will be adopted by the PSFC Board but are subject to approval by the SBOE. At its March 2023 meeting, the PSFC Board approved its securities lending policy.

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

The SLB's investments in real estate investment funds and real asset investment funds will transfer to the PSF Corporation. Beginning December 31, 2022, the SLB is no longer authorized to make investments into funds; however, the SLB will still be able to invest in land, mineral and royalty interests, and individual real estate holdings;

the SLB will also be required to send PSF mineral revenue to the PSF Corporation for investment, subject to designation via the appropriations process to cover GLO expenses of managing the minerals.

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

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

Annual Distributions to the Available School Fund[1]

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

[1] In millions of dollars. Source: PSF Annual Report for year ended August 31, 2022.
[2] In September 2020, the SBOE approved a special, one-time transfer of $300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

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

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

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

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

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

Asset Allocation of Fund Portfolios

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

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

PSF 2022 Strategic Asset Allocations

	PSF(SBOE)	PSF(SLB)	Liquid Account
Equity Total	55%	0%	77%
Public Equity Total	37%	0%	77%
Large Cap US Equity	14%	0%	38%
Small/Mid Cap US Equity	6%	0%	10%
International Equities	14%	0%	29%
Emerging Markets Equity	3%	0%	0%
Private Equity	18%	0%	0%
Fixed Income Total	22%	0%	21%
Core Bonds	12%	0%	16%
Non-Core Bonds (High Yield & Bank Loans)	4%	0%	0%
Emerging 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%
Total Equity	37%	
Fixed Income		
Core Bonds	11%	+/- 2.0%
Non-Core Bonds (High Yield & Bank Loans)	3%	+/- 3.0%
Emerging Market Debt (Local Currency)	2%	+/- 2.0%
U.S. Treasuries	2%	+/- 2.0%
Total Fixed Income	18%	
Cash Equivalents	0%	
Alternatives		
Absolute Return	6%	+/- 1.0%
Private Equity	15%	+/- 4.0%
Real Estate	12%	+/- 4.0%
Emerging Manager Program (Private Equity/Real Estate)	1%	+/- 1.0%
Real Return (Commodities & U.S. Treasury Inflation Protected Securities (TIPS))	4%	+/- 1.5%
Private Real Assets – Natural Resources	3%	+/- 2.0%
Private Real Assets - Infrastructure	4%	+/- 2.0%
Total Alternatives	45%	

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

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

Comparative Investment Schedule - PSF(SBOE)[1]

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

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

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

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

Liquid Account Fair Value at August 31, 2022[1]

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

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

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

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

Comparative Investment Schedule - PSF(SLB)

	Fair Value (in millions) August 31, 2022 and 2021			
	As of 8-31-22	As of 8-31-21	Increase (Decrease)	Percent Change
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	1,921.2	1,276.8	644.4	50.5%
Internally Managed Direct Real Estate Investments	271.5	223.9	47.6	21.3%
Total Discretionary Real Assets Investments	6,534.0	4,860.5	1,673.5	34.4%
Dom. Equity Rec'd as In-Kind Distribution	-	1.7	(1.7)	-100.0%
Sovereign and Other Lands	428.3	405.4	22.9	5.6%
Mineral Interests	5,622.2	2,720.4	2,901.8	106.7%
Cash at State Treasury[2]	1,257.5	699.2	558.3	79.8%
Total PSF(SLB) Investments	$13,842.0	$8,687.2	$5,154.8	59.3%

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

As of July 2023 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 7.36%. At July 31, 2023, there were 184 active open-enrollment charter schools in the State and there were 1,103 charter school campuses authorized under such charters, though as of such date, 208 of such campuses are not currently serving students for various reasons; therefore, there are 895 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

Date	Multiplier
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

Since December 16, 2009, the IRS Limit was a static limit set at 500% of the total cost value of the assets held by the PSF as of December 16, 2009; however, on May 10, 2023, the IRS released Notice 2023-39 (the "IRS Notice"), stating that the IRS would issue regulations amending the existing regulations to amend the calculation of the IRS limit to 500% of the total cost value of assets held by the PSF as of the date of sale of new bonds. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS Limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provided that the IRS Notice may be relied upon for bonds sold on or after May 10, 2023, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

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

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

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

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

With the change in the Capacity Reserve from 5% to 0.25%, effective March 1, 2023, as discussed above, and the change in the IRS Limit making the State Capacity Limit the current Capacity Limit, the net Guarantee Program capacity as of June 30, 2023 is $152,556,827,260. No representation is made as to how the capacity will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. If the amount of guaranteed bonds approaches the State Capacity Limit, the SBOE or Education Commissioner may increase the State Capacity Limit multiplier as discussed above.

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of September 1, 2017 and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the Capacity Limit <u>less</u> 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 <u>prior to</u> the subtraction of the outstanding bond guarantees, thereby increasing the CDBGP Capacity.

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At June 30, 2023, the Charter District Reserve Fund contained $90,293,027, which represented approximately 2.23% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

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

As a general rule, the operation of a charter school involves fewer State requirements and regulations for charter holders as compared to other public schools, but the maintenance of a State-granted charter is dependent upon on-going compliance with State law and regulations, which are monitored by TEA. TEA has a broad range of enforcement and remedial actions that it can take as corrective measures, and such actions may include the loss of the State charter, the appointment of a new board of directors to govern a charter district, the assignment of operations to another charter operator, or, as a last resort, the dissolution of an open-enrollment charter school. Charter holders are governed by a private board of directors, as compared to the elected boards of trustees that govern school districts.

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

Infectious Disease Outbreak

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency's essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event.

Circumstances regarding the COVID-19 pandemic continue to evolve; for additional information on these events in the State, reference is made to the website of the Governor, https://gov.texas.gov/, and, with respect to public school events, the website of TEA, https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of February 2023, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

Ratings of Bonds Guaranteed Under the Guarantee Program

Moody's Investors Service, Inc., S&P Global Ratings and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for multiple ratings on their bonds, however. See the applicable rating section within the Official Statement to which this is attached for information regarding a district's underlying rating and the enhanced rating applied to a given series of bonds.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

Permanent School Fund Guaranteed Bonds

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

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

[2] At August 31, 2022 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $156,825,227,335, of which $53,585,731,406 represents interest to be paid. As shown in the table above, at August 31, 2022, there were $103,239,495,929 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of $152,556,827,260 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of June 30, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of June 30, 2023, the amount of outstanding bond guarantees represented 70.06% of the Capacity Limit (which is currently the State Capacity Limit). June 30, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category[(1)]

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

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.
(2) At June 30, 2023 (based on unaudited data, which is subject to adjustment), there were$107,163,538,633 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,424 school district issues, aggregating $103,112,917,633 in principal amount and 107 charter district issues, aggregating $4,050,621,000 in principal amount. At June 30, 2023 the projected guarantee capacity available was $30,224,526,888 (based on unaudited data, which is subject to adjustment).

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

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

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

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

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

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

Portfolio	Return	Benchmark Return[2]
Total PSF(SBOE) Portfolio	(6.80)%	(6.37)%
Domestic Large Cap Equities(SBOE)	(11.08)	(11.23)
Domestic Small/Mid Cap Equities(SBOE)	(10.96)	(10.90)
International Equities(SBOE)	(19.72)	(19.52)
Emerging Market Equity(SBOE)	(22.85)	(21.80)
Fixed Income(SBOE)	(12.16)	(11.52)
Treasuries	(22.82)	(22.64)
Absolute Return(SBOE)	(0.55)	(5.66)
Real Estate(SBOE)	23.31	20.56
Private Equity(SBOE)	3.17	8.43
Real Return(SBOE)	2.98	3.09
Emerging Market Debt(SBOE)	(17.95)	(19.43)
Liquid Large Cap Equity(SBOE)	(10.39)	(11.23)
Liquid Small Cap Equity(SBOE)	(10.63)	(10.90)
Liquid International Equity(SBOE)	(19.34)	(19.52)
Liquid Short-Term Fixed Income(SBOE)	(4.27)	(4.01)
Liquid Core Bonds(SBOE)	(11.30)	(11.52)
Liquid TIPS(SBOE)	(5.78)	(5.98)
Liquid Transition Cash Reserves(SBOE)	1.65	0.38
Liquid Combined(SBOE)	(10.24)	(10.88)
PSF(SLB)	(32.29)	N/A

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

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

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

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

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

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

At the end of the 2022 fiscal year, PSF assets guaranteed $103.2 billion in bonds issued by 898 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 8,554 school district and charter district bond issues totaling $239.7 billion in principal amount. During the 2022 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,442. The dollar amount of guaranteed school and charter bond issues outstanding increased by $7.98 billion or 8.4%. The State Capacity Limit increased by $13.3 billion, or 9.8%, during fiscal year 2022 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2022 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two capacity limits for the Guarantee Program.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. As part of the Regulatory Recodification, the PSF Corporation developed its own ethics policy as required by SB 1232, which provides basic ethical principles, guidelines, and standards of conduct 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.

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 APPENDIX D. 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.