

PRELIMINARY OFFICIAL STATEMENT

Dated January 17, 2024

Ratings:

Moody's: "Aaa"/"A1"

PSF Guaranteed

**(See "OTHER INFORMATION –
Ratings" & "APPENDIX C - THE
PERMANENT SCHOOL FUND
GUARANTEE PROGRAM" herein)**

NEW ISSUE - Book-Entry-Only

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

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$182,740,000*

WYLIE INDEPENDENT SCHOOL DISTRICT

(Taylor County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

Dated Date: January 15, 2024

Due: February 15, as shown on Page 2

Interest Accrual Date: Delivery Date, defined below

PAYMENT TERMS . . . Interest on the \$182,740,000* Wylie Independent School District Unlimited Tax School Building Bonds, Series 2024 (the "Bonds") will accrue from February 21, 2024* (the "Delivery Date"), will be payable on February 15 and August 15 of each year commencing on August 15, 2024, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal of 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" herein. The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1371, Texas Government Code, as amended, Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Wylie Independent School District (the "District") on November 7, 2023 (the "Election"), and an order (the "Bond Order") to be adopted by the Board of Trustees (the "Board") of the District on January 8, 2024, in which the Board will delegate pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve and execute a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS - Authority for Issuance"). **An application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) District-wide safety and security improvements and facility renovations; technology infrastructure; expanding Wylie High School; a new elementary campus; expanding East Intermediate Campus; artificial turf at play fields; new tennis facilities; improvements to baseball/softball fields; paving and parking improvements; the purchase of necessary sites for school facilities; the purchase of school buses and vehicles; (ii) acquiring and updating instructional technology devices and (iii) for the payment of the costs associated with the issuance of the Bonds.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriters identified below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see APPENDIX D, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about February 21, 2024*.

PIPER SANDLER & CO.

**BOK FINANCIAL SECURITIES, INC.
SAMCO CAPITAL**

**FROST BANK
STEPHENS INC.**

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: 983069⁽¹⁾

<u>Amount</u>	<u>Maturity (2-15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Amount</u>	<u>Maturity (2-15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 400,000	2025				\$ 6,295,000	2040			
1,750,000	2026				6,615,000	2041			
2,340,000	2027				6,955,000	2042			
2,460,000	2028				7,315,000	2043			
2,580,000	2029				7,690,000	2044			
2,715,000	2030				8,080,000	2045			
2,855,000	2031				8,495,000	2046			
3,000,000	2032				8,930,000	2047			
3,155,000	2033				9,390,000	2048			
3,315,000	2034				9,870,000	2049			
3,485,000	2035				10,380,000	2050			
3,670,000	2036				10,910,000	2051			
3,850,000	2037				11,470,000	2052			
4,050,000	2038				12,060,000	2053			
5,985,000	2039				12,675,000	2054			

(Interest to accrue from the Delivery Date)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor nor the Underwriters take any responsibility for the selection or correctness of the CUSIP numbers set forth herein.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities 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 (see “THE BONDS – Optional Redemption”).

* Preliminary, subject to change.

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

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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 appendices attached hereto, to obtain information essential to making an informed investment decision.

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.

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 OR ITS BOOK-ENTRY ONLY SYSTEM OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND THE TEA, RESPECTIVELY.

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

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

PRELIMINARY 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 Wylie Independent School District (the “District”) is a political subdivision located in Taylor County, Texas. The District is approximately 138.41 square miles in area (see “INTRODUCTION – Description of the District”).

THE BONDS..... The \$182,740,000* Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”) are issued as serial bonds maturing on February 15 in the years 2025 through 2054 (see “THE BONDS – Description of the Bonds”).

PAYMENT OF INTEREST Interest on the Bonds accrues from the date of their delivery to the Underwriters and is due semiannually on February 15 and August 15 of each year commencing on August 15, 2024, until maturity or prior redemption (see “THE BONDS – Description of the Bonds” and “THE BONDS – Optional Redemption”).

AUTHORITY FOR ISSUANCE The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1371, Texas Government Code, and Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on November 7, 2023, and a bond order (the “Bond Order”) to be adopted by the Board of Trustees of the District (the “Board”) on January 8, 2024, in which the Board will delegate pricing of the Bonds and certain other matters to a “Pricing Officer” who will approve a “Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS – Authority for Issuance”).

SECURITY FOR THE BONDS The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, an application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS – Security and Source of Payment”).

PERMANENT SCHOOL FUND

GUARANTEE The District has applied for and has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

OPTIONAL REDEMPTION The District reserves the right, at its option, to redeem Bonds having stated maturities 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 the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed (see “THE BONDS – Optional Redemption”). Additionally, the Bonds will be subject to mandatory sinking fund redemption if the Underwriter elects to combine two or more of the serial maturities into one or more term bonds.

TAX EXEMPTION In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used for (i) District-wide safety and security improvements and facility renovations; technology infrastructure; expanding Wylie High School; a new elementary campus; expanding East Intermediate Campus; artificial turf at play fields; new tennis facilities; improvements to baseball/softball fields; paving and parking improvements; the purchase of necessary sites for school facilities; the purchase of school buses and vehicles; (ii) acquiring and updating instructional technology devices and (iii) for the payment of the costs associated with the issuance of the Bonds.

* Preliminary, subject to change.

RATINGS The Bonds are expected to be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), by virtue of the guarantee of the Bonds by the Texas Permanent School Fund, as Moody's generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa". See "APPENDIX – C THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The District has also made application to Moody's for a rating on the Bonds without regard to credit enhancement and the Bonds have been assigned an underlying rating of "A1" by Moody's (see "OTHER INFORMATION - Ratings" and "APPENDIX C -THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

BOOK-ENTRY-ONLY

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

PAYMENT RECORD The District has never defaulted in payment of its tax supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population	Taxable Assessed Valuation ⁽³⁾	Per Capita Taxable Assessed Valuation	Unlimited Tax Supported Outstanding Debt at Fiscal Year End ⁽⁴⁾	Limited Tax Supported Outstanding Debt at Fiscal Year End ⁽⁵⁾	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2020	18,769 ⁽¹⁾	\$ 2,177,783,459	\$ 116,031	\$ 47,945,000	\$ 3,635,000	\$ 2,554	2.20%	99.59%
2021	25,911 ⁽¹⁾	2,387,450,725	92,140	44,935,000	3,165,000	1,734	1.88%	99.21%
2022	26,401 ⁽¹⁾	2,505,472,486	94,901	41,260,000	2,680,000	1,563	1.65%	100.36%
2023	26,959 ⁽¹⁾	2,793,245,044	103,611	38,120,000	2,180,000	1,414	1.36%	98.60% ⁽⁷⁾
2024	28,000 ⁽²⁾	2,983,110,742	106,540	217,585,000 ⁽⁶⁾	1,660,000	7,771	7.29%	NA

- (1) Fiscal Years Ended 2020 and 2021 figures provided by the U.S. Census Bureau. Fiscal Years Ended 2022 and 2023 are calculated using a factor number of 5.518 (which is based on the 2021 population figure divided by 2021 ADA received from the TEA) multiplied by the current year ADA as provided by the TEA.
- (2) Source: District Officials.
- (3) As reported by the Appraisal District (defined herein) on the District's Annual State Property Tax Reports; subject to change during the ensuing year.
- (4) Unlimited Tax Debt includes obligations payable from the District's unlimited tax for bonded indebtedness.
- (5) Limited Tax Debt includes obligations payable from the District's limited maintenance and operations tax.
- (6) Projected, includes the Bonds. Preliminary, subject to change.
- (7) Preliminary information provided by District Staff.

For additional information regarding the District, please contact:

Joey Light Superintendent Wylie Independent School District 6251 Buffalo Gap Road Abilene, Texas 79606 (325) 692-4353	or	Nick Bulaich Hilltop Securities Inc. 777 Main Street, Suite 1525 Fort Worth, Texas 76102 (817) 332-9710
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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Mrs. Miller Loudermilk President Member, Place 3	4 Years	May, 2025	Real Estate Agent
Mr. Brad Hill Vice President Member, Place 4	3 Years	May, 2026	Senior Bank Vice-President
Mr. Cameron Wiley Secretary Member, Place 7	3 Years	May, 2024	US Air Force
Mr. Mike Awtry Member, Place 2	9 Years	May, 2025	Pharmaceutical Sales Rep
Mrs. Laura Donaway Member, Place 1	1 Year	May, 2025	Retired
Mr. Andy Stanton Member, Place 6	3 Years	May, 2024	Self-Employed
Mrs. Megan Stephenson Member, Place 5	1 Year	May, 2026	Family Nurse Practitioner

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Total School District Service</u>
Joey Light	Superintendent	15 Years	41 Years
Kathryn Glackmeyer	Business Manager	1 Year	1 Year

CONSULTANTS AND ADVISORS

Auditors EideBailly
Abilene, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor.....Hilltop Securities Inc.
Fort Worth, Texas

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$182,740,000*
WYLIE INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$182,740,000* Wylie Independent School District Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (hereinafter defined) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Wylie Independent School District (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 from the District's Financial Advisor, Hilltop Securities Inc., Fort Worth, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement (defined herein) will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE INFORMATION” for a description of the District’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE DISTRICT . . . The Wylie Independent School District (the “District”) is a political subdivision located in Taylor County, Texas. The District is governed by a seven-member Board of Trustees (the “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 covers approximately 138.41 square miles encompassing a small portion of the City of Abilene. For more information regarding the District, see “Appendix A – General Information Regarding the District.”

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be dated January 15, 2024 and will mature on the dates and in the amounts shown on page 2 of this Official Statement. Interest will accrue from the date of their delivery to the Underwriters and will be computed on the basis of a 360-day year of twelve 30-day months. Such interest will be payable on February 15 and August 15, commencing on August 15, 2024, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS - Book-Entry-Only System” herein.

If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when 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.

AUTHORITY FOR ISSUANCE . . . The Bonds are authorized and issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 1371, Texas Government Code, as amended, and Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended; an election held in the District on November 7, 2023, and a bond order (the “Bond Order”) to be adopted by the Board on January 8, 2024, in which the Board will delegate pricing of the Bonds and certain other matters to a “Pricing Officer” who will approve and execute a “Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”).

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. Additionally, the District has applied for and has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas.

* Preliminary, subject to change.

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 (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed in "APPENDIX – C -THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default by the District in the scheduled payments of the Bonds, registered owners will receive all payments due from the corpus of the Permanent School Fund.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) District-wide safety and security improvements and facility renovations; technology infrastructure; expanding Wylie High School; a new elementary campus; expanding East Intermediate Campus; artificial turf at play fields; new tennis facilities; improvements to baseball/softball fields; paving and parking improvements; the purchase of necessary sites for school facilities; the purchase of school buses; (ii) vehicles and acquiring and updating instructional technology devices and (iii) for the payment of the costs associated with the issuance of the Bonds.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities 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 the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. Additionally, the Bonds will be subject to mandatory sinking fund redemption if the Underwriter elects to combine two or more of the serial maturities into one or more term bonds.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar 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. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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

DEFEASANCE . . . The Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has

additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that “Defeasance Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

The Pricing Officer may restrict the categories of eligible Defeasance Securities in connection with the pricing of the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

Upon defeasance, such defeased Bonds shall no longer be regarded to be Outstanding or unpaid and the Bonds will no longer be guaranteed by the Texas Permanent School Fund.

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

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

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

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

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

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

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

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

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying

Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable, but neither the District nor the Underwriters take any responsibility for the accuracy thereof.

*Effect of Termination of Book-Entry-Only System...*In the event that the Book-Entry-Only System is discontinued, printed certificates 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" below.

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. 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 bank or trust company, financial institution, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity or, upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of principal of the Bonds and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System" above.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates 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 designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal amount 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. The Paying Agent/Registrar shall not be required to make any transfer or exchange of Bonds during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or, with respect to any Bond or any portion thereof called for redemption prior to maturity, within 30 days prior to its redemption date; provided, however, such limitation on transfer shall not be applicable to an exchange by the Registered Owner of an unredeemed balance of a Bond called for redemption in part.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

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 (“Special Payment Date”, which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS’ REMEDIES . . . The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Chapter 1371, Texas Government Code, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, and therefore, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See “APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of Bonds	\$ -
Initial Reoffering Premium	-
Total Sources of Funds	<u>\$ -</u>
 <u>Uses of Funds</u>	
Deposit to Construction Fund	\$ -
Deposit to Capitalized Interest/Debt Service Fund	-
Costs of Issuance ⁽¹⁾	-
Total Uses of Funds	<u>\$ -</u>

(1) Includes Underwriter's Discount.

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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 C – 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 C 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 “State Legislature”) from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State 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 State Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) (“Morath”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the State 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State Legislature to cure the system’s unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”), which prohibit the enactment of laws that impair prior obligations of contracts.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW

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

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not levy an M&O tax rate for the purpose of creating a surplus in M&O tax revenues for the purpose of paying the school district's debt service. School districts are required 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.

2023 REGULAR AND SPECIAL LEGISLATIVE SESSIONS

The regular session of the 88th Texas Legislature began on January 10, 2023 and adjourned on May 29, 2023. The Texas Legislature (the "Legislature") meets in regular session in odd numbered years for 140 days. During the 88th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Legislation enacted by the Legislature fully-funded the Foundation School Program for the 2023-2024 State fiscal biennium and increased the state guaranteed yield on the first \$0.08 cents of tax effort beyond a school district's Maximum Compressed Tax Rate (as defined herein) to \$126.21 per penny of tax effort per student in WADA (as defined herein) in 2024 (from \$98.56 in 2023) and \$129.52 per penny of tax effort per student in WADA in 2025. See "– State Funding for School Districts – Tier Two." The Legislature also provided for an increase in funding for the school safety allotment to \$10.00 (from \$9.72 in the prior year) per ADA (as defined herein) and \$15,000 per campus. The Legislature set aside approximately \$4,000,000,000 in additional funding for public education contingent on certain legislation passing in future special sessions. However, the Legislature did not take action on such funding during either the first, second or third called special sessions of the 88th Texas Legislature.

When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded four special sessions during the 88th Texas Legislature (such special sessions, together with the 88th Regular Session, the "2023 Legislative Sessions"). During the second called special session, legislation was passed, and at an election held in the State on November 7, 2023, voters approved a State constitutional amendment that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased 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 increase in the mandatory homestead exemption; (iii) adjusted 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) prohibited 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) established 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 (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded 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 authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. This legislation reduces the amount of property taxes paid by homeowners and businesses and increases the State's share of the cost of funding public education.

As described above, the Governor called four special sessions and may call additional special sessions. The proclamation for the fourth called special session, which has adjourned, included the consideration of (i) "legislation relating to primary and secondary education, including the establishment of an education savings account program, the certification, compensation, and health coverage of certain public school employees, the public school finance system, special education in public schools, measures to support the education of public school students that include certain educational grant programs, reading instruction, and early childhood education, the provision of virtual education, and public school accountability;" and (ii) "legislation related to school safety measures and related state funding mechanisms." During any additional called special session, 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 additional legislation that may be considered during any additional called special sessions or the potential impact of such legislation at this time.

LOCAL FUNDING FOR SCHOOL DISTRICTS

A school district's M&O tax rate is composed of two distinct parts: the "Tier One Tax Rate," which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as "Tier One") under the Foundation School Program, as further described below, and the "Enrichment Tax Rate," which is any local M&O tax effort in excess of its Tier One Tax Rate. 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" is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2024, the State Compression Percentage is set at 68.80%.

Maximum Compressed Tax Rate. The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is set to 90% of the maximum MCR until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2023 Legislative Sessions, the Legislature took action to reduce the maximum MCR for the 2023-2024 school year, establishing \$0.6880 as the maximum rate and \$0.6192 as the floor. The reduction in MCR was approved by voters at an election held on November 7, 2023. See "- 2023 Regular and Special Legislative Sessions."

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 the given year. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

STATE FUNDING FOR SCHOOL DISTRICTS

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district 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 public school finance system also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2024-2025 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics, 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 the allotments that are not derived by a weighted formula, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

For the 2023-2024 school year, the fast growth allotment weight is 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 \$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 2024-2025 State fiscal biennium, school districts are guaranteed a yield of \$126.21 per student in WADA in 2024 and \$129.52 per student in WADA in 2025 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 2024-25 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 2024-2025 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 2024-2025 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 2024-2025 State fiscal biennium on new bonds issued by school districts in the 2024-2025 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption from \$40,000 to \$100,000. See “— 2023 Regular and Special Legislative Sessions.” Hold-harmless applies only to bonds authorized by voters prior to September 1, 2023.

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. During the 2023 Legislative Sessions, the Legislature appropriated funds in the amount of \$100,000,000 for each fiscal year of the 2024-2025 State fiscal biennium for NIFA allotments.

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

Furthermore, “property-wealthy” school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through the 2023-2024 school year in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year. Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. Furthermore, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a year school under the formula transition grant exceeds \$400 million, the Commissioner shall proportionately reduce each district’s or school’s allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district’s Tier One Tax Rate and Copper Pennies in excess of the school district’s respective funding entitlements (a “Chapter 49 school district”), is subject to the local revenue reduction provisions contained in Chapter 49 of 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 in excess of entitlement, Chapter 49 school districts are generally subject to a process known as “recapture,” which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district’s funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption “Options for Local Revenue Levels in Excess of Entitlement.” Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

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

CURRENT PUBLIC 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 status as to any excess local revenue in Tier One and its wealth per student for Copper Penny purposes in Tier Two must be tested for each future school year and, if it exceeds the maximum permitted levels, the excess must be reduced by exercising one of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district’s combined property tax base, and the District’s ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district. For a detailed discussion of State funding for school districts, see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts” herein.

AD VALOREM PROPERTY TAX INFORMATION

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

VALUATION OF TAXABLE PROPERTY. . . The Property Tax Code provides for 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") collectively responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Taylor Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property. State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

On July 13, 2023, during the Second Special Session, the Texas Legislature passed Senate Bill 2, which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the subjected property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the subjected property for the preceding tax year; (b) the appraised value of the subjected property for the preceding tax year; and (c) the market value of all new improvements to the subjected property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026, the Appraisal Cap may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the Maximum Property Value. The Appraisal Cap took effect on January 1, 2024.

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

STATE MANDATED HOMESTEAD EXEMPTIONS. . . State law grants, with respect to each school district in the State, (1) a \$100,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

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

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

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

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

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

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

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. The Texas Legislature amended Section 11.35 of the Property Tax Code to clarify that "damage" for purposes of such statute is limited to "physical damage." For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

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

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count toward a school district’s Tier One entitlement (reducing Tier One State funds for eligible school districts) and will not be considered in calculating any school district’s Tier Two entitlement (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”). The 87th Texas Legislature did not vote to extend this program, which expired by its terms effective December 31, 2022.

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

In the 88th Legislative Session, House Bill 5 (“HB 5” or “The Texas Jobs, Energy, Technology, and Innovation Act”) was adopted to create an economic development program, subject to state oversight, which would attract jobs and investment to Texas through school district property tax abatement agreements with businesses. The effective date of HB 5 is January 1, 2024.

For a discussion of how the various exemptions described above are applied by the District, see “AD VALOREM PROPERTY TAX INFORMATION – District Application of Tax Code” herein.

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

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

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TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS. . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on April 6, 1963 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

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

Section 45.0031 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, 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 school building purposes pursuant to Chapter 45, as amended, Texas Education Code as new debt and are subject to the 50-cent Test. The District has not used, and will not use in connection with the issuing of the Bonds, projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

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

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

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

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

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

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

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

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Effective January 1, 2016, the valuation of assessment of oil and gas reserves will depend upon pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty ^(a)	Cumulative Interest ^(a)	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12 ^(a)	6	18

(a) After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

DISTRICT APPLICATION OF TAX CODE . . . The District applies the State mandated homestead exemption of \$100,000 for general homestead.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

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

The District does not tax nonbusiness personal property; and Taylor County Tax Assessor/Collector collects taxes for the District.

The District does permit split payments of taxes and discounts for the early payment of taxes are not allowed.

The District does tax freeport property.

The District has not adopted a tax abatement policy.

The District does not participate in any tax increment financing zones.

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2023/24 Market Valuation Established by Appraisal District (excluding totally exempt property)		\$ 4,185,256,385
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemption (State Mandated)	\$ 728,835,757	
Disabled Veterans Exemption	141,324,896	
Productivity Loss	222,891,059	
Capped Value Loss	78,215,167	
Homestead Exemption (State Mandated Over 65)	23,052,650	
Homestead Exemption (State Mandated Disabled)	687,307	
Pollution Control	6,940,370	
Other Exemptions	198,437	<u>1,202,145,643</u>
2023/24 Taxable Assessed Valuation		<u>\$ 2,983,110,742</u>
Debt Payable from Ad Valorem Taxes (as of 12-1-23)		
Unlimited Tax Bonds	\$ 38,120,000 ⁽¹⁾	
Limited Tax Bonds	2,180,000 ⁽²⁾	
The Bonds	<u>182,740,000 ⁽³⁾</u>	
Debt Payable from Ad Valorem Taxes		<u>\$ 223,040,000</u>
Interest and Sinking Fund Balance (as of 12-1-23)		\$ 500
Ratio Tax Supported Debt to 2023/24 Taxable Assessed Valuation		7.48%

2024 Estimated Population - 28,000
Per Capita Taxable Assessed Valuation - \$106,540
Per Capita Funded Debt - \$1,361

- (1) "Outstanding Unlimited Tax Debt" includes obligations payable from the District's unlimited tax for bonded indebtedness.
(2) "Outstanding Limited Tax Debt" includes obligations payable from the District's limited maintenance and operations tax.
(3) Preliminary, subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2024		2023		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 2,761,741,201	65.99%	\$ 2,280,546,186	65.18%	\$ 1,937,895,000	64.98%
Real, Residential, Multi-Family	97,276,364	2.32%	46,131,048	1.32%	31,458,568	1.05%
Real, Vacant Lots/Tracts	43,870,595	1.05%	44,490,548	1.27%	39,007,985	1.31%
Real, Acreage (Land Only)	232,109,040	5.55%	231,117,957	6.61%	180,783,615	6.06%
Real, Farm and Ranch Improvements	388,571,831	9.28%	351,792,210	10.05%	299,449,667	10.04%
Real, Commercial and Industrial	354,326,397	8.47%	286,083,666	8.18%	259,077,891	8.69%
Real, Oil, Gas, and Other Mineral Reserves	4,771,449	0.11%	30,173,050	0.86%	28,699,333	0.96%
Real and Intangible Personal, Utilities	164,398,593	3.93%	5,848,694	0.17%	4,156,082	0.14%
Tangible Personal, Commercial	115,251,564	2.75%	105,872,609	3.03%	101,552,931	3.41%
Tangible Personal, Industrial	10,590,327	0.25%	97,927,344	2.80%	84,618,834	2.84%
Tangible Personal, Other Mobile Homes	1,999,319	0.05%	11,809,505	0.34%	9,543,004	0.32%
Real Property, Inventory	10,340,763	0.25%	5,229,307	0.15%	4,313,807	0.14%
Special Inventory	8,942	0.00%	9,122	0.00%	14,013	0.00%
Total Appraised Value Before Exemptions	\$ 4,185,256,385	100.00%	\$ 3,498,916,910	100.00%	\$ 2,982,357,225	100.00%
Less: Adjustments	-		-		(1,150,359)	
Less: Total Exemptions/Reductions	(1,202,145,643)		(705,671,866)		(475,734,380)	
Taxable Assessed Value	<u>\$ 2,983,110,742</u>		<u>\$ 2,793,245,044</u>		<u>\$ 2,505,472,486</u>	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2021		2020	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,808,113,869	64.26%	\$ 1,700,753,784	63.67%
Real, Residential, Multi-Family	27,963,870	0.99%	24,157,952	0.90%
Real, Vacant Lots/Tracts	37,343,923	1.33%	39,784,145	1.49%
Real, Acreage (Land Only)	169,966,999	6.04%	170,866,973	6.40%
Real, Farm and Ranch Improvements	265,195,835	9.43%	245,830,456	9.20%
Real, Commercial	270,234,493	9.60%	262,347,122	9.82%
Real, Oil, Gas, and Other Mineral Reserves	29,412,017	1.05%	30,933,868	1.16%
Real and Tangible Personal, Utilities	3,280,562	0.12%	4,840,261	0.18%
Tangible Personal, Commercial	80,664,698	2.87%	77,115,662	2.89%
Tangible Personal, Industrial	104,618,590	3.72%	97,434,443	3.65%
Tangible Personal, Other Mobile Homes	11,033,020	0.39%	10,609,638	0.40%
Real Property, Inventory	4,095,769	0.15%	4,506,121	0.17%
Special Inventory	19,997	0.00%	859	0.00%
Total Appraised Value Before Exemptions	\$ 2,813,630,175	100.00%	\$ 2,671,145,723	100.00%
Less: Adjustments	(911,284)		(84,976,557)	
Less: Total Exemptions/Reductions	(425,268,166)		(408,385,707)	
Taxable Assessed Value	<u>\$ 2,387,450,725</u>		<u>\$ 2,177,783,459</u>	

Valuations shown are certified assessed values reported by the 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 District updates records.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population	Taxable Assessed Valuation ⁽³⁾	Taxable Assessed Valuation Per Capita	Unlimited Tax Supported Debt Outstanding at Fiscal Year End ⁽⁴⁾	Limited Tax Supported Debt Outstanding at Fiscal Year End ⁽⁵⁾	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2020	18,769	⁽¹⁾ \$ 2,177,783,459	\$ 116,031	\$ 47,945,000	\$ 3,635,000	2.20%	\$ 2,748
2021	25,911	⁽¹⁾ 2,387,450,725	92,140	44,935,000	3,165,000	1.88%	1,856
2022	26,401	⁽¹⁾ 2,505,472,486	94,901	41,260,000	2,680,000	1.65%	1,664
2023	26,959	⁽¹⁾ 2,793,245,044	103,611	38,120,000	2,180,000	1.36%	1,495
2024	28,000	⁽²⁾ 2,983,110,742	106,540	217,585,000 ⁽⁶⁾	1,660,000	7.29%	⁽⁶⁾ 7,830 ⁽⁶⁾

- (1) Fiscal Years Ended 2020 and 2021 figures provided by the U.S. Census Bureau. Fiscal Years Ended 2022 and 2023 are calculated using a factor number of 5.518 (which is based on the 2021 population figure divided by 2021 ADA received from the TEA) multiplied by the current year ADA as provided by the TEA.
- (2) Source: District Officials.
- (3) As reported by the Taylor Central Appraisal District on the District’s annual State Property Tax Reports; subject to change during the ensuing year.
- (4) Unlimited Tax Debt includes obligations payable from the District’s unlimited tax for bonded indebtedness.
- (5) Limited Tax Debt includes obligations payable from the District’s limited maintenance and operations tax.
- (6) Projected, includes the Bonds. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 8/31	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2020	\$ 1.19700	\$ 0.97000	\$ 0.22700	\$ 26,068,068	99.17%	99.59%
2021	1.17000	0.95000	0.22000	26,933,560	98.91%	99.21%
2022	1.12000	0.93000	0.19000	27,035,327	99.57%	100.36%
2023	1.03000	0.86120	0.16880	28,084,548	98.48%	98.60%
2024	0.89000	0.66920	0.22080	25,654,347	In Process of Collection	

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2023/24 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Energy Transfer GC NGL Pipelines LP	Oil & Gas	\$ 51,499,355	1.73%
AEP Texas Inc	Electric Utility Power Plant	44,174,781	1.48%
Wesley Court LLC	Assisted Living	23,463,474	0.79%
SCP15 Partners LP	Multifamily	21,736,000	0.73%
Welltower TCG NNN Landlord LLC	Assisted Living	18,827,000	0.63%
Abilene 6401 MP RK6 LLC	Real Estate	18,489,000	0.62%
Tigris XIII LTD	Multifamily	18,125,384	0.61%
Tigris XXV LLC	Real Estate	18,079,000	0.61%
Petrosmith Equipment LP	Industrial Manufacturing	17,004,507	0.57%
Funeral Directors Life Ins Co	Insurance	16,994,605	0.57%
		<u>\$ 248,393,106</u>	<u>8.33%</u>

TABLE 6 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2023/24 Taxable Assessed Value	2023/24 Tax Rate	Total Tax - Supported Debt As of 12-1-23	Estimated % Applicable	District's Overlapping Tax - Supported Debt As of 12-1-23	Authorized But Unissued Debt As Of 12-1-23
Wylie Independent School District	\$ 2,983,110,742	\$ 0.890000	\$ 223,040,000 ⁽¹⁾	100.00%	\$ 223,040,000 ⁽¹⁾	\$ 54,000,000 ⁽¹⁾
City of Abilene	9,278,864,420	0.732800	358,020,000	21.60%	77,332,320	43,000,000
Taylor County	11,301,819,707	0.397000	51,020,000	26.42%	<u>13,479,484</u>	0
Total Direct and Overlapping Tax-Supported Debt					\$ 313,851,804	
Ratio of Direct and Overlapping Tax-Supported Debt to Taxable Assessed Valuation					10.52%	
Per Capita Overlapping Tax-Supported Debt					\$ 11,208.99	

(1) Projected, includes the Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

UNLIMITED TAX DEBT

Year Ending 8-31	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2024	\$ 3,275,000	\$ 1,572,944	\$ 4,847,944	\$ -	\$ 4,416,217	\$ 4,416,217	\$ 9,264,160	
2025	3,410,000	1,444,047	4,854,047	400,000	9,127,000	9,527,000	14,381,047	
2026	1,835,000	1,334,775	3,169,775	1,750,000	9,073,250	10,823,250	13,993,025	
2027	1,925,000	1,240,775	3,165,775	2,340,000	8,971,000	11,311,000	14,476,775	
2028	2,015,000	1,152,350	3,167,350	2,460,000	8,851,000	11,311,000	14,478,350	8.79%
2029	2,100,000	1,070,050	3,170,050	2,580,000	8,725,000	11,305,000	14,475,050	
2030	2,185,000	984,350	3,169,350	2,715,000	8,592,625	11,307,625	14,476,975	
2031	2,275,000	895,150	3,170,150	2,855,000	8,453,375	11,308,375	14,478,525	
2032	2,365,000	802,350	3,167,350	3,000,000	8,307,000	11,307,000	14,474,350	
2033	2,470,000	697,194	3,167,194	3,155,000	8,153,125	11,308,125	14,475,319	20.42%
2034	2,590,000	578,481	3,168,481	3,315,000	7,991,375	11,306,375	14,474,856	
2035	2,720,000	449,625	3,169,625	3,485,000	7,821,375	11,306,375	14,476,000	
2036	2,855,000	310,250	3,165,250	3,670,000	7,642,500	11,312,500	14,477,750	
2037	2,990,000	179,075	3,169,075	3,850,000	7,454,500	11,304,500	14,473,575	
2038	3,110,000	59,638	3,169,638	4,050,000	7,257,000	11,307,000	14,476,638	35.20%
2039	-	-	-	5,985,000	7,006,125	12,991,125	12,991,125	
2040	-	-	-	6,295,000	6,699,125	12,994,125	12,994,125	
2041	-	-	-	6,615,000	6,376,375	12,991,375	12,991,375	
2042	-	-	-	6,955,000	6,037,125	12,992,125	12,992,125	
2043	-	-	-	7,315,000	5,680,375	12,995,375	12,995,375	50.22%
2044	-	-	-	7,690,000	5,305,250	12,995,250	12,995,250	
2045	-	-	-	8,080,000	4,911,000	12,991,000	12,991,000	
2046	-	-	-	8,495,000	4,496,625	12,991,625	12,991,625	
2047	-	-	-	8,930,000	4,061,000	12,991,000	12,991,000	
2048	-	-	-	9,390,000	3,603,000	12,993,000	12,993,000	69.50%
2049	-	-	-	9,870,000	3,121,500	12,991,500	12,991,500	
2050	-	-	-	10,380,000	2,615,250	12,995,250	12,995,250	
2051	-	-	-	10,910,000	2,083,000	12,993,000	12,993,000	
2052	-	-	-	11,470,000	1,523,500	12,993,500	12,993,500	
2053	-	-	-	12,060,000	935,250	12,995,250	12,995,250	94.26%
2054	-	-	-	12,675,000	316,875	12,991,875	12,991,875	100.00%
	<u>\$ 38,120,000</u>	<u>\$ 12,771,053</u>	<u>\$ 50,891,053</u>	<u>\$182,740,000</u>	<u>\$185,607,717</u>	<u>\$ 368,347,717</u>	<u>\$419,238,770</u>	

(1) Outstanding Unlimited Tax Debt only includes obligations payable from the District’s unlimited tax for bonded indebtedness.

(2) Average life of the issue – 20.314 years. Interest on the Bonds has been calculated at the average rate of 4.62% for purposes of illustration. Preliminary, subject to change.

LIMITED TAX DEBT

Year Ending 8-31 ⁽¹⁾	Outstanding Debt ⁽¹⁾			Total Debt Service	% of Principal Retired
	Principal	Interest	Total		
2024	\$ 520,000	\$ 52,425	\$ 572,425	\$ 572,425	
2025	535,000	41,500	576,500	576,500	
2026	555,000	28,125	583,125	583,125	
2027	570,000	14,250	584,250	584,250	100.00%
	<u>\$ 2,180,000</u>	<u>\$ 136,300</u>	<u>\$ 2,316,300</u>	<u>\$ 2,316,300</u>	

(1) Outstanding Limited Tax Debt only includes obligations payable from the District’s maintenance and operations tax.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION ⁽¹⁾

Tax Obligation Debt Service Requirements, Fiscal Year Ending 8-31-24		\$ 9,264,160
Interest and Sinking Fund, 8-31-23	\$ 367,583	
Capitalized Interest from 2024 issue	4,416,217 ⁽¹⁾	
Budgeted Interest and Sinking Fund Tax Levy Collection	<u>5,606,000</u>	
Estimated Balance, 8-31-24		<u>\$ 1,125,640</u>

(1) Preliminary, subject to change.

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Issued To Date	Amount Being Issued ⁽¹⁾	Unissued Balance
School Building, Buses, Safety	11/7/2023	\$234,000,000	\$ -	\$ 184,000,000	\$ 50,000,000
Technology	11/7/2023	6,000,000	-	2,000,000	4,000,000
Total		<u>\$240,000,000</u>	<u>\$ -</u>	<u>\$ 186,000,000</u>	<u>\$ 54,000,000</u>

(1) Includes premium, if any, which will be deposited into the Construction Fund for the Bonds. Preliminary, subject to change.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District does not have any plans to issue additional unlimited tax debt within the next 12 months.

TABLE 10 - OTHER OBLIGATIONS

The District entered into various agreements to lease copiers for District-wide use ranging from October 30, 2017 to November 12, 2020. Under terms of the lease, the District pays a monthly fee ranging from \$184 to \$1,448. The leases terminate over various dates from fiscal years 2023 to 2026. The District entered into an agreement to lease a postage meter for District-wide use beginning March 2021. Under terms of the lease, the District pays a monthly fee of \$55. The lease terminates on February 28, 2026. At August 31, 2023, the District has recognized a right to use asset of \$57,924 and a lease liability of \$58,622 related to these agreements. During the fiscal year, the District recorded \$57,194 in amortization expense and \$1,809 in interest expense for the right to use the copiers and postage meter. The District used a discount rate range of 1.40% to 3.85% on the copiers and 1.86% for the postage meter lease. The discount rates were based on the estimated incremental borrowing rate of the District.

Remaining obligations associated with these leases are as follows:

FYE 8/31	Principal	Interest	Total
2024	\$ 28,383	\$ 821	\$ 29,204
2025	26,798	278	27,076
2026	3,441	6	3,447
Total	<u>\$ 58,622</u>	<u>\$ 1,105</u>	<u>\$ 59,727</u>

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

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

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/Pages/about_publications.aspx ; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

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

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

CONTRIBUTIONS . . . Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of 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	
	2022	2023
Member	8.00%	8.00%
Non-Employer Contributing Entity (State)	7.75%	8.00%
Employers	7.50%	8.00%
	2022	2023
Member Contributions	\$ 2,224,330	\$ 2,406,779
NECE On-Behalf Contributions	1,751,831	1,901,681
Employer Contributions	837,560	986,203

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 are two additional surcharges an employer is subject to:

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

ACTUARIAL ASSUMPTIONS . . . The total pension liability in the August 31, 2021 actuarial valuation rolled forward to August 31, 2022 was determined using the following actuarial assumptions:

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2020	3.91%
Inflation	2.3%
Salary Increases including inflation	2.95% to 8.95%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2021. For a full description of these assumptions, please see the actuarial valuation report dated November 12, 2021.

DISCOUNT RATE . . . A single discount rate of 7.00% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and State contributions will be 8.5% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and State contributions for active and rehired retirees.

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

The long-term expected rate of return on pension plan investments is 7.25%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target allocation as of August 31, 2022 (see page 54 of the TRS ACFR) are summarized on the following page.

Asset Class ⁽⁴⁾	Target Allocation ⁽¹⁾	Long-Term Expected Geometric Real Rate of Return ⁽²⁾	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	4.6%	1.12%
Non-U.S. Developed	13.0%	4.9%	0.90%
Emerging Markets	9.0%	5.4%	0.75%
Private Equity	14.0%	7.7%	1.55%
Stable Value			
Government Bonds	16.0%	1.0%	0.22%
Absolute Return	0.0%	3.7%	0.00%
Stable Value Hedge Funds	5.0%	3.4%	0.18%
Real Return			
Real Estate	15.0%	4.1%	0.94%
Energy and Natural Resources and Infrastructure	6.0%	5.1%	0.37%
Commodities	0.0%	3.6%	0.00%
Risk Parity			
Risk Parity	8.0%	4.6%	0.43%
Leverage			
Cash	2.0%	3.0%	0.01%
Asset Allocation Leverage	- 6.0%	3.6%	- 0.05%
Inflation Expectation			2.70%
Volatility Drag ⁽³⁾			- 0.91%
Total	100.0%		8.19%

- 1) Target allocations are based on the FY2022 policy model.
- 2) Capital Market Assumptions come from Aon Hewitt (as of 08/31/2022).
- 3) The volatility drag results from the conversion between arithmetic and geometric mean returns.
- 4) Absolute Return includes credit sensitive instruments.

DISCOUNT RATE SENSITIVITY ANALYSIS . . . The following table presents the Net Pension Liability of the plan using the discount rate of 7.00%, and what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Total TRS net pension liability	\$92,353,208,735	\$59,367,428,259	\$32,630,904,839
District's proportionate share of the net pension liability	\$ 16,613,415	\$ 10,679,604	\$ 5,869,972

PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS . . . At August 31, 2023, the District reported a liability of \$10,679,604 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	\$ 10,679,604
State's proportionate share that is associated with the District	<u>21,783,637</u>
Total	<u><u>\$ 32,463,241</u></u>

The net pension liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2021 through August 31, 2022.

On August 31, 2022, the employer's proportion of the collective net pension liability was 0.000179890 which was an increase of .0000058 from its proportion measured as of August 31, 2021.

CHANGES SINCE THE PRIOR ACTUARIAL VALUATION . . . The actuarial assumptions and methods have been modified since the determination of the prior year's Net Pension Liability. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7.00 percent.

For the year ended August 31, 2023, the District recognized pension expense of \$2,082,269 and revenue of \$1,712,200 for support provided by the State.

At August 31, 2023, 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 economic experiences	\$ 154,853	\$ 232,836
Changes in actuarial assumptions	1,989,958	495,953
Differences between projected and actual investment earnings	1,055,111	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	1,051,520	277,522
Contributions paid to TRS subsequent to the measurement date	<u>986,203</u>	<u>-</u>
	<u>\$ 5,237,645</u>	<u>\$ 1,006,311</u>

\$986,203 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2024.

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

<u>Fiscal Year ended August 31,</u>	
2024	\$ 920,451
2025	541,152
2026	209,698
2027	1,345,648
2028	228,182
Thereafter	-
	<u><u>\$ 3,245,131</u></u>

RETIREE HEALTH PLAN

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

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-retirement benefit changes, including automatic COLAs.

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

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

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

Texas Insurance Code, section 1575.202 establishes the State’s contribution rate which is 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% 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	2023
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers (District)	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
	2022	2023
Employer Contributions	\$ 230,721	\$ 254,765
Member Contributions	183,729	195,557
NECE On-behalf Contributions	330,181	361,413

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 hiring a TRS retiree, employers are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$83 million in fiscal year 2022 from the Federal Rescue Plan Act (ARPA) to help defray Covid-19 related health care costs during fiscal year 2022.

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FINANCIAL INFORMATION

TABLE 11 – SCHEDULE OF CHANGES IN NET ASSETS

	Fiscal Year Ended August 31,				
	2023	2022	2021	2020	2019
Revenues:					
<u>Program Revenues</u>					
Charges for Services	\$ 4,053,575	\$ 3,113,297	\$ 2,932,398	\$ 1,685,610	\$ 2,333,067
Operating Grants and Contributions	4,394,584	5,604,689	6,952,381	5,431,207	4,143,717
<u>General Revenues</u>					
Property Taxes, Levied for General Purposes	23,265,158	22,556,416	21,814,389	21,019,681	21,022,751
Property Taxes, Levied for Debt Service	4,560,648	4,518,342	4,968,074	4,912,507	4,897,309
State Aid - Formula Grants	19,013,041	17,569,497	16,748,312	16,366,632	10,873,800
Capital Grants	77,188	61,328	98,247	154,694	456,341
Investment Earnings	409,918	25,559	128,093	279,295	945,679
Miscellaneous	143,691	151,621	127,806	114,721	78,567
Total Revenues	\$ 55,917,803	\$ 53,600,749	\$ 53,769,700	\$ 49,964,347	\$ 44,751,231
Expenses:					
Instruction	\$ 28,131,673	\$ 27,048,448	\$ 26,869,277	\$ 26,336,425	\$ 21,453,753
Instructional Resource and Media Services	379,769	379,221	384,181	387,540	371,821
Curriculum & Staff Development	209,401	138,593	139,462	95,590	67,468
Instructional Leadership	366,684	375,180	380,501	453,694	467,088
School Leadership	2,338,204	2,024,392	1,982,347	2,111,859	1,985,699
Guidance, Counseling & Evaluation Services	1,724,397	1,485,279	1,503,353	1,511,751	1,119,652
Social Work Services	125,000	131,500	68,000	70,644	47,200
Health Services	444,033	385,575	391,018	384,232	344,924
Student (Pupil) Transportation	2,062,120	2,258,741	1,997,268	2,005,092	2,040,917
Food Services	2,622,435	2,758,897	2,427,438	2,187,114	2,142,016
Extracurricular Activities	5,083,280	3,514,888	3,235,641	2,450,176	2,419,876
General Administration	1,639,278	1,350,245	1,374,424	1,296,090	1,314,095
Facilities Maintenance and Operations	6,471,282	6,110,130	5,339,279	5,280,477	3,814,275
Security & Monitoring Services	750,278	566,755	483,553	502,166	440,489
Data Processing Services	793,301	735,057	597,712	634,178	654,088
Community Services	252,467	119,865	88,266	89,655	78,835
Debt Service - Interest on Long Term Debt	1,484,124	1,599,470	1,711,102	1,856,628	2,718,804
Facilities Acquisition and Construction	882,924	806,860	362,884	357,162	229,752
Total Expenses	\$ 55,760,650	\$ 51,789,096	\$ 49,335,706	\$ 48,010,473	\$ 41,710,752
Increase (Decrease) in Net Position Before Transfers and Special Items	\$ 157,153	\$ 1,811,653	\$ 4,433,994	\$ 1,953,874	\$ 3,040,479
Beginning Net Position	48,113,015	46,301,362	41,245,592	39,291,718	36,251,239
Prior Period Adjustment	257,986	-	621,776 ⁽¹⁾	-	-
Ending Net Position	\$ 48,528,154	\$ 48,113,015	\$ 46,301,362	\$ 41,245,592	\$ 39,291,718

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

- (1) In Fiscal Year 2022, the District adopted GASB Statement No. 87, Leases. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract.

TABLE 11-A – SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended August 31,				
	2023	2022	2021	2020	2019
Revenues:					
Local and Intermediate Sources	\$ 24,293,386	\$ 23,341,142	\$ 22,226,890	\$ 21,610,944	\$ 22,227,264
State Sources	21,346,311	19,738,975	18,748,461	18,376,985	12,295,172
Federal Sources	419,400	937,054	346,358	440,218	735,166
Total Revenues	\$ 46,059,097	\$ 44,017,171	\$ 41,321,709	\$ 40,428,147	\$ 35,257,602
Expenditures:					
Instruction and Instructional-Related Services	\$ 27,472,165	\$ 25,466,659	\$ 21,351,913	\$ 21,852,499	\$ 18,460,889
Instructional and School Leadership	2,745,000	2,492,454	2,204,873	2,210,713	2,058,948
Support Services - Student (Pupil)	6,714,736	5,726,088	5,050,293	5,023,363	4,996,448
Administrative Support Services	1,664,421	1,370,319	1,347,148	1,234,832	1,268,377
Support Services - Nonstudent Based	7,167,684	6,438,012	4,987,901	4,903,637	4,449,937
Debt Service	828,096	635,580	555,850	558,375	565,275
Capital Outlay	56,671	6,172,280	8,933,820	3,101,526	4,513,063
Total Expenditures	\$ 46,648,773	\$ 48,301,392	\$ 44,431,798	\$ 38,884,945	\$ 36,312,937
Other Resources and (Uses) & Special Items	\$ 103,689	\$ 639,494	\$ (199,475)	\$ (496,166)	\$ (1,306,697)
Excess (Deficiency) of					
Revenues Over Expenditures	<u>(589,676)</u>	<u>(4,284,221)</u>	<u>(3,110,089)</u>	<u>1,543,202</u>	<u>(1,055,335)</u>
Beginning Fund balance on September 1	<u>6,308,573</u>	<u>9,953,300</u>	<u>13,262,864</u>	<u>12,215,828</u>	<u>14,577,860</u>
Ending Fund balance on August 31	<u>\$ 5,822,586</u> ⁽¹⁾	<u>\$ 6,308,573</u> ⁽¹⁾	<u>\$ 9,953,300</u> ⁽¹⁾	<u>\$ 13,262,864</u>	<u>\$ 12,215,828</u>

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

(1) The draw on the General Fund balance during the fiscal year was for planned use of fund balance for capital projects.

FINANCIAL POLICIES

Summary of Significant Accounting Policies . . . The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation . . . *Government-wide financial statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

Budgetary Data . . . Budgets are presented on the modified accrual basis of accounting for the General and Debt Service funds. The budget is prepared and controlled at the function level.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The Board formally adopts the budget at a public meeting held at least ten days after public notice has been given. Once adopted, the budget can be amended by subsequent Board action. The Board properly amended the budget throughout the year.

Such amendments are approved before the fact and are reflected in the official minutes of the Board.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. Texas law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other 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 thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool.

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 includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' 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, District investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the District shall submit an investment report detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, ending market value and fully accrued interest for the reporting period for each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest District funds without express written authority from the Board of Trustees.

INVESTMENT POLICIES. . . Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

TABLE 12 - CURRENT INVESTMENTS

As of December 1, 2023, the District's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent Market Value</u>	<u>Market Value</u>	<u>Book Value</u>
Lone Star Investment Pool	73.05%	\$ 8,462,999	\$ 8,462,999
Bank Deposits/CD's	26.95%	3,121,749	3,121,749
Total Investments	<u>100.00%</u>	<u>\$ 11,584,748</u>	<u>\$ 11,584,748</u>

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TAX MATTERS

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

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

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

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

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

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

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

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

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE 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 events, to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. See "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of specified events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 and in Appendix B, which is the District's annual audited financial report. The District will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2023 and, if not submitted as part of such annual financial information, the District will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is August 31. Accordingly, the District must provide updated information included in the above-referenced tables by the last day of February in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

NOTICE OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation (hereinafter defined) 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 a Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with its agreement described above under "Annual Reports." Neither the Bonds nor the Order provide for a trustee, debt service reserves, liquidity enhancement, or credit enhancement (except with respect to the Permanent School Fund Guarantee).

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

The term "Financial Obligation" shall mean, for purposes of the events in clauses (15) and (16) above: 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 the Rule) has been provided to the MSRB consistent with the Rule.

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

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the United States Securities and Exchange Commission (the "SEC") amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule 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 so amends the agreement, it has agreed to 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 financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the District believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATING

The Bonds are expected to be rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the currently outstanding debt of the District are rated "A1" by Moody's without regard to credit enhancement. The District also has two issues outstanding which are rated "Aaa" by Moody's by virtue of the guarantee of the Permanent School Fund of the State of Texas. **A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.** An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective 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 companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

CYBERSECURITY

Computer networks and data transmission and collection are vital to the operations of the District. Information technology and infrastructure of the District may be subject to attacks by outside or internal hackers and may be subject to breach by employee error, negligence or malfeasance. An attack or breach could compromise systems and the information stored thereon, result in the loss of confidential or proprietary data and disrupt the operations of the District. To mitigate these risks, the District continuously endeavors to improve the range of control for digital information operations, enhancements to the authentication process, and additional measures toward improving system protection/security posture, including required training for District staff and administration.

LITIGATION

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 condition 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 the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered 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 qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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 provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. 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. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION – Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the District to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, including the alternative minimum tax on corporations, a form of which opinion is attached to this Official Statement as APPENDIX D. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the Federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only System", "DTC Notices", "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (excluding the information under the subcaption "The School Finance System as Applied to the District"), "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" (first paragraph only), "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order.

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, Norton Rose Fulbright US LLP, Dallas, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

The 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 that 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

Hilltop Securities Inc., is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of \$ _____. 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 Underwriter 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.

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

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

Piper Sandler & Co., one of the underwriters of the Bonds, has entered into a distribution agreement (the "Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain security offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co will purchase Bonds from Piper Sandler & Co. at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co sells.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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.

MISCELLANEOUS

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

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

In the Bond Order, the Board will authorize the Pricing Officer to approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of Rule 15c2-12.

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APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE DISTRICT

The Wylie Independent School District is located in Taylor County and covers an area of approximately of 138.41 square miles, including a small portion of the City of Abilene, Texas. The District is comprised of a total of 8 schools with an approximate enrollment of 5,500 students. The region's economy is based on diversified manufacturing, education, beef cattle, wheat, cotton and hay.

HISTORICAL DISTRICT ENROLLMENT

FYE	Total	Average Daily
<u>8/31</u>	<u>Enrollment</u>	<u>Attendance</u>
2019	4,496	96.5%
2020	4,766	96.4%
2021	4,901	99.1%
2022	5,105	95.7%
2023	5,349	96.2%

Source: The District.

CAMPUS INFORMATION

Campus	Number	Capacity	Number of
	<u>of Schools</u>		<u>Portables</u>
Elementary Schools	5	2,500	0
Jr. High Schools	2	2,200	0
High Schools	1	1,500	3
Totals	<u>8</u>	<u>6,200</u>	<u>3</u>

Source: The District.

SCHOOL AND EMPLOYEE INFORMATION

Number of teachers holding doctorates degrees	1
Number of teachers holding masters degrees	16
Number of teachers holding bachelors degrees	347
Employee Information	
Number of Employees	747
Number of Teachers	362
Pupil/Teacher ratios (District Wide):	15/2

Source: The District.

LABOR FORCE ESTIMATES

	October	Average Annual				
	2023	2022	2021	2020	2019	2018
Civilian Labor Force	70,155	68,871	67,618	65,960	66,233	64,850
Employed	67,955	66,574	64,641	62,350	64,335	62,786
Unemployed	2,200	2,297	2,977	3,610	1,898	2,064
Percent Unemployed:						
State of Texas	3.81%	3.89%	5.64%	7.68%	3.54%	3.90%
Taylor County	3.14%	3.34%	4.40%	5.47%	2.87%	3.18%
Civilian Labor Force	15,183,880	14,662,558	14,311,029	13,955,332	13,921,781	13,714,126
Employed	14,605,351	14,092,833	13,503,671	12,883,803	13,429,073	13,178,793
Unemployed	578,529	569,725	807,358	1,071,529	492,708	535,333
Percent Unemployed:						
State of Texas	3.81%	3.89%	5.64%	7.68%	3.54%	3.90%
Civilian Labor Force	70,155	68,871	67,618	65,960	66,233	64,850
Employed	67,955	66,574	64,641	62,350	64,335	62,786
Unemployed	2,200	2,297	2,977	3,610	1,898	2,064
Percent Unemployed:						
Taylor County	3.14%	3.34%	4.40%	5.47%	2.87%	3.18%

Source: Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE
WYLIE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2023

The information contained in this Appendix consists of excerpts from the Wylie Independent School District Annual Financial Report for the Year Ended August 31, 2023, 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.

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Independent Auditor's Report

To the Board of Trustees
Wylie Independent School District
Abilene, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wylie Independent School District (the District) as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2023, 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 (*Government Auditing Standards*). 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.

Adoption of New Accounting Standard

As discussed in Notes 1 and 20 to the financial statements, the District has adopted the provisions of GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)* which has resulted in a restatement of net position as of September 1, 2022. Our opinions are not modified with respect to this matter.

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.

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, pension plan schedules, OPEB plan schedules, and budgetary comparison information 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, TEA required schedules and the 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. 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, TEA required schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated January 5, 2024 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.

The image shows a handwritten signature in cursive script that reads "Eide Sully LLP". The signature is written in black ink and is positioned above the typed name and date.

Abilene, Texas
January 5, 2024

This section of Wylie Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2023.

FUND STATEMENT FINANCIAL HIGHLIGHTS

- The District's total combined governmental fund balances were \$7,809,664.
- During the year, the District's expenditures were \$626,411 more than the \$57.2 million generated in taxes, state funding and other revenues for governmental funds.
- The total expenditures of the District's programs decreased approximately 2.0% over the prior year.
- The general fund reported a decrease in fund balance this year of \$485,987.
- The resources available for appropriation were \$3,582,421 more than the final budgeted revenues for the general fund and expenditures were \$1,938,773 more than the final budget.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts – management's discussion and analysis (this section), the basic financial statements, required supplementary information, and other supplementary information that presents combining statements for nonmajor governmental funds and other TEA required schedules.

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
 - o The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
 - o Proprietary fund statements include the internal service fund, which accounts for the District's self-insurance plan. The activity of the internal service fund is included within the governmental activities in the government-wide financial statements.
 - o Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes are followed by a section of required supplementary information that further explains and supports the information in the financial statements. The combining statements referred to earlier in connection with nonmajor governmental funds are presented following the required supplementary information. The Texas Education Agency also requires certain schedules be included as other supplementary information. The following summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the District’s Government-wide and Fund Financial Statements

Type of Statement	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire's District's except fiduciary funds	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses	Instances in which the District is the trustee or agent for someone else's accounts
Required financial statements	Statement of net position Statement of activities	Balance sheet Statement of revenues, expenditures & changes in fund balances	Statement of net position Statement of revenues, expenses, and changes in fund net position Statement of cash flows	Statement of fiduciary net position Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic measurement focus	Modified accrual accounting and current measurement focus	Accrual accounting and economic measurement focus	Accrual accounting and economic measurement focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or 60 days thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long term, the District's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during year or 60 days after the end of the year, expenditures when goods or services have been received and payment is due during the year or 60 days thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government’s assets, liabilities, deferred outflows and deferred inflows. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position, the difference between the District's assets, liabilities, deferred outflows and deferred inflows, is one way to measure the District's financial health or position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include:

- Governmental activities – All of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes, state aid, and grants finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law or by bond covenants.
- The Board of Trustees established 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 three kinds of funds:

- Governmental funds- Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on a subsequent page that explains the relationship (or differences) between them.
- Proprietary funds – The District uses a proprietary fund to track the revenues and expenses related to their worker's compensation self-insurance program in an internal service fund. The various functions within the District are charged for their share of the insurance, which is then transferred to the internal service fund. The internal service fund pays all expenses of the self-insurance program from the charges received from the District's functions. The activity in the self-insurance fund is reported in the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows of the proprietary fund.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE – GOVERNMENT-WIDE FINANCIAL STATEMENTS

Net position – The District’s combined net position was \$48,528,154 at August 31, 2023.

The District's Net Position

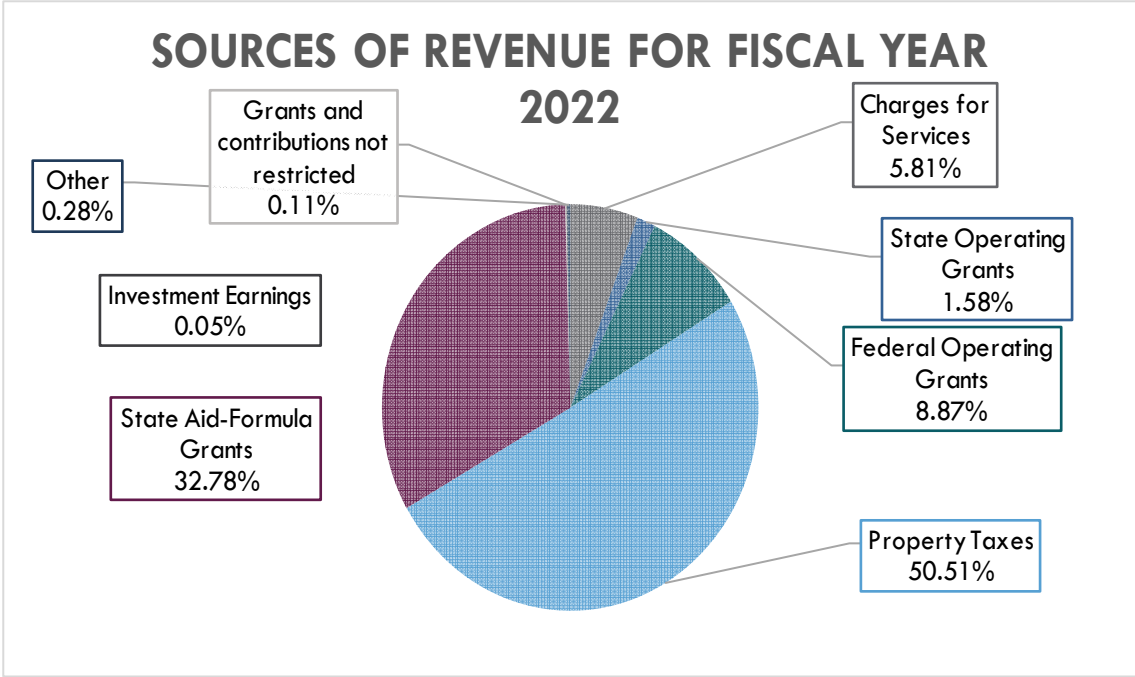
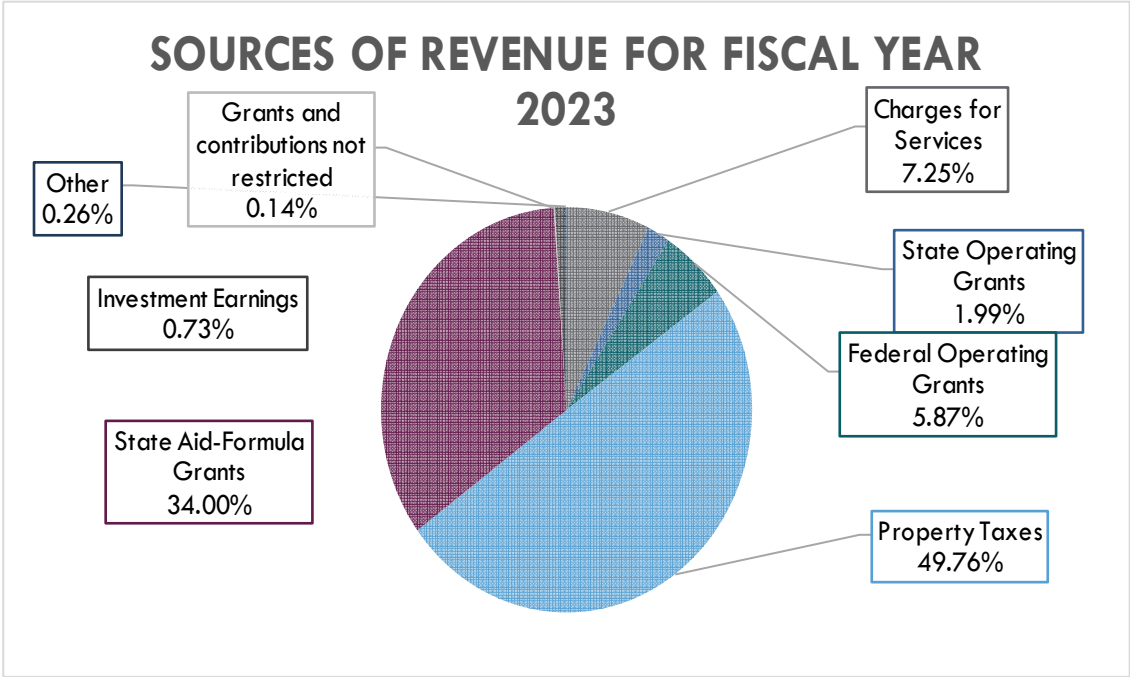
	Governmental Activities	
	2023	2022 (as restated)
Current Assets	\$ 11,473,884	\$ 11,603,806
Capital Assets	105,297,251	109,127,936
Deferred Outflows	8,929,699	7,959,000
Total assets and deferred outflows of resources	125,700,834	128,690,742
Current Liabilities	3,596,812	3,382,065
Long-Term Liabilities	61,725,190	63,963,114
Deferred Inflows	11,850,678	12,974,562
Total liabilities and deferred inflows of resources	77,172,680	80,319,741
Net Investment in Capital Assets	61,196,102	60,956,504
Restricted	1,249,030	1,043,618
Unrestricted	(13,916,978)	(13,629,121)
Total net position	\$ 48,528,154	\$ 48,371,001

Net position of the District’s governmental activities increased 0.3% to \$48,528,154. Unrestricted net position was \$(13,916,978) at the end of this year.

The District recorded its proportionate share of the net pension liability of \$10,679,604, deferred outflows of resources of \$5,237,645, and deferred inflows of resources of \$1,006,311. The District recorded its proportionate share of the net OPEB liability of \$6,944,437, deferred outflows of resources of \$3,692,054, and deferred inflows of resources of \$10,844,367.

Changes in net position – The District’s total revenues were \$55,917,803 for the year ended August 31, 2023. (See the table “Changes in the District’s Net Position”). In the 2023 fiscal year, 49.8% of the District’s revenue came from property taxes, 34.0% came from state allocations, and the remainder from charges for services and federal and state grants.

The total cost of all programs and services was \$55,760,650 of which 50.5% was for direct instruction program costs. The District's expenses cover a range of programs from instructional, health services, student transportation, food services, plant maintenance and operations, and various other areas of service to students.



Changes in the District's Net Position

	Governmental Activities	
	2023	2022 (as restated)
Revenues		
Program Revenues		
Charges for Services	\$ 4,053,575	\$ 3,113,297
State Operating Grants	1,112,260	849,364
Federal Operating Grants	3,282,324	4,755,325
General Revenues		
Property Taxes	27,825,806	27,074,758
State Aid-Formula Grants	19,013,041	17,569,497
Grants and contributions not restricted	77,188	61,328
Investment Earnings	409,918	25,559
Other	143,691	151,621
Total revenues	55,917,803	53,600,749
Expenses		
Instruction	28,131,673	26,790,462
Extracurricular Activities	5,083,280	3,514,888
General Administration	1,639,278	1,350,245
Facilities Maintenance and Operations	6,471,282	6,110,130
School Leadership	2,338,204	2,024,392
Food Services	2,622,435	2,758,897
Student Transportation	2,062,120	2,258,741
Other Functions	7,412,378	6,723,355
Total expenses	55,760,650	51,531,110
Change in Net Position	157,153	2,069,639
Beginning Net Position, as restated	48,371,001	46,301,362
Ending Net Position	\$ 48,528,154	\$ 48,371,001

The following table presents the cost of each of the District's largest programs as well as each program's net cost (total cost less fees generated by program activities). The net cost shows the financial burden that was placed on the District's taxpayers and state aid funding by each of these functions.

- The cost of all governmental activities this year was \$55,760,650.
- The amount that our taxpayers paid for these activities through property taxes was \$27,825,806.

	Total Cost of Services	Program Revenues	Net Costs
Instruction	\$ 28,131,673	\$ 2,201,928	\$ (25,929,745)
School Leadership	2,338,204	60,123	(2,278,081)
Food Services	2,622,435	2,765,596	143,161
Extracurricular	5,083,280	1,862,338	(3,220,942)
Student Transportation	2,062,120	39,378	(2,022,742)
Other Programs	15,522,938	1,518,796	(14,004,142)
Total	\$ 55,760,650	\$ 8,448,159	\$ (47,312,491)

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

Revenues from governmental fund types totaled \$57,216,017. Local revenues increased approximately \$2.4 million primarily as a result of resuming normal food service operations and increased property taxes and state revenue increased approximately \$2.0 million from the prior year primarily as a result of higher state allotments in the current year. Federal revenue decreased approximately \$2.4 million as a result of less revenue from the child nutrition program.

General Fund Budgetary Highlights

Over the course of the year, the District amended its budget as needed. The final amended budget planned for expenditures to exceed revenues by \$2,233,324 whereas there was an actual decrease in fund balance of \$485,987 at August 31, 2023. As noted earlier:

- Local funding was \$474,386 above the final budget.
- State program revenues were \$3,113,635 above the final budget.
- Actual expenditures were above budgeted amounts for total expenditures by \$1,938,773.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2023, the District had invested \$169,303,769 in a broad range of capital assets, including land, equipment, and buildings. Accumulated depreciation and amortization on these assets was \$64,006,518 at year end. The net amount of capital assets represents a net decrease (including additions and deductions) of \$3,830,685 over last year.

Wylie Independent School District
Management's Discussion and Analysis
August 31, 2023

	Governmental Activities	
	2023	2022 (as restated)
Land	\$ 1,944,458	\$ 1,944,458
Construction in Progress	-	85,800
Buildings and Improvements	156,755,190	156,143,410
Furniture and Equipment	9,864,952	9,224,931
Right-to-use assets	739,169	602,325
Totals at historical costs	169,303,769	168,000,924
Less Accumulated Depreciation for		
Buildings and Improvements	(54,931,091)	(50,347,364)
Furniture and Equipment	(8,699,563)	(8,296,403)
Right-to-use asset	(375,864)	(229,221)
Total accumulated depreciation	(64,006,518)	(58,872,988)
Net Capital Assets	\$ 105,297,251	\$ 109,127,936

More detailed information about the District's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

	Governmental Activities	
	2023	2022 (as restated)
Bond and Notes Payable	\$ 40,300,000	\$ 43,940,000
Unamortized Bond Premium	3,133,386	3,445,303
Finance Contract	544,365	669,900
Leases and SBITAs payable	123,398	116,229
Total	\$ 44,101,149	\$ 48,171,432

At year-end the District had \$44,101,149 in bonds, notes and other long-term obligations, a decrease of \$4,070,283 from the prior year's balance due to payment of long-term debt obligations. More detailed information about the District's debt is presented 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 2024 budget. The District is continuing to experience increases in our enrollment rate. There were changes approved and more changes on the horizon in regards to local funding as well as state funding. The \$.6692 per hundred-valuation tax rate set by law was decreased from \$.8612 in 2023. County taxable values continued to increase slightly, and the District's budget was built with the assumption they would approve a proposed increase in the Homestead Exemption, from \$40,000 to \$100,000. Local tax revenue is predicted to be just over 14% less than FY 2023. State funding methods are expected to continue to provide substantial support for the District's activities, however, the State's Legislative Planning Amounts are significantly lower than in years past, resulting in a greatly reduced cash flow during the year, and a much larger settle up amount in September of 2025.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Financial Services Office.

Wylie Independent School District
Statement of Net Position (Exhibit A-1)
August 31, 2023

Data Control Codes		Governmental Activities
	Assets	
1110	Cash and cash equivalents	\$ 4,148,470
1120	Investments - current	3,941,381
1220	Delinquent property taxes receivable	346,833
1230	Allowance for uncollectible taxes (credit)	(135,265)
1240	Due from other governments	3,172,465
	Capital assets	
1510	Land	1,944,458
1520	Buildings, net	101,824,099
1530	Furniture and equipment, net	1,165,389
1550	Right-to-use assets, net	<u>363,305</u>
1000	Total assets	<u>116,771,135</u>
	Deferred outflows of resources	
1705	Deferred outflows - pension	5,237,645
1706	Deferred outflows - OPEB	<u>3,692,054</u>
1700	Total deferred outflows of resources	<u>8,929,699</u>
	Liabilities	
2110	Accounts payable	281,814
2140	Interest payable	77,406
2160	Accrued wages payable	2,895,262
2180	Due to other governments	124,884
2200	Accrued expenses	35,000
2300	Unearned revenues	182,446
	Noncurrent liabilities	
2501	Due within one year	3,975,367
2502	Due in more than one year	40,125,782
2540	Net pension liability	10,679,604
2545	Net OPEB liability	<u>6,944,437</u>
2000	Total liabilities	<u>65,322,002</u>
	Deferred inflows of resources	
2605	Deferred inflows - pension	1,006,311
2606	Deferred inflows - OPEB	<u>10,844,367</u>
2600	Total deferred inflows of resources	<u>11,850,678</u>
	Net position	
3200	Net investment in capital assets	61,196,102
3820	Restricted for grants	935,972
3850	Restricted for debt service	313,058
3900	Unrestricted	<u>(13,916,978)</u>
3000	Total net position	<u>\$ 48,528,154</u>

Data Control Codes	Functions/Programs	Program Revenues		
		1 Expenses	3 Charges for Services	4 Operating Grants and Contributions
Governmental Activities				
11	Instruction	\$ 28,131,673	\$ 615,218	\$ 1,586,710
12	Instructional Resources and Media Services	379,769	-	8,122
13	Curriculum and Instructional Staff Development	209,401	-	48,480
21	Instructional Leadership	366,684	-	4,632
23	School Leadership	2,338,204	-	60,123
31	Guidance, Counseling, and Evaluation Services	1,724,397	-	681,523
32	Social Work Services	125,000	-	50,000
33	Health Services	444,033	-	51,561
34	Student Transportation	2,062,120	-	39,378
35	Food Services	2,622,435	1,583,986	1,181,610
36	Extracurricular Activities	5,083,280	1,834,863	27,475
41	General Administration	1,639,278	-	37,017
51	Facilities Maintenance and Operations	6,471,282	19,508	86,084
52	Security and Monitoring Services	750,278	-	309,264
53	Data Processing Services	793,301	-	11,162
61	Community Services	252,467	-	4,114
72	Interest on Long Term Debt	1,484,124	-	207,329
81	Facilities Acquisition and Construction	882,924	-	-
TG	Total governmental activities	<u>55,760,650</u>	<u>4,053,575</u>	<u>4,394,584</u>
TP	Total primary government	<u>\$ 55,760,650</u>	<u>\$ 4,053,575</u>	<u>\$ 4,394,584</u>
General Revenues				
Taxes				
MT	Property Taxes, Levied for General Purposes			
DT	Property Taxes, Levied for Debt Service			
SF	State Aid - Formula Grants			
GC	Grants and contributions not restricted			
IE	Investment Earnings			
MI	Miscellaneous			
TR	Total general revenues			
CN Change in Net Position				
NB Net Position - Beginning				
PA Prior period adjustment				
Beginning net position, as restated				
NE Net Position - Ending				

See Notes to Financial Statements

Wylie Independent School District
Statement of Activities (Exhibit B-1)
August 31, 2023

5	Net (Expense) Revenue and Changes in Net Position	
	Primary Government	
	6	8
Capital Grants and Contributions	Governmental Activities	Total
\$ -	\$ (25,929,745)	\$ (25,929,745)
-	(371,647)	(371,647)
-	(160,921)	(160,921)
-	(362,052)	(362,052)
-	(2,278,081)	(2,278,081)
-	(1,042,874)	(1,042,874)
-	(75,000)	(75,000)
-	(392,472)	(392,472)
-	(2,022,742)	(2,022,742)
-	143,161	143,161
-	(3,220,942)	(3,220,942)
-	(1,602,261)	(1,602,261)
-	(6,365,690)	(6,365,690)
-	(441,014)	(441,014)
-	(782,139)	(782,139)
-	(248,353)	(248,353)
-	(1,276,795)	(1,276,795)
-	(882,924)	(882,924)
-	(47,312,491)	(47,312,491)
\$ -	(47,312,491)	(47,312,491)
	23,265,158	23,265,158
	4,560,648	4,560,648
	19,013,041	19,013,041
	77,188	77,188
	409,918	409,918
	143,691	143,691
	47,469,644	47,469,644
	157,153	157,153
	48,113,015	48,113,015
	257,986	257,986
	48,371,001	48,371,001
	\$ 48,528,154	\$ 48,528,154

Wylie Independent School District
Balance Sheet – Governmental Funds (Exhibit C-1)
August 31, 2023

Data Control Codes	10 General Fund	50 Debt Service Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds	
Assets					
1110	Cash and cash equivalents	\$ 2,558,864	\$ 500	\$ 1,589,106	\$ 4,148,470
1120	Investments - current	3,931,571	9,810	-	3,941,381
1220	Delinquent property taxes receivable	297,049	49,784	-	346,833
1230	Allowance for uncollectible taxes (credit)	(115,849)	(19,416)	-	(135,265)
1240	Receivables from other governments	2,908,094	-	264,371	3,172,465
1260	Due from other funds	256,157	380,401	533,544	1,170,102
1000	Total assets	<u>9,835,886</u>	<u>421,079</u>	<u>2,387,021</u>	<u>12,643,986</u>
1000a	Total assets and deferred outflows of resources	<u>\$ 9,835,886</u>	<u>\$ 421,079</u>	<u>\$ 2,387,021</u>	<u>\$ 12,643,986</u>
Liabilities					
2110	Accounts payable	\$ 175,588	\$ -	\$ 106,226	\$ 281,814
2160	Accrued wages payable	2,741,620	-	153,642	2,895,262
2170	Due to other funds	903,012	-	302,090	1,205,102
2180	Due to other governments	-	-	124,884	124,884
2300	Unearned revenue	71,147	30,615	80,684	182,446
2000	Total liabilities	<u>3,891,367</u>	<u>30,615</u>	<u>767,526</u>	<u>4,689,508</u>
Deferred Inflows of Resources					
	Unavailable revenue - property taxes	121,933	22,881	-	144,814
2600	Total deferred inflows of resources	<u>121,933</u>	<u>22,881</u>	<u>-</u>	<u>144,814</u>
Fund balances					
3450	Restricted - federal or state funds grant	-	-	935,972	935,972
3480	Restricted - retirement of long-term debt	-	367,583	-	367,583
3545	Committed fund balance	-	-	683,523	683,523
3590	Assigned - other	450,602	-	-	450,602
3600	Unassigned	5,371,984	-	-	5,371,984
3000	Total fund balances	<u>5,822,586</u>	<u>367,583</u>	<u>1,619,495</u>	<u>7,809,664</u>
4000	Total liabilities, deferred inflows and fund balances	<u>\$ 9,835,886</u>	<u>\$ 421,079</u>	<u>\$ 2,387,021</u>	<u>\$ 12,643,986</u>

Wylie Independent School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit C-1R)

August 31, 2023

Total Fund Balances - Governmental Funds (Exhibit C-1) \$ 7,809,664

The District uses internal service funds to charge the costs of certain activities, such as workers compensation, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is no change in net position. -

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. 105,297,251

Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:

Bonds payable	(38,120,000)	
Maintenance tax notes	(1,735,000)	
Time warrants	(445,000)	
Finance contracts	(544,365)	
Leases payable	(58,622)	
Subscription IT liabilities	(64,776)	
Unamortized premiums on bonds payable	(3,133,386)	
Interest payable on long-term debt	<u>(77,406)</u>	(44,178,555)

Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds. These are:

Deferred inflow of resources for property taxes	144,814
---	---------

The government-wide statements include the District's proportionate share of the TRS net pension liability and TRS-Care net OPEB liability, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources.

Net pension liability	(10,679,604)	
Deferred outflows of resources - TRS pension	5,237,645	
Deferred inflows of resources - TRS pension	(1,006,311)	
Net OPEB liability	(6,944,437)	
Deferred outflows of resources - TRS-Care OPEB	3,692,054	
Deferred inflows of resources - TRS-Care OPEB	<u>(10,844,367)</u>	<u>(20,545,020)</u>

Net Position of Governmental Activities (Exhibit A-1) \$ 48,528,154

Wylie Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds (Exhibit C-2)
Year Ended August 31, 2023

Data Control Codes	10 General Fund	50 Debt Service Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
Revenues				
5700 Total local and intermediate sources	\$ 24,293,386	\$ 4,578,700	\$ 3,133,961	\$ 32,006,047
5800 State program revenues	21,346,311	207,329	374,006	21,927,646
5900 Federal program revenues	419,400	-	2,862,924	3,282,324
5020 Total revenues	<u>46,059,097</u>	<u>4,786,029</u>	<u>6,370,891</u>	<u>57,216,017</u>
Expenditures				
Current				
0011 Instruction	27,004,780	-	902,728	27,907,508
0012 Instructional resources and media services	296,520	-	-	296,520
0013 Curriculum and instructional staff development	170,865	-	44,695	215,560
0021 Instructional leadership	374,231	-	-	374,231
0023 School leadership	2,370,769	-	340	2,371,109
0031 Guidance, counseling, and evaluation services	1,075,506	-	655,185	1,730,691
0032 Social work services	75,000	-	50,000	125,000
0033 Health services	387,695	-	41,200	428,895
0034 Student (pupil) transportation	2,237,124	-	-	2,237,124
0035 Food services	3,109	-	2,627,128	2,630,237
0036 Extracurricular activities	2,936,302	-	1,679,816	4,616,118
0041 General administration	1,664,421	-	13,016	1,677,437
0051 Facilities maintenance and operations	5,207,906	-	25,541	5,233,447
0052 Security and monitoring services	809,795	-	295,851	1,105,646
0053 Data processing services	868,181	-	-	868,181
0061 Community Services	281,802	-	-	281,802
Debt service				
0071 Principal on long-term debt	741,449	3,140,000	8,761	3,890,210
0072 Interest on long-term debt	86,647	1,709,394	-	1,796,041
Capital outlay				
0081 Facilities acquisition and construction	56,671	-	-	56,671
6030 Total expenditures	<u>46,648,773</u>	<u>4,849,394</u>	<u>6,344,261</u>	<u>57,842,428</u>
1100 Excess (deficiency) of revenues Over (under) expenditures	<u>(589,676)</u>	<u>(63,365)</u>	<u>26,630</u>	<u>(626,411)</u>
Other financing sources (uses)				
7912 Sale of real and personal property	59,900	-	-	59,900
7913 Proceeds from leases and SBITAs	123,083	-	8,761	131,844
7915 Operating transfers in	-	75,000	-	75,000
8911 Operating transfers out	(79,294)	-	-	(79,294)
7080 Total other financing sources (uses)	<u>103,689</u>	<u>75,000</u>	<u>8,761</u>	<u>187,450</u>
1200 Net change in fund balances	(485,987)	11,635	35,391	(438,961)
0100 Fund balance, beginning of year	6,308,573	355,948	1,584,104	8,248,625
3000 Fund balance, end of year	<u>\$ 5,822,586</u>	<u>\$ 367,583</u>	<u>\$ 1,619,495</u>	<u>\$ 7,809,664</u>

Wylie Independent School District

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances
to the Statement of Activities (Exhibit C-2R)
Year Ended August 31, 2023

Total Net Change in Fund Balances - Governmental Funds (Exhibit C-2)	\$ (438,961)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The change in net position of internal service funds is reported with governmental activities. The net effect of this consolidation is no change to net position.	-
Current year capital outlays and debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2023 capital outlays of \$1,362,745, bond principal payments of \$3,140,000 and other long-term debt payments of \$750,210, and removal of remaining net book value of disposed assets of \$59,900 is to increase net position.	5,193,055
Depreciation and amortization is not recognized as an expenditure in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(5,133,530)
Governmental funds report debt proceeds and premium on issuance of debt as financing sources when debt is first issued, whereas these are reported as long-term liabilities in the statement of net position. The net effect of reclassing debt proceeds of \$131,844, to liabilities is to decrease net position.	(131,844)
Bond premiums are recorded as revenues when received in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization.	311,917
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable property taxes of \$144,814 as revenue, removing prior year's tax collection of \$60,082 and eliminating interfund transactions.	84,732
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is a decrease of \$9,560. The net effect is to increase net position.	9,560
Certain expenditures for the pension that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the change in net position to increase in the amount of \$148,643. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$713,436. The net effect is a decrease in net position.	(564,793)
Certain expenditures for the OPEB that are recorded to the fund financial statements must be recorded as deferred outflows of resources. Contributions made after the measurement date caused the change in net position to increase in the amount of \$24,044. The District's share of the unrecognized deferred inflows and outflows for OPEB as of the measurement date must be amortized and the District's proportionate share of the OPEB expense must be recognized. These cause the change in net position to increase in the amount of \$802,973. The net effect is an increase in net position.	827,017
Change in Net Position of Governmental Activities (Exhibit B-1)	\$ 157,153

Wylie Independent School District
Statement of Net Position – Proprietary Fund (Exhibit D-1)
August 31, 2023

	Governmental Activities
	Internal Service Fund
Assets	
Current assets	
Cash and cash equivalents	\$ -
Due from other funds	35,000
Total assets	35,000
Liabilities	
Current liabilities	
Accrued expenses	35,000
Total liabilities	35,000
Net position	
Unrestricted net position	-
Total net position	\$ -

Wylie Independent School District
Statement of Revenues, Expenses and Changes in Fund Net Position – Proprietary Fund (Exhibit D-2)
Year Ended August 31, 2023

	Governmental Activities <hr/> Internal Service Fund <hr/>
Operating revenues	
Local and intermediate sources	\$ -
Transfers from other funds	4,294
	<hr/>
Total operating revenues	4,294
	<hr/>
Operating expenses	
Other operating costs	4,294
	<hr/>
Total operating expenses	4,294
	<hr/>
Operating loss	-
	<hr/>
Change in net position	-
	<hr/>
Total net position - beginning of year	-
	<hr/>
Total net position - end of year	\$ -
	<hr/> <hr/>

Wylie Independent School District
Statement of Cash Flows – Proprietary Fund (Exhibit D-3)
Year Ended August 31, 2023

	Governmental Activities
	Internal Service Fund
Operating activities	
Cash received from other funds for services	\$ -
Payments to vendors for services	(4,294)
Net cash used for operating activities	(4,294)
Net change in cash and cash equivalents	(4,294)
Cash - beginning of the year	4,294
Cash - end of the year	\$ -
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ -
Changes in operating assets and liabilities	
Increase in due from other funds	(4,294)
Net cash used for operating activities	\$ (4,294)

Wylie Independent School District
Statement of Fiduciary Net Position - Fiduciary Fund (Exhibit E-1)
August 31, 2023

	<u>Custodial Fund</u>
Assets	
Cash and cash equivalents	<u>\$ -</u>
Total assets	<u><u>-</u></u>
Net Position	
Restricted for student activities	<u>-</u>
Total net position	<u><u>\$ -</u></u>

Wylie Independent School District
Statement of Changes in Fiduciary Net Position - Fiduciary Fund (Exhibit E-2)
August 31, 2023

	<u>Custodial Fund</u>
Additions	
Contributions	<u>\$ 98,206</u>
Total additions	<u>98,206</u>
Deductions	
Extracurricular activities	<u>115,876</u>
Total deductions	<u>115,876</u>
Change in net position	(17,670)
Net position, beginning	<u>17,670</u>
Net position, ending	<u><u>\$ -</u></u>

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the Wylie Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the TEA or to the State Board of Education are reserved for the trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. There are no component units included within the reporting entity. The financial statements of the District include all activities for which the Board exercises these governance responsibilities.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The Proprietary Fund Types and Fiduciary Funds are accounted for using the *economic resources measurement focus and the accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Property taxes and penalties and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

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

The debt service fund, a governmental fund type, accounts for financial resources that are restricted, committed or assigned to expenditures for principal and interest on long-term debt of governmental activities.

Additionally, the government reports the following fund types:

The special revenue funds, a governmental fund type, account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District accounts for each federal and state grant in a separate special revenue fund.

The internal service fund, a proprietary fund type, accounts for its self-insurance plan. The general fund is contingently liable for liabilities of this fund.

Custodial funds, a fiduciary fund type, account for resources held for others in a custodial capacity. The District's Custodial Fund is the student activity fund. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the workers' compensation insurance internal service fund are District contributions for workers' compensation. Operating expenses include claims expense and administrative expense for administering the workers' compensation insurance fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

Deposits and Investments

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

Assets	Years
Buildings and improvements	30
Furniture and equipment	5

Right-to-use lease assets are recognized at the lease commencement date and represent the District’s right to use an underlying asset for the lease term. Right-to-use lease assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right-to-use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

Right-to-use subscription IT assets are recognized at the subscription commencement date and represent the District’s right to use the underlying IT asset for the subscription term. Right-to-use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right-to-use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 2 to 3 years.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Lease liabilities represent the District’s obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments is discounted based on a borrowing rate determined by the District.

Subscription liabilities represent the District’s obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments is discounted based on a borrowing rate determined by the District.

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until that time.

The District has deferred outflows related to pension and OPEB plans as a result of various estimate differences that will be recognized as expenses in future years, reported in the government-wide statement of net position.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The District has two types of items that qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is deferred inflows related to pension and OPEB plans as a result of various estimate differences that will be recognized as expenses in future years, reported in the government-wide statement of net position.

Property Tax

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the August 31, 2023 fiscal year was based, was \$2,804,948,566. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended August 31, 2023 were 98.48% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund and Debt Service Fund are based on historical experience in collecting 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. As of August 31, 2023, property taxes receivable, net of estimated uncollectible taxes, totaled \$211,568.

The tax rate to finance general governmental services was \$0.8612 per \$100 valuation and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.1688 per \$100 for the year ended August 31, 2023.

Pensions

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

OPEB

The fiduciary net position of the TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources relating 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.

Net Position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. The District’s net position is composed of the following:

Net Investment in Capital Assets is the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvements of these capital assets. The net investment in capital assets is made up of the following:

Net carrying value of capital assets	\$ 105,297,251
Less:	
Outstanding principal of capital debt and other capital borrowings	(40,967,763)
Unamortized balance of original issue premiums	<u>(3,133,386)</u>
Net investment in capital assets	<u>\$ 61,196,102</u>

Restricted for Grants is the component of net position that reports the difference between assets and liabilities of the Federal and State special revenue programs that consists of assets with constraints placed on their use by the Department of Education, Health and Human Services, Agriculture or TEA.

Restricted for Debt Service is the component of net position that reports the difference between assets and liabilities of the Debt Service Fund, net of accrued interest, at August 31, 2023, that consists of assets with constraints placed on their use by the bond covenants.

Unrestricted is the difference between the assets and liabilities that are not reported in net position invested in capital assets, net position restricted for debt service, net position restricted for federal and state programs, net position restricted for capital projects, and net position restricted for other purposes.

Fund Balance

The District classifies governmental fund balance in accordance with Government Accounting Standards Board (GASB) 54, Fund Balance Reporting and Governmental Fund Type Definitions:

Nonspendable fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. As of August 31, 2023, \$367,583 was restricted for retirement of long-term debt and \$935,972 was restricted for other federal and state grants.

Committed fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At August 31, 2023, \$683,523 was committed for campus activity funds.

Assigned fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent. At August 31, 2023, the District had fund balance assigned for open encumbrances of \$450,602 in the General Fund.

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

The District uses restricted amounts first when both restricted and unrestricted fund balances are available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and 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.

Implementation of GASB Statement No. 96

As of September 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset -an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. As a result of implementing this standard the District recognized a right to use subscription asset of \$257,986 as of September 1, 2022. The effect of the implementation of this standard on beginning net position is disclosed in Note 20 and the additional disclosures required by this standard are included in Note 8.

New Accounting Pronouncements

GASB Statement No. 91: Conduit Debt Obligations. Statement 91 was issued in May 2019. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. This standard was adopted by the District in fiscal year ended August 31, 2023.

GASB Statement No. 99: Omnibus 2022. Statement 99 was issued in April 2022. The objective of this Statement are to enhance comparability in accounting and financial reporting and to improve consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees.

The practice issues addressed by this Statement include the classification and reporting of derivative instruments within the scope of *Statement No. 53, Accounting and Financial Reporting for Derivative Instruments*, that do not meet the definition of either an investment derivative instrument or a hedging derivative instrument. Clarification of provisions in *Statement No. 87, Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives. Clarification of provisions in *Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, related to (a) the determination of the public-private and public partnership (PPP) term and (b) recognition and measurement of installment payments and the transfer of the underlying PPP asset. Clarification of provisions in *Statement No. 96, Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability. Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt. Accounting for the distribution of benefits as part of the Supplemental Nutrition Assistance Program (SNAP). Disclosures related to nonmonetary transactions. Pledges of future revenues when resources are not received by the pledging government.

Clarification of provisions in *Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, as amended, related to the focus of the government-wide financial statements. Terminology updates related to certain provisions of *Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Terminology used in Statement 53 to refer to resource flows statements.

The requirements of Statement 99 that are related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The District has implemented this standard.

GASB issued Statement No. 100, Accounting Changes and Error Corrections. Statement 100 was issued in June 2022 and is an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for accounting changes and error corrections made in fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

GASB issued Statement No. 101, Compensated Absences. Statement 101 was issued in June 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The District does not vest vacation and sick leave; therefore, as no liability exists for unused vacation and sick leave, this change is not applicable for the District.

Note 2 - Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction.

Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Note 3 - Stewardship, Compliance and Accountability

Budgetary Information

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's Financial Accounting Resource (FAR) module and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund, and the Child Nutrition Program. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year.

Note 4 - Detailed Notes on All Funds

Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent, bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) coverage. In order to maximize return on cash balances, the District uses consolidated bank accounts from which all disbursements are made, with cash in excess of the District's total daily requirement being invested for future needs.

At August 31, 2023, the bank balance of \$4,726,540 was on deposit with the contracted depository bank. District funds are insured up to \$250,000 for the combined amount of all time and savings accounts, and up to an additional \$250,000 for the combined total of all Demand Deposit Accounts (DDA's). Interest-bearing accounts were collateralized by pledged United States government securities with a fair value of \$16,558,370 at August 31, 2023, held by Prosperity Bank. Because Prosperity Bank holds the pledged securities in trust on behalf of the District, the deposits were deemed collateralized under Texas law. All campus activity funds were centralized and were on deposit with the contracted depository.

Investments

The Texas legislature passed the Public Funds Investment Act of 1995 ("Public Funds Investment Act") which authorizes the District to invest its excess funds in the following:

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies, and instrumentalities,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less,
- Fully collateralized repurchase agreements,
- 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", or its equivalent, by a nationally recognized investment rating firm,
- Commercial paper having a stated maturity of 365 days or fewer 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,
- 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,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above,
- Bonds issued, assumed or guaranteed by the State of Israel, and
- Secured corporate bonds rated not lower than "AA—" or the equivalent.

The Public Funds Investment Act requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports and establishment of appropriate policies, the District materially adhered to the requirements of the Public Funds Investment Act. Additionally, investment practices of the District were in accordance with local policies, which are more restrictive than state statutes.

As of August 31, 2023, the following are the District’s cash equivalents and investments, with respective maturities and credit rating:

Type of Investment	Book Value	Percent	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-10 Years	Credit Rating
Cash	\$ 4,148,470	51.3%	\$ 4,148,470	51.3%	\$4,148,470	\$ -	N/A
Investment Pools							
Lonestar/First Public	3,941,381	48.7%	3,941,381	48.7%	3,941,381	-	AAA
Total cash and investments	<u>\$ 8,089,851</u>	<u>100.0%</u>	<u>\$ 8,089,851</u>	<u>100.0%</u>	<u>\$ 8,089,851</u>	<u>\$ -</u>	

Investment Pools are measured at amortized cost or net asset value, i.e. fair value. As such, these investments are not required to be reported in the fair value hierarchy.

Lone Star Investment Pool is governed by an 11-member board and is a AAA rated investment program tailored to the investment needs of local governments within the state of Texas. Lone Star Investment Pool assists governments across Texas make the most of taxpayer dollars. Local officials can improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund in full compliance with the Texas Public Funds Investment Act. Lone Star Investment Pool is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Lone Star uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Lone Star is the same as the value of Lone Star Shares. Lone Star is administered by First Public LLC, who also serves as the investment advisor. The reported value of the pool is the same as the fair value of the pool shares.

Interest Rate Risk

In accordance with the District’s investment policy, investments are made in a manner that ensures the safety of the principal, to maintain liquidity and to maximize financial returns within current market conditions. Investments shall be made in a manner to ensure the preservation of capital in the overall portfolio, and offsets during a twelve-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. The District’s investment strategy states that no individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

Credit Risk

The District’s investments in Local Government Investment Pools (LGIP’s) includes Lone Star/First Public. This is a public fund investment pool operating in full compliance with the Public Funds Investment Act. Lone Star/First Public is rated AAA by Standard and Poor’s.

Concentration of Credit Risk

The District’s investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity or specific issuer.

Custodial Credit Risk – Deposits

This is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. All deposits not covered by FDIC insurance but held in the depository bank, Prosperity Bank, were fully collateralized.

Foreign Currency Risk

As of August 31, 2023, there are no foreign currency investments in the District’s portfolio.

Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2023, are summarized below.

Fund	State Grants/ Entitlements	Federal Grants	Total
General Fund	\$ 2,908,094	\$ -	\$ 2,908,094
Nonmajor Governmental Funds	-	264,371	264,371
	\$ 2,908,094	\$ 264,371	\$ 3,172,465

Interfund Receivables and Payables

The composition of interfund balances as of August 31, 2023 is as follows:

	Due From Other Funds	Due To Other Funds
General Fund		
Debt service fund	\$ -	\$ 380,401
Nonmajor governmental funds	256,157	487,611
Internal service fund	-	35,000
Debt service fund		
General fund	380,401	-
Nonmajor governmental funds		
General fund	487,611	256,157
Nonmajor governmental funds	45,933	45,933
Internal service fund		
General fund	35,000	-
Totals	\$ 1,205,102	\$ 1,205,102

In the fund financial statements, interfund balances are the results of normal transactions between funds and will be liquidated in the subsequent fiscal year.

Interfund transfers during the year ended August 31, 2023, consisted of the following individual balances:

Transfer Out	Transfers In	Amount
General Fund	Debt Service Fund	\$ 75,000
General Fund	Internal Service Fund	4,294
Total		\$ 79,294

The interfund transfer between the general fund and debt service fund is to supplement resources used for debt service. The interfund transfer between the general fund and internal service fund is to cover deficit net position.

Note 5 - Capital Assets

Capital asset activity for the year ended August 31, 2023 was as follows:

	Balance 9/1/2022 (as restated)	Additions	Deletions	Balance 8/31/2023
Capital assets, not being depreciated				
Land	\$ 1,944,458	\$ -	\$ -	\$ 1,944,458
Construction in progress	85,800	127,698	(213,498)	-
Total capital assets, not being depreciated	<u>2,030,258</u>	<u>127,698</u>	<u>(213,498)</u>	<u>1,944,458</u>
Capital assets, being depreciated				
Building and improvements	156,143,410	611,780	-	156,755,190
Furniture and equipment	9,224,931	699,921	(59,900)	9,864,952
Total capital assets, being depreciated	<u>165,368,341</u>	<u>1,311,701</u>	<u>(59,900)</u>	<u>166,620,142</u>
Less accumulated depreciation for:				
Building and improvements	(50,347,364)	(4,583,727)	-	(54,931,091)
Furniture and equipment	(8,296,403)	(403,160)	-	(8,699,563)
Total accumulated depreciation	<u>(58,643,767)</u>	<u>(4,986,887)</u>	<u>-</u>	<u>(63,630,654)</u>
Total capital assets, being depreciated (net)	<u>106,724,574</u>	<u>(3,675,186)</u>	<u>(59,900)</u>	<u>102,989,488</u>
Right-to-use leased assets being amortized				
Equipment	344,339	-	-	344,339
Total right-to-use leased assets, being amortized	<u>344,339</u>	<u>-</u>	<u>-</u>	<u>344,339</u>
Less accumulated amortization for				
Equipment	(229,221)	(57,194)	-	(286,415)
Total accumulated amortization, right-to-use leased assets	<u>(229,221)</u>	<u>(57,194)</u>	<u>-</u>	<u>(286,415)</u>
Net right-to-use leased assets	<u>115,118</u>	<u>(57,194)</u>	<u>-</u>	<u>57,924</u>
Right-to-use subscription IT assets being amortized	257,986	136,844	-	394,830
Less accumulated amortization, IT assets	-	(89,449)	-	(89,449)
Net right-to-use subscription IT assets	<u>257,986</u>	<u>47,395</u>	<u>-</u>	<u>305,381</u>
Total right-to-use assets	<u>373,104</u>	<u>(9,799)</u>	<u>-</u>	<u>363,305</u>
Total capital assets (net)	<u>\$ 109,127,936</u>	<u>\$ (3,557,287)</u>	<u>\$ (273,398)</u>	<u>\$ 105,297,251</u>

Depreciation expense was charged to the District's functions as follows:

Instruction	\$ 1,417,242
Instructional resources and media services	95,781
School leadership	63,854
Guidance, counseling and evaluation services	47,890
Health services	31,927
Student transportation	341,163
Food service	91,158
Cocurricular/extracurricular activities	530,445
Facilities maintenance and operations	1,480,497
Data processing services	4,006
Facilities, acquisition and construction	<u>882,924</u>
Total depreciation expense	<u>\$ 4,986,887</u>

Amortization expense was charged to the District's functions as follows:

Instruction	<u>\$ 146,643</u>
Total depreciation expense	<u>\$ 146,643</u>

Note 6 - Bonds and Noncurrent Liabilities

Bonded indebtedness of the District is reflected in the governmental activities of the Government-Wide Statement of Net Position.

In the fund financial statements, the current requirements for principal and interest expenditures on bonds are accounted for in the debt service fund. Requirements for maintenance tax note, time warrants, finance contract and leases are accounted for in the general fund.

In August 2015, the District issued \$14,105,000 Unlimited Tax School Building Bonds, Series 2015 to finance school construction projects. The bonds consisted of \$14,105,000 of current interest bonds with a rate of 2% to 5% sold at a premium to yield interest rates ranging from 0.27% to 2.58%, maturing in 2025.

In June 2017, the District issued \$3,950,000 Maintenance Tax Notes and \$1,000,000 in Time Warrants to construct, repair and renovate school buildings. The notes/warrants have a rate of 2.00% to 4.00% sold at a premium to yield interest rates ranging from 0.90% to 2.10%, maturing in 2027.

In February 2018, the District issued \$41,520,000 Unlimited Tax School Building Bonds, Series 2018 to finance school construction projects. The bonds consisted of \$41,520,000 of current interest bonds with a rate of 2% to 5% sold at a premium to yield interest rates ranging from 1.40% to 3.54%, maturing in 2038.

In May 2022, the District issued a finance contract in the amount of \$669,900 to upgrade LED lighting in its facilities. The contract has a rate of 3.28%. Payments are due annually beginning in May 2023 and matures in May 2027.

A summary of the changes in bonds payable and other noncurrent liabilities follows:

	Interest Rate Payable	Amount of Original Issue	Amounts Outstanding 9/1/2022 (as restated)	Issued/ Increase	Retired/ Decrease	Amounts Outstanding 8/31/2023
Governmental activities:						
Unlimited Tax						
School Building						
Bond - Series 2015	2.00%-5.00%	\$ 14,105,000	\$ 4,815,000	\$ -	\$ (1,540,000)	\$ 3,275,000
Unlimited Tax						
School Building						
Bond - Series 2018	2.00% - 5.00%	41,520,000	36,445,000	-	(1,600,000)	34,845,000
Total bonds payable			41,260,000	-	(3,140,000)	38,120,000
Maintenance Tax Note						
Series 2017	2.00%-4.00%	3,950,000	2,135,000	-	(400,000)	1,735,000
Time Warrants						
Series 2017	2.50%-3.50%	1,000,000	545,000	-	(100,000)	445,000
Finance contract	3.28%	669,900	669,900	-	(125,535)	544,365
Leases payable	1.40%-3.85%	116,229	116,229	-	(57,607)	58,622
Subscription IT liabilities	4.36%-5.92%	131,844	-	131,844	(67,068)	64,776
Unamortized bond premium			3,445,303	-	(311,917)	3,133,386
Total other long-term debt			6,911,432	131,844	(1,062,127)	5,981,149
Total governmental activities long term liabilities			\$ 48,171,432	\$ 131,844	\$ (4,202,127)	\$ 44,101,149

Amounts due within the following year are as follows:

	Amounts Due Within One Year
Unlimited Tax School Building Bond - Series 2015	\$ 1,610,000
Unlimited Tax School Building Bond - Series 2018	1,665,000
Maintenance Tax Note, Series 2017	415,000
Time Warrants, Series 2017	105,000
Finance contract	129,590
Leases payable	28,383
Subscription IT liabilities	22,394
Total	\$ 3,975,367

Debt service requirements are as follows:

Year Ended	General Obligation Bonds		Tax Notes /Warrants		Finance Contract		Total Requirements
	Principal	Interest	Principal	Interest	Principal	Interest	
2024	\$ 3,275,000	\$ 1,572,943	\$ 520,000	\$ 52,425	\$ 129,590	\$ 17,857	\$ 5,420,368
2025	3,410,000	1,444,046	535,000	41,500	133,841	13,607	5,430,546
2026	1,835,000	1,334,775	555,000	28,125	138,230	9,217	3,752,900
2027	1,925,000	1,240,775	570,000	14,250	142,704	4,744	3,750,025
2028	2,015,000	1,152,350	-	-	-	-	3,167,350
2029 - 2033	11,395,000	4,449,094	-	-	-	-	15,844,094
2034 - 2038	14,265,000	1,577,069	-	-	-	-	15,842,069
	\$38,120,000	\$ 12,771,052	\$ 2,180,000	\$ 136,300	\$ 544,365	\$ 45,425	\$ 53,207,352

There are a number of limitations and restrictions contained in the general obligation bond indenture. The District is in compliance with all significant limitations and restrictions at August 31, 2023.

Note 7 - Leases

The District entered into various agreement to lease copiers for District-wide use ranging from October 30, 2017 to November 12, 2020. Under the terms of the lease, the District pays a monthly fee ranging from \$184 to \$1,448. The leases terminate over various dates from fiscal years 2023 to 2026.

The District entered an agreement to lease a postage meter for District-wide use beginning March 2021. Under the terms of the lease, the District pays a monthly fee of \$55. The lease terminates on February 28, 2026.

At August 31, 2023, the District has recognized a right to use asset of \$57,924 and a lease liability of \$58,622 related to these agreements. During the fiscal year, the District recorded \$57,194 in amortization expense and \$1,809 in interest expense for the right to use the copiers and postage meter. The District used a discount rate range of 1.40% to 3.85% on the copiers and 1.86% for the postage meter lease. The discount rates were based on the estimated incremental borrowing rate of the District.

Remaining obligations associated with these leases are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2024	\$ 28,383	\$ 821	\$ 29,204
2025	26,798	278	27,076
2026	<u>3,441</u>	<u>6</u>	<u>3,447</u>
Total	<u>\$ 58,622</u>	<u>\$1,105</u>	<u>\$ 59,727</u>

Note 8 - Subscription-Based Information Technology Arrangements (SBITAs)

The District has entered into multiple SBITA contracts for educational and productivity software. The District is required to make principal and interest payments through fiscal year 2026. The subscription liability was valued using discount rates between 4.36% and 5.92%. The discount rates were based on the estimated incremental borrowing rate of the District. Remaining obligations associated with the SBITA arrangements are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2024	\$ 22,394	\$2,396	\$ 24,790
2025	20,607	1,229	21,836
2026	<u>21,775</u>	<u>3</u>	<u>21,778</u>
Total	<u>\$ 64,776</u>	<u>\$3,628</u>	<u>\$ 68,404</u>

Note 9 - Contingencies

The District is not a party to any legal actions that are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

The District participates in numerous state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2023, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 10 - Defined Benefit Pension Plan**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, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) as 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 education institutions in Texas who are employed for one-half or more of the standard work load and who are not exempt from membership under Texas Government Code, Title 8, Section 822.02 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/Pages/about_publications.aspx ; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

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

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 through 2025.

	Contribution Rates	
	2022	2023
Member	8.00%	8.00%
Non-Employer Contributing Entity (State)	7.75%	8.00%
Employers	7.50%	8.00%
	2022	2023
Member Contributions	\$ 2,224,330	\$ 2,406,779
NECE On-Behalf Contributions	1,751,831	1,901,681
Employer Contributions	837,560	986,203

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 are two additional surcharges an employer is subject to:

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

Actuarial Assumptions

The total pension liability in the August 31, 2021 actuarial valuation rolled forward to August 31, 2022 was determined using the following actuarial assumptions:

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual entry age normal
Asset Valuation Method	Fair value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2020	3.91%
Inflation	2.30%
Salary Increases including inflation	2.95% to 8.95%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2021. For a full description of these assumptions, please see the actuarial valuation report dated November 12, 2021.

Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and State contributions will be 8.5% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and State contributions for active and rehired retirees.

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

The long-term expected 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-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target allocation as of August 31, 2022 (see page 54 of the TRS ACFR) are summarized on the following page.

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return as of August 31, 2022

Asset Class	Target Allocation ¹	Long-Term Expected Geometric Real Rate of Return ²	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.0%	4.6%	1.12%
Non-U.S. Developed	13.0%	4.9%	0.90%
Emerging Markets	9.0%	5.4%	0.75%
Private Equity	14.0%	7.7%	1.55%
Stable Value			
Government Bonds	16.0%	1.0%	0.22%
Absolute Return ⁴	0.0%	3.7%	0.00%
Stable Value Hedge Funds	5.0%	3.4%	0.18%
Real Return			
Real Estate	15.0%	4.1%	0.94%
Energy and Natural Resources and Infrastructure	6.0%	5.1%	0.37%
Commodities	0.0%	3.6%	0.00%
Risk Parity			
Risk Parity	8.0%	4.6%	0.43%
Leverage			
Cash	2.0%	3.0%	0.01%
Asset Allocation Leverage	-6.0%	3.6%	-0.05%
Inflation Expectation			2.70%
Volatility Drag ³			-0.91%
Expected Return	<u>100%</u>		<u>8.19%</u>

¹ Target allocations based on the FY2022 policy model.

² Capital Market Assumptions come from Aon Hewitt (as of 8/31/2022).

³ The volatility drag results from the conversion between arithmetic and geometric mean returns.

⁴ Absolute Return includes Credit Sensitive Instruments.

Discount Rate Sensitivity Analysis

The following table presents the Net Pension Liability of the plan using the discount rate of 7.00%, and what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Total TRS pension liability	\$ 92,353,208,735	\$ 59,367,428,259	\$ 32,630,904,839
District's proportionate share of the net pension liability	\$ 16,613,415	\$ 10,679,604	\$ 5,869,972

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

At August 31, 2023, the District reported a liability of \$10,679,604 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	\$ 10,679,604
State's proportionate share that is associated with the District	<u>21,783,637</u>
Total	<u><u>\$ 32,463,241</u></u>

The net pension liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2021 through August 31, 2022.

At August 31, 2022 the employer's proportion of the collective net pension liability was 0.000179890 which was an increase of .0000058 from its proportion measured as of August 31, 2021.

Changes Since the Prior Actuarial Valuation

The actuarial assumptions and methods have been modified since the determination of the prior year's Net Pension Liability. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7.00 percent.

For the year ended August 31, 2023, the District recognized pension expense of \$2,082,269 and revenue of \$1,712,200 for support provided by the State.

At August 31, 2023, 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 economic experience	\$ 154,853	\$ 232,836
Changes in actuarial assumptions	1,989,958	495,953
Difference between projected and actual investment earnings	1,055,111	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,051,520	277,522
Contributions paid to TRS subsequent to the measurement date	986,203	-
Total	\$ 5,237,645	\$ 1,006,311

\$986,203 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2024.

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

Year Ended August 31	Amount
2024	\$ 920,451
2025	541,152
2026	209,698
2027	1,345,648
2028	228,182
Thereafter	-
Total	\$ 3,245,131

Note 11 - Postemployment Health Benefits

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

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

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-retirement benefit changes, including automatic COLAs.

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

TRS-Care Monthly Premium Rates		
	Medicare	Non-Medicare
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

Contributions

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

Texas Insurance Code, section 1575.202 establishes the State’s contribution rate which is 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employee 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	2023
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
	2022	2023
Employer Contributions	\$ 230,721	\$ 254,765
Member Contributions	183,729	195,557
NECE On-Behalf Contributions	330,181	361,413

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 hiring a TRS retiree, employers are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$83 million in fiscal year 2022 from the Federal Rescue Plan Act (ARPA) to help defray Covid-19 related health care costs during fiscal year 2022.

Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2022. The actuarial valuation was determined using the following actuarial assumptions:

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. The demographic assumptions were developed in the experience study performed for the TRS for the period ending August 31, 2017.

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2021 TRS pension plan actuarial valuation that was rolled forward to August 31, 2022:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Salary Increases
Rates of Disability	

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

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	3.91% as of August 31, 2022
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	3.05% to 9.05%, including inflation
Healthcare Trend Rates	4.25% to 8.5% The initial medical trend rates were 8.25% for Medicare retirees and 7.25% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.
Election Rates	Normal Retirement: 65% participation prior to age 65 and 25% participation after age 65; 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

Discount Rate

A single discount rate of 3.91% was used to measure the total OPEB liability. There was an increase of 1.96% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.91%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.91%)	Discount Rate (3.91%)	1% Increase in Discount Rate (4.91%)
Total TRS OPEB liability	\$ 28,231,881,036	\$ 23,944,005,302	\$ 20,470,275,606
District's proportionate share of the net OPEB liability	\$ 8,188,042	\$ 6,944,437	\$ 5,936,957

Healthcare Cost Trend Rate Sensitivity Analysis

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:

	1% Decrease in Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Total TRS OPEB liability	\$ 19,729,968,204	\$ 23,944,005,302	\$ 29,406,962,102
District's proportionate share of the net OPEB liability	\$ 5,722,247	\$ 6,944,437	\$ 8,528,849

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

At August 31, 2023, the District reported a liability of \$6,944,437 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	\$ 6,944,437
State's proportionate share that is associated with the District	8,471,122
Total	\$ 15,415,559

The Net OPEB Liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 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 employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2021 through August 31, 2022.

At August 31, 2023, the District's proportion of the collective Net OPEB Liability was 0.0290028198% compared to 0.029444959% as of August 31, 2022.

Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. This change increased the Total OPEB liability.

Change of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2023, the District recognized OPEB benefit of \$1,202,121. Additionally, the District recognized revenue of \$290,581 for support provided by the State.

At August 31, 2023, 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	\$ 386,086	\$ 5,785,339
Changes in actuarial assumptions	1,057,775	4,824,582
Difference between projected and actual investment earnings	20,686	-
Changes in proportion and differences between District contributions and the proportionate share of contributions	1,972,742	234,446
Contributions paid to TRS subsequent to the measurement date	254,765	-
Total	\$ 3,692,054	\$ 10,844,367

\$254,765 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended August 31, 2024.

The net amounts of the employer’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
2024	\$ (1,355,876)
2025	(1,355,801)
2026	(1,061,315)
2027	(662,624)
2028	(911,875)
Thereafter	(2,059,587)
Total	\$ (7,407,078)

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from federal governments to offset certain prescriptions drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amount of \$164,227, \$87,483, and \$116,350 for the years ended August 31, 2023, 2022 and 2021, respectively.

Note 12 - Health Care and Workers' Compensation Coverage

During the year ended August 31, 2023, employees of the District were covered by a third party commercial health insurance (the Plan). The District has paid premiums of \$386 per month per employee to the plan, and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator acting on behalf of a licensed insurer. The plan was authorized by Section 21.922, Texas Education Code, and was documented by contractual agreement. The plan is accounted for in the general fund.

The contract between the District and the third-party administrator is renewable annually on September 1, and terms of coverage and premium costs are included in the contractual provisions.

The District was a member of the Texas Public Schools Workers' Compensation Project, or School Comp, during the year ended August 31, 2022. As a member, the District funds its claims as follows:

- Its actual claims up to 30% of the standard annual premium.
- Prorata share of all claims of the project that exceed the respective members 30% up to a maximum of 100% of the standard annual premium.
- Proportionate share of administration costs and excess loss insurance premiums.

School Comp purchases specific and aggregate stop-loss insurance from Safety National Casualty Corporation. Premiums are based on manual rates for each type of employee as provided by the Texas Department of Insurance multiplied by the actual payroll paid to each employee. An experience modifier is also calculated to reflect the member's actual loss experience, which is added to the annual premium and in effect produces a retroactively rated policy. Statements are received periodically from School Comp, which reports a claims reserve for claims that have occurred but have not been billed to the member on a claim by claim basis. As of August 31, 2023, the District had no material amounts of outstanding unpaid claims payable. The District retains a liability for claims incurred but not reported. The plan is accounted for in the internal service fund.

The following is a reconciliation of workers' compensation claims during the previous two years:

	2023	2022
Claims payable beginning of year	\$ 35,000	\$35,000
Claims incurred	4,294	36,270
Claims paid	(4,294)	(36,270)
Claims payable end of year	\$ 35,000	\$ 35,000

The coverage with School Comp and related liability for claims incurred but not reported was for previous fiscal years.

During the year ended August 31, 2023, the District met its statutory workers' compensation obligation through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2022, the Fund carries a discounted reserve of \$50,647,775 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2023, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31 and is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2023, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

Note 13 - Revenues from Local and Intermediate Sources

For the year ended August 31, 2023, revenues from local and intermediate sources for governmental fund types consisted of the following:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Property taxes	\$ 23,199,411	\$ 4,541,663	\$ -	\$ 27,741,074
Food service sales	-	-	1,583,986	1,583,986
Investment income	372,881	37,037	-	409,918
Penalties, interest, and other tax-related income	143,691	-	-	143,691
Co-curricular student activities	284,888	-	1,549,975	1,834,863
Other	292,515	-	-	292,515
Total	\$ 24,293,386	\$ 4,578,700	\$ 3,133,961	\$ 32,006,047

Note 14 - Unearned Revenues

Unearned revenues at year-end in the fund statements consisted of the following:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Athletic revenue	\$ 25,090	\$ -	\$ -	\$ 25,090
Food service revenue	-	-	80,684	80,684
State revenue	46,057	30,615	-	76,672
Total	\$ 71,147	\$ 30,615	\$ 80,684	\$ 182,446

Note 15 - Accumulated Unpaid Vacation and Sick Leave Benefits

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability for vacation leave has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment.

Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

Note 16 - Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2023, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 17 - Deferred Compensation Plan

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

Until paid or made available to the employee or another beneficiary, all amounts of compensation deferred under the plan, investments purchased with those amounts, and all income attributable to those investments are held in trust and are not subject to the claims of the District's general creditors. Participant's rights under the plan are equal to the fair market value of the deferred account for each participant.

Note 18 - General Fund Federal Source Revenues

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

	CFDA	Amount
School of Health and Related Services	N/A	\$ 311,655
Medicaid Administrative Program	93.778	30,556
Impact Aid	84.041	77,189
		\$ 419,400

Note 19 - Tax Abatements

In compliance with GASB Statement No. 77, the District did not have any outstanding tax abatements for the year ended August 31, 2023.

Note 20 - Adoption of New Standard

As of September 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITA)*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. Beginning net position was restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

	Governmental Activities
Net position at September 1, 2022, as previously reported	\$ 48,113,015
Add right-to-use intangible assets, net of amortization under GASB Statement No. 96 at September 1, 2022	257,986
Net position at September 1, 2022, as restated	\$ 48,371,001

Note 21 - Subsequent Events

On November 7, 2023, the District held a School Bond Election in which the voters passed a bond package totaling approximately \$240 million to be used for construction of a new elementary school, high school and intermediate school enhancements and other projects.



Required Supplementary Information
August 31, 2023

Wylie Independent School District

Wylie Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
(Exhibit G-1)
Year Ended August 31, 2023

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive or (Negative)
		Original	Final		
Revenues					
5700	Total local and intermediate sources	\$ 23,819,000	\$ 23,819,000	\$ 24,293,386	\$ 474,386
5800	State program revenues	16,944,000	18,232,676	21,346,311	3,113,635
5900	Federal program revenues	425,000	425,000	419,400	(5,600)
5020	Total revenues	41,188,000	42,476,676	46,059,097	3,582,421
Expenditures					
Current					
0011	Instruction	24,399,035	25,299,035	27,004,780	(1,705,745)
0012	Instructional resources and media services	290,000	290,000	296,520	(6,520)
0013	Curriculum and instructional staff development	166,950	166,950	170,865	(3,915)
0021	Instructional leadership	399,500	399,500	374,231	25,269
0023	School leadership	2,028,400	2,193,400	2,370,769	(177,369)
0031	Guidance, counseling, and evaluation services	871,115	1,096,115	1,075,506	20,609
0032	Social work services	160,000	150,000	75,000	75,000
0033	Health services	360,000	400,000	387,695	12,305
0034	Student (pupil) transportation	2,040,000	2,060,000	2,237,124	(177,124)
0035	Food service	-	-	3,109	(3,109)
0036	Extracurricular activities	2,024,000	2,900,000	2,936,302	(36,302)
0041	General administration	1,385,000	1,600,000	1,664,421	(64,421)
0051	Facilities maintenance and operations	4,145,000	5,100,000	5,207,906	(107,906)
0052	Security and monitoring services	563,000	1,100,000	809,795	290,205
0053	Data processing services	723,000	875,000	868,181	6,819
0061	Community Services	165,000	300,000	281,802	18,198
Debt service					
0071	Principal on long term debt	500,000	646,000	741,449	(95,449)
0072	Interest on long term debt	64,000	64,000	86,647	(22,647)
Capital outlay					
0081	Facilities acquisition and construction	904,000	70,000	56,671	13,329
6030	Total expenditures	41,188,000	44,710,000	46,648,773	(1,938,773)
1100	Excess (deficiency) of revenues over (under) expenditures	-	(2,233,324)	(589,676)	1,643,648
Other financing sources (uses)					
7912	Sale of real and personal property	-	-	59,900	59,900
7913	Proceeds from leases and SBITAs	-	-	123,083	123,083
8911	Operating transfers out	-	-	(79,294)	(79,294)
7080	Total other financing sources (uses)	-	-	103,689	103,689
1200	Net change in fund balances	-	(2,233,324)	(485,987)	1,747,337
0100	Fund balance - September 1 (beginning)	6,308,573	6,308,573	6,308,573	-
3000	Fund balance - August 31 (ending)	\$ 6,308,573	\$ 4,075,249	\$ 5,822,586	\$ 1,747,337

Wylie Independent School District
Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System (Exhibit G-2)
August 31, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015
District's proportion of the net pension liability	0.000179890	0.000174090	0.000158978	0.000171144	0.000149838	0.000149333	0.000134797	0.000129204	0.000064454
District's proportionate share of the net pension liability	\$ 10,679,604	\$ 4,433,446	\$ 8,514,530	\$ 8,896,591	\$ 8,247,458	\$ 4,774,870	\$ 5,093,776	\$ 4,567,189	\$ 1,721,656
State's proportionate share of the net pension liability associated with the District	21,783,637	9,487,663	19,562,861	16,253,424	17,412,249	9,974,561	11,612,029	10,881,765	9,074,993
	<u>\$ 32,463,241</u>	<u>\$ 13,921,109</u>	<u>\$ 28,077,391</u>	<u>\$ 25,150,015</u>	<u>\$ 25,659,707</u>	<u>\$ 14,749,431</u>	<u>\$ 16,705,805</u>	<u>\$ 15,448,954</u>	<u>\$ 10,796,649</u>
District's covered payroll	\$ 27,804,117	\$ 26,020,664	\$ 24,386,008	\$ 21,087,811	\$ 19,947,409	\$ 18,602,293	\$ 16,991,299	\$ 15,784,838	\$ 14,692,611
District's proportionate share of the net pension liability as a percentage of its covered payroll	38.41%	17.04%	34.92%	42.19%	41.35%	25.67%	29.98%	28.93%	11.72%
Plan fiduciary net position as a percentage of the total pension liability	75.62%	88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

Note: Plan information was unavailable prior to 2015.

See Notes to Required Supplementary Information

Wylie Independent School District
Schedule of the District's Contributions – Teacher Retirement System (Exhibit G-3)
Year Ended August 31, 2023

	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually required contributions	\$ 986,203	\$ 837,560	\$ 730,029	\$ 659,901	\$ 608,521	\$ 505,775	\$ 480,383	\$ 428,284	\$ 382,578
Contributions in relation to the contractually required contributions	<u>(986,203)</u>	<u>(837,560)</u>	<u>(730,029)</u>	<u>(659,901)</u>	<u>(608,521)</u>	<u>(505,775)</u>	<u>(480,383)</u>	<u>(428,284)</u>	<u>(382,578)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 30,087,124	\$ 27,804,117	\$ 26,020,664	\$ 24,386,008	\$ 21,087,811	\$ 19,947,409	\$ 18,602,293	\$ 16,991,299	\$ 15,784,838
Contributions as a percentage of covered payroll	3.28%	3.01%	2.81%	2.71%	2.89%	2.54%	2.58%	2.52%	2.42%

Note: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

Note: Plan information was unavailable prior to 2015.

Wylie Independent School District
Schedule of the District's Proportionate Share of the Net OPEB Liability (Exhibit G-4)
Year Ended August 31, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
District's proportion of the net OPEB liability	0.000290028	0.000294450	0.000282232	0.000274659	0.000259103	0.000239965
District's proportionate share of the net OPEB liability	\$ 6,944,437	\$ 11,358,236	\$ 10,728,911	\$ 12,988,971	\$ 12,937,247	\$ 10,435,172
State's proportionate share of the net OPEB liability associated with the District	<u>8,471,122</u>	<u>15,217,505</u>	<u>14,417,084</u>	<u>17,259,435</u>	<u>16,607,988</u>	<u>14,430,909</u>
	<u>\$ 15,415,559</u>	<u>\$ 26,575,741</u>	<u>\$ 25,145,995</u>	<u>\$ 30,248,406</u>	<u>\$ 29,545,235</u>	<u>\$ 24,866,081</u>
Covered employee payroll	\$ 27,804,117	\$ 26,020,664	\$ 24,386,008	\$ 21,087,811	\$ 19,947,409	\$ 18,602,293
District's proportionate share of net OPEB liability as a percentage of its covered payroll	24.98%	43.65%	44.00%	61.59%	64.86%	56.10%
Plan fiduciary net position as a percentage of the total OPEB liability	11.52%	6.18%	4.99%	2.66%	1.57%	0.91%

Note: The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

Note: Plan information was unavailable prior to 2018.

Wylie Independent School District
Schedule of the District's Contributions to the OPEB Plan (Exhibit G-5)
Year Ended August 31, 2023

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Contractually required contribution	\$ 254,765	\$ 230,721	\$ 226,699	\$ 225,229	\$ 190,933	\$ 183,052
Contribution in relation to the contractually required contribution	<u>(254,765)</u>	<u>(230,721)</u>	<u>(226,699)</u>	<u>(225,229)</u>	<u>(190,933)</u>	<u>(183,052)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 30,087,124	\$ 27,804,117	\$26,020,664	\$24,386,008	\$21,087,811	\$19,947,409
Contributions as a percentage of Covered payroll	0.85%	0.83%	0.87%	0.92%	0.91%	0.92%

Note: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

Note: Plan information was unavailable prior to 2018.

Note 1 - Budget

Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to August 20 of the preceding fiscal year, 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 appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of 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. All annual appropriations lapse at fiscal year-end.

Transfers out represent transfers from the general fund to the internal service fund.

The following expenditures exceeded appropriations in the final general fund budget:

	<u>Budgeted</u>	<u>Actual</u>	<u>Variance</u>
General Fund			
0011 Facilities maintenance and operations	\$ 25,299,035	\$ 27,004,780	\$ (1,705,745)
0012 Instructional resources and media services	290,000	296,520	(6,520)
0013 Curriculum and instructional staff develop	166,950	170,865	(3,915)
0023 School leadership	2,193,400	2,370,769	(177,369)
0034 Student (pupil) transportation	2,060,000	2,237,124	(177,124)
0035 Food service	-	3,109	(3,109)
0036 Extracurricular activities	2,900,000	2,936,302	(36,302)
0041 General administration	1,600,000	1,664,421	(64,421)
0051 Facilities maintenance and operations	5,100,000	5,207,906	(107,906)
0071 Principal on long-term debt	646,000	741,449	(95,449)
0072 Interest on long-term debt	64,000	86,647	(22,647)

Note 2 - Pension

Changes of Benefit Terms

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

Changes in Size or Composition of the Population Covered by the Benefit Terms

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

The actuarial assumptions and methods have been modified since the determination of the prior year's Net Pension Liability. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25 percent to 7.00 percent.

Note 3 - OPEB

Changes of Benefit Terms

There were minor benefit revisions that have been adopted since the prior measurement date. These changes are not expected to have a significant impact on plan costs.

Changes in the Size or Composition of the Population Covered by the Benefit Terms

There were no changes in the size or composition of the population covered by the benefit terms during the measurement period.

Changes of Assumptions

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

- The discount rate changed from 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. Lower participation rates and updates to the health care trend rate assumptions were also factors that decreased the Total OPEB Liability.

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APPENDIX C

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

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

History and Purpose

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

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The SLB’s land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2022, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the United States Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2022 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2022 and for a description of the financial results of the PSF for the year ended August 31, 2022, the most recent year for which audited financial information regarding the Fund is available. The 2022 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2022 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation’s Investment Policy Statement (the “IPS”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (*e.g.*, NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, is available from the SEC at www.sec.gov/edgar. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the TEA web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See “Management Transition to the PSF Corporation” for a discussion of the PSF Corporation audit. At its November 2022 quarterly

board meeting, the SBOE considered new regulations for the administration of the Bond Guarantee Program. Two readings and a publication period are required for modifications to the Texas Administrative Code, and such process (the “Regulatory Recodification”) was completed in February 2023, with the new regulations becoming effective March 1, 2023. The Regulatory Recodification was taken as an acknowledgment of the new role and powers that are delegated to the PSF Corporation. Among other regulations affecting the Fund that were restructured include the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (recodified in part and replaced in part by the IPS).

Management and Administration of the Fund

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

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

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

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

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The PSF Corporation has also engaged outside counsel to advise it as to its duties with respect to the Fund, including specific actions regarding the investment of the PSF to ensure

compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments. TEA's General Counsel provides legal advice to the SBOE but will not provide legal advice directly to the PSF Corporation.

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

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

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

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

Management Transition to the PSF Corporation

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

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) that the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

The constitutional amendments approved on November 8, 2011, also provided authority to the GLO or another entity (described in statute as the SLB) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an

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

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

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

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

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

Asset Allocation of Fund Portfolios

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

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

PSF 2022 Strategic Asset Allocations

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

PSF Corporation 2023 Strategic Asset Allocation

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

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

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

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

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

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

Comparative Investment Schedule - PSF(SBOE)¹

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

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

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

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

Liquid Account Fair Value at August 31, 2022¹

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

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

¹In millions of dollars.

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

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

Comparative Investment Schedule - PSF(SLB)

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

Asset Class	As of 8-31-22	As of 8-31-21	Increase (Decrease)	Percent Change
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds ¹				
Energy/Minerals	\$2,718.6	\$1,707.5	\$1,011.1	59.2%
Infrastructure	1,622.7	1,652.3	(29.6)	-1.8%
Real Estate	<u>1,921.2</u>	<u>1,276.8</u>	<u>644.4</u>	50.5%
Internally Managed Direct				
Real Estate	271.5	223.9	47.6	21.3%
Investments				
Total Discretionary				
Real Assets Investments	6,534.0	4,860.5	1,673.5	34.4%
Dom. Equity Rec'd as In-Kind Distribution	-	1.7	(1.7)	-100.0%
Sovereign and Other Lands	428.3	405.4	22.9	5.6%
Mineral Interests	5,622.2	2,720.4	2,901.8	106.7%
Cash at State Treasury ²	<u>1,257.5</u>	<u>699.2</u>	<u>558.3</u>	79.8%
Total PSF(SLB)				
Investments	\$13,842.0	\$8,687.2	\$5,154.8	59.3%

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

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

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

The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity. The CDBGP Capacity is made available from the capacity of the Guarantee Program but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the

Charter District Bond Guarantee Program.” Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

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

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

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

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

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

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

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

additional reserve of CDBGP Capacity determined by calculating an equal percentage as established by the SBOE for the Capacity Reserve, applied to the CDBGP Capacity. Effective March 1, 2023, the Capacity Reserve is 0.25%. The Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/, which are also filed with the MSRB.

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

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

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State

funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Infectious Disease Outbreak

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

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

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

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

Limit (which is currently the State Capacity Limit). June 30, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

⁽²⁾ At June 30, 2023 (based on unaudited data, which is subject to adjustment), there were \$107,163,538,633 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,424 school district issues, aggregating \$103,112,917,633 in principal amount and 107 charter district issues, aggregating \$4,050,621,000 in principal amount. At June 30, 2023 the projected guarantee capacity available was \$30,224,526,888 (based on unaudited data, which is subject to adjustment).

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

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

At the end of fiscal 2022, the Fund balance was \$56.8 billion, an increase of \$1.2 billion from the prior year. This increase is primarily due to overall net increases in value of the various asset classes in which the Fund is invested. During the year, the SBOE continued implementing the long-term strategic asset allocation, diversifying the PSF(SBOE) to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(SBOE) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2022, net of fees, were -6.80%, 6.54% and 7.33%, respectively, and the Liquid(SBOE) annual rate of return for the one-year and three-year periods ending August 31,

2022, net of fees, was -10.24% and -1.23% (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). In addition, the SLB continued its shift into externally managed real asset investment funds, and the one-year, five-year, and ten-year annualized total returns for the PSF(SLB) externally managed real assets, net of fees and including cash, were 32.29%, 8.42%, and 7.40%, respectively.

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

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

PSF Returns Fiscal Year Ended 8-31-2022¹

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

¹ Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets.

Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2022.

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

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

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

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

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

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

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

Other Events and Disclosures

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

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

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

PSF Continuing Disclosure Undertaking

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

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable

obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA Undertaking, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

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

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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Proposed Form of Opinion of Bond Counsel

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

WYLIE INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$182,740,000

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

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

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

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



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

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

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

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

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



within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

Municipal Advisory Services
Provided By

