

**OFFICIAL STATEMENT**  
**Dated: August 8, 2023**

**NEW ISSUE: BOOK-ENTRY-ONLY**

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, 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.*

**\$30,315,000**  
**ANDREWS INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Andrews County, Texas)**  
**Unlimited Tax School Building Bonds, Series 2023**

**Dated Date: August 1, 2023**

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

The Andrews Independent School District Unlimited Tax School Building Bonds, Series 2023 (the "Bonds") are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 6, 2023 and the order (the "Order") authorizing the issuance of the Bonds adopted on August 8, 2023 by the Board of Trustees (the "Board") of the Andrews Independent School District (the "District"). The Bonds are payable as to principal and interest from the proceeds of an ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Interest on the Bonds will accrue from the Dated Date specified above and will be payable on August 28, 2023 and each February 15 and August 15 thereafter until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar the Record Date (hereafter defined).

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company New York, New York ("DTC"). Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used for the purpose of for the purposes of (i) acquiring, constructing, renovating, and equipping school buildings in the District; acquiring, constructing, renovating, and equipping athletic recreational facilities including tennis courts, softball, baseball, athletic fields, and golf facilities in the District; and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on or after February 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption (See "THE BONDS - Optional Redemption").

**MATURITY SCHEDULE**  
(On Inside Cover)

*The Bonds are offered for delivery when, as and if issued, and received by the initial purchaser at a competitive sale (the "Purchaser" or the "Initial Purchaser") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about August 24, 2023.*

**\$30,315,000**  
**ANDREWS INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Andrews County, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023**

**MATURITY SCHEDULE**  
Base CUSIP No.: 034501 <sup>(1)</sup>

<b>Maturity Date</b> <b>2/15</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP No. Suffix<sup>(1)</sup></b>
2024	\$12,405,000	5.00%	3.45%	FU5
2025	4,725,000	5.00	3.48	FV3
2026	1,635,000	5.00	3.30	FW1
2027	1,925,000	5.00	3.15	FX9
2028	1,025,000	5.00	3.11	FY7
2029	1,080,000	5.00	3.08	FZ4
2030	1,135,000	5.00	3.04	GA8
2031	1,195,000	5.00	3.02	GB6
2032	235,000	5.00	3.05	GC4
2033	245,000	5.00	3.11	GD2
2034	260,000	5.00	3.17 <sup>(2)</sup>	GE0
2035	275,000	5.00	3.25 <sup>(2)</sup>	GF7
2036	290,000	5.00	3.40 <sup>(2)</sup>	GG5
2037	300,000	5.00	3.58 <sup>(2)</sup>	GH3
2038	315,000	4.00	4.00	GJ9
2039	605,000	4.00	4.02	GK6
2040	625,000	4.00	4.05	GL4
2041	655,000	4.00	4.09	GM2
2042	680,000	4.00	4.15	GN0
2043	705,000	4.00	4.19	GP5

(Interest to accrue from the Dated Date)

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(2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2033, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

## ANDREWS INDEPENDENT SCHOOL DISTRICT

### BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Jeff Saldivar, President	2020	2026	Patriot Auto Sports - Owner
Mindy Wiggins, Vice President	2021	2024	West Texas Consultant - Secretary
Blake Roberts, Secretary	2020	2025	Roberts Production - Owner
Jason Crutcher, Member	2022	2025	Director of I/E Operations
Xavier Emiliano, Member	2021	2024	Halliburton – Area Coordinator
Jim Leach, Member	2016	2025	Retired Educator
Julie Stephenson, Member	2023	2026	N/A

### APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dr. Bobby Azam	Superintendent	26 Years	13 Years
Dr. Chris Dulin	Assistant Superintendent of Finance	22 Years	21 Years

### CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Wayne M. Manning CPA Inc., Andrews, Texas	Independent Auditor

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Plano, Texas 75024  
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(214) 279-8683 (Fax)

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District or the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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

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

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

## TABLE OF CONTENTS

<p>SELECTED DATA FROM THE OFFICIAL STATEMENT ..... 1</p> <p>INTRODUCTORY STATEMENT ..... 2</p> <p>THE BONDS ..... 2</p> <p style="padding-left: 20px;">Authorization and Purpose..... 2</p> <p style="padding-left: 20px;">General Description ..... 2</p> <p style="padding-left: 20px;">Optional Redemption ..... 2</p> <p style="padding-left: 20px;">Notice of Redemption and DTC Notices..... 2</p> <p style="padding-left: 20px;">Security ..... 3</p> <p style="padding-left: 20px;">Permanent School Fund Guarantee..... 3</p> <p style="padding-left: 20px;">Legality ..... 3</p> <p style="padding-left: 20px;">Payment Record..... 3</p> <p style="padding-left: 20px;">Amendments ..... 3</p> <p style="padding-left: 20px;">Defeasance ..... 3</p> <p style="padding-left: 20px;">Sources and Uses of Funds..... 4</p> <p>REGISTERED OWNERS' REMEDIES..... 4</p> <p>BOOK-ENTRY-ONLY SYSTEM ..... 4</p> <p>REGISTRATION, TRANSFER AND EXCHANGE ..... 5</p> <p>THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM..... 6</p> <p>STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS ..... 6</p> <p>CURRENT PUBLIC SCHOOL FINANCE SYSTEM ..... 7</p>	<p>AD VALOREM TAX PROCEDURES ..... 10</p> <p>TAX RATE LIMITATIONS ..... 13</p> <p>THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT... 14</p> <p>EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS..... 14</p> <p>RATING ..... 15</p> <p>LEGAL MATTERS ..... 15</p> <p>TAX MATTERS ..... 15</p> <p>INVESTMENT POLICIES..... 17</p> <p>REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . 18</p> <p>CYBERSECURITY RISK MANAGEMENT ..... 18</p> <p>FINANCIAL ADVISOR ..... 19</p> <p>LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS ..... 19</p> <p>CONTINUING DISCLOSURE OF INFORMATION ..... 19</p> <p>LITIGATION ..... 20</p> <p>FORWARD-LOOKING STATEMENTS..... 20</p> <p>WINNING BIDDER ..... 20</p> <p>CERTIFICATION OF THE OFFICIAL STATEMENT AND NO LITIGATION ..... 21</p> <p>CONCLUDING STATEMENT..... 21</p>
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Financial Information of the District .....	Appendix A
General Information Regarding the District and Its Economy.....	Appendix B
Form of Legal Opinion of Bond Counsel.....	Appendix C
Audited Financial Report Fiscal Year Ended June 30, 2022 .....	Appendix D
The Permanent School Fund Guarantee Program.....	Appendix E

## SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data 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 page from this Official Statement or to otherwise use it without this entire Official Statement.

<b>The District</b>	The Andrews Independent School District (the "District") is a political subdivision of the State of Texas located in Andrews County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). 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.
<b>The Bonds</b>	The Bonds are being issued in the principal amount of \$30,315,000 pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 6, 2023, and an order (the "Order") authorizing the issuance of the Bonds adopted by the Board on August 8, 2023. Proceeds from the sale of the Bonds will be used for purposes of (i) acquiring, constructing, renovating, and equipping school buildings in the District; acquiring, constructing, renovating, and equipping athletic recreational facilities including tennis courts, softball, baseball, athletic fields, and golf facilities in the District; and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein).
<b>Security</b>	The Bonds will constitute direct and voted obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Payments of principal and interest on the Bonds will be further secured by the corpus of the Permanent School Fund of Texas. (See "THE BONDS – Security", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
<b>Optional Redemption</b>	The Bonds maturing on or after February 15, 2034 are subject to redemption at the option of the District in whole or in part on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. (See "THE BONDS – Optional Redemption").
<b>Permanent School Fund Guarantee</b>	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (defined herein), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "THE BONDS – Permanent School Fund Guarantee" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.")
<b>Rating</b>	The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the guaranteed repayment thereof under the Permanent School Fund Guarantee Program (as defined herein) of the Texas Education Agency. The District's underlying, unenhanced rating, including the Bonds, is "A+" by S&P. (See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Ratings of Bonds Guaranteed Under the Guarantee Program" and "RATING" herein.)
<b>Tax Matters</b>	In the opinion of Bond Counsel for 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 on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations. (See "TAX MATTERS" and Appendix C – "Form of Legal Opinion of Bond Counsel.")
<b>Payment Record</b>	The District has never defaulted on the payment of its bonded indebtedness.
<b>Legal Opinion</b>	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.
<b>Delivery</b>	When issued, anticipated to be on or about August 24, 2023.

## INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Andrews Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Andrews County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2023 (the "Bonds") identified on the inside cover page hereof.

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined below) and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Andrews Independent School District, 405 NW 3<sup>rd</sup> Street, Andrews, Texas 79714 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be submitted by the purchaser of the Bonds (the "Purchaser" or "Initial Purchaser") to the Municipal Securities Rulemaking Board, and will be available through its Electronic Municipal Market Access (EMMA) system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the District's undertaking to provide certain information on a continuing basis.

## THE BONDS

### Authorization and Purpose

The Bonds are being issued in the principal amount of \$30,315,000 pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held in the District on May 6, 2023 (the "Election") and an order (the "Order") authorizing the issuance of the Bonds adopted by the Board of Trustees (the "Board") on August 8, 2023. Proceeds from the sale of the Bonds will be used for purposes of (i) acquiring, constructing, renovating, and equipping school buildings in the District; acquiring, constructing, renovating, and equipping athletic recreational facilities including tennis courts, softball, baseball, athletic fields and golf facilities in the District; and (ii) paying the costs of issuing the Bonds.

### General Description

The Bonds are dated August 1, 2023 (the "Dated Date") and will bear interest from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on the inside cover page of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months, and is payable on August 28, 2023 and on each February 15 and August 15 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 of principal amount or any integral multiple thereof within a maturity.

Interest on the Bonds is payable by check mailed on or before each interest payment date by the Paying Agent/Registrar, initially, BOKF, NA, Dallas, Texas, to the registered owner at the last known address as it appears on the Paying Agent/Registrar's registration books at the close of business on the Record Date (as defined herein) or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the registered owner to whom interest is to be paid, provided, however, that such person shall bear all risk and expense of such other arrangements. Principal of the Bonds will be payable only upon presentation of such Bonds at the corporate trust office of the Paying Agent/Registrar at stated maturity or prior redemption. So long as the Bonds are registered in the name of CEDE & CO. or other nominee for The Depository Trust Company New York, New York ("DTC"), payments of principal of and interest on the Bonds will be made as described in "BOOK-ENTRY-ONLY SYSTEM" herein.

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

### Optional Redemption

The Bonds maturing on or after February 15, 2034 are subject to redemption, at the option of the District, in whole or in part, in principal amounts of \$5,000 or integral multiples thereof, on August 15, 2033 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed. Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the 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.

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

## **Security**

The Bonds are direct and voted obligations of the District and are payable as to both principal and interest from an ad valorem tax annually levied, without legal limit as to rate or amount, on all taxable property within the District. The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined), which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. (See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

## **Permanent School Fund Guarantee**

In connection with the sale of the Bonds, the District has received conditional approval from the Commissioner of Education of the State for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed in "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, 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 a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "REGISTERED OWNERS' REMEDIES" herein.

## **Legality**

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and "Appendix C - Form of Legal Opinion of Bond Counsel").

## **Payment Record**

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

## **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 majority of owners of the Bonds 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 principal amount of the then outstanding Bonds so affected, 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 interest 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.

## **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 on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the 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. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished, provided, however, the District has 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.

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

**Sources and Uses of Funds**

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

<b>Sources</b>	
Par Amount of Bonds	\$ 30,315,000.00
Accrued Interest	94,549.17
Net Reoffering Premium	1,028,958.85
<b>Total Sources of Funds</b>	<b>\$ 31,438,508.02</b>
<b>Uses</b>	
Deposit to Construction Fund	\$ 31,000,000.00
Costs of Issuance	186,576.93
Purchaser's Discount	140,938.59
Deposit to Interest and Sinking Fund	110,992.50
<b>Total Uses of Funds</b>	<b>\$ 31,438,508.02</b>

**REGISTERED OWNERS' 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 ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the 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 E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The 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.

**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 Purchaser believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited Securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to



the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments with respect to 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, physical Bond certificates are required to be printed and delivered to bond holders.

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, physical Bond certificates will be printed and delivered to bond holders.

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Purchaser take any responsibility for the accuracy thereof.

#### **Use of Certain Terms in Other Sections of this Official Statement**

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the 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.

### **REGISTRATION, TRANSFER AND EXCHANGE**

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Order, the District covenants to maintain and provide a Paying Agent/Registrar until the Bonds are duly paid.

#### **Successor Paying Agent/Registrar**

Provision is made in the Order for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank or trust company organized under the laws of the United States or any state or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District has agreed 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.

#### **Initial Registration**

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.

## **Future Registration**

In the event the Book-Entry-Only System is discontinued, the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of the Bonds to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. 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 (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer.

## **Record Date For Interest Payment**

The record date ("Record Date") for determining the person to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the next preceding month; provided, however, that the Record Date for the August 28, 2023 interest payment date shall be the date of initial delivery date of the Bonds. 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 (the "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 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.

## **Limitation on Transfer of Bonds**

The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange (i) 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 (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

## **Replacement Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar a certificate to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## **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 E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix E is incorporated herein and made a part hereof for all purposes.

## **STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS**

### **Litigation Relating to the Texas Public School Finance System**

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

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

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

### **Possible Effects of Changes in Law on District Bonds**

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

Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”), which prohibit the enactment of laws that impair prior obligations of contracts.

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

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

### **Overview**

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

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

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

### **2021 Regular and Special Legislative Sessions**

The Texas Legislature meets in regular session in odd-numbered years, for 140 days. The 87th Texas Legislature convened on January 12, 2021 and concluded on May 31, 2021 (“87th Regular Session”). During the 87th Regular Session, the Legislature did not make significant changes to the school finance system, State funding of school districts, nor ad valorem taxation procedures affecting school districts.

When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor’s direction, each lasting no more than 30 days, and for which the Governor sets the agenda. Following the conclusion of the 87th Regular Session, the Texas Governor has called three special sessions of the Legislature. No significant changes were made to the Texas school finance system or property tax systems during the First and Second Special Sessions. Senate Joint Resolution 2, passed during the Third Special Session, proposed a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000, which was approved by voters at an election held May 7, 2022. The amendment to the Constitution is effective beginning January 1, 2022. As a result of the increased exemption, additional changes to the education finance system were implemented, including “hold harmless” allotments, to provide funding to school districts who have less revenue (including revenues specifically for debt service and maintenance and operations) due to the implementation of the increased homestead exemption. At this time, the District cannot ascertain the financial impact, if any, the change in homestead exemption will have on the District’s finances in the future.

### **2023 Regular and Any Special Legislative Sessions**

On January 10, 2023, the 88th Texas Legislature convened in general session that adjourned on May 29, 2023. Immediately after the conclusion of the regular session, the Texas Governor called a first special session to address property tax relief from school district taxation and border security; the first special session began on May 29, 2023 and ended on June 27, 2023. At the conclusion of the first special session, the Governor called a second special session that began on June 27, 2023 and adjourned on July 13, 2023.

The charge for the second special session included the following: (i) “Legislation to cut property-tax rates solely by reducing the school district maximum compressed tax rate in order to provide lasting property-tax relief for Texas taxpayers;” (ii) “Legislation to put Texas on a pathway to eliminate school district maintenance and operations property taxes;” (iii) “Legislation relating to providing property tax relief through the public school finance system, exemptions, limitations on appraisals and taxes and property tax administration;” and (iv) “Legislation relating to the amount of the total revenue exemption from the franchise tax and the exclusion of certain taxable entities from the requirement to file a franchise tax report.”

During the second special session, the Legislature passed Senate Bill 2 (“SB 2”), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. “hold harmless”) for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023.

SB 2 was signed into law by the Governor on July 22, 2023.

The District can make no representations or predictions regarding any actions the Legislature has taken or may take concerning the substance or the effect of any legislation passed in a previous session or a future session of the Legislature.

## **Local Funding for School Districts**

A school district's M&O tax rate is composed of two distinct parts: the "Tier One Tax Rate", which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as "Tier One") under the Foundation School Program, as further described below, and the "Enrichment Tax Rate", which is any local M&O tax effort in excess of its Tier One Tax Rate. Formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) are designed to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption "Local Funding For School Districts" is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts' funding entitlements, as further discussed under the subcaption "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 State fiscal year ending in 2023, the State Compression Percentage is 89.41%.

### ***Maximum Compressed Tax Rate***

The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of 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 instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2021 Legislative Session, a provision of the general appropriations act reduced the maximum MCR for the 2022-2023 school year. It established \$0.8941 as the maximum rate and \$0.8046 as the floor.

### ***Tier One Tax Rate***

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

### ***Enrichment Tax Rate***

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR. 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 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 2020-2021 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,007,300,000 for the EDA, IFA, and NIFA.

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

### ***Tier One***

Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined

threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program.

The Basic Allotment for school districts with a Tier One Tax Rate equal to \$0.93, is \$6,160 for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than \$0.93. For the State fiscal year ending in 2021 and subsequent State fiscal years, the Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by \$6,160, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

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

### **Tier Two**

Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$98.56 per student in WADA for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2022-2023 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

### **Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment**

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

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

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

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

### **Tax Rate and Funding Equity**

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

Furthermore, "property-wealthy" school districts that received additional State funds under the 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. Beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year 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 Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

### **Options for Local Revenue Levels in Excess of Entitlement**

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

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

### **Possible Effects of Wealth Transfer Provisions on the District's Financial Condition**

For the 2023-2024 school year, the District was designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2022-23 school year, for the purpose of implementing permitted wealth equalization options.

A district's "excess local revenues" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it will be required to exercise one or more 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 ration of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of an annexing district.

For a detailed discussion of State funding for school district see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts."

## **AD VALOREM TAX PROCEDURES**

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

### **Valuation of Taxable Property**

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

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

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

On July 13, 2023, during the Second Special Session, the 88<sup>th</sup> Texas Legislature passed Senate Bill 2 ("SB 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 maximum property value 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 takes effect on January 1, 2024, if the constitutional amendment proposed by House Joint Resolution 2 during the Second Special Session is approved by the voters on November 7, 2023.

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

### **State Mandated Homestead Exemptions**

State law grants, with respect to each school district in the State, (1) a \$40,000 exemption (as described below) of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. On November 2, 2021, the Texas Constitution was amended to provide that the surviving spouse of an individual who received a limitation on the school district property taxes on the person's residence homestead on the basis of disability continued to receive that limitation while the property remained the spouse's residence homestead if the spouse was at least 55 years old. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to state-mandated homestead exemptions. Senate Joint Resolution 2, passed during the Third Special Session of the 87<sup>th</sup> Texas Legislature and approved by voters on May 7, 2022 authorized a constitutional amendment increasing the mandatory homestead exemption for school districts from \$25,000 to \$40,000 beginning January 1, 2022. Senate Bill 1, which was also passed during the Third Special Session of the 87<sup>th</sup> Texas Legislature makes provisions for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

Additional legislation concerning the required homestead exemption was passed in the 2<sup>nd</sup> Special Session of the 88<sup>th</sup> Texas Legislature. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Regular and Special Legislative Sessions" herein.

### **Local Option Homestead Exemptions**

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

### **State Mandated Freeze on School District Taxes**

Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homestead of persons sixty-five (65) years of age or older or of disabled persons above the amount of tax imposed in the year such homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older, but not the disabled. See "Appendix A – Financial Information of the District – Assessed Valuation" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and 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. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

### **Other Exempt Property**

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

### **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. For tax years beginning on or after January 1, 2022, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code, 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 87<sup>th</sup> 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 87<sup>th</sup> 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 and the District is currently monitoring the State’s implementation of this new economic development program.

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

### **District and Taxpayer Remedies**

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, \$50.6 million for the 2021 tax year, \$52,978,200 for the 2022 tax year, \$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. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

### **District's Rights in the Event of Tax Delinquencies**

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

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

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

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

## **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 May 4, 2002 under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code).

The maximum maintenance tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district's MCR. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is \$0.93.

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").

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. The Bonds are issued as "new money bonds" and are subject to the \$0.50 threshold tax rate test. The District has not utilized projected property values or State assistance to satisfy the \$0.50 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."

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

values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

#### **THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT**

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Andrews County. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within Andrews County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

The District does not tax personal property not used in the production of income, such as personal automobiles.

The District does collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code.

The District's taxes are collected by the Andrews Independent School District Tax Office.

The District does not allow split payments and does not give discounts for early payment of taxes.

The District does not participate in a tax increment financing zone. The District has not granted any tax abatements.

The District does grant a portion of the additional local option exemption of up to 20% of the market value of residence homesteads.

The District has not granted the freeport exemption. The District has taken action to tax goods-in-transit.

#### **EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS**

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For fiscal year ended June 30, 2022, the District made a contribution to TRS on a portion of their employee's salaries that exceeded the statutory minimum. For a discussion of the TRS retirement plan, see "I. - Defined Benefit Pension Plan" to the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see "J. - Defined Other Post-Employment Benefit Plans" to Financial Statements attached hereto as Appendix D.

As a result of its participation in the Plan and the TRS-Care Retired Plan and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board ("GASB") Statement 45.

During the fiscal year ended June 30, 2022, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed 100% per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "K. - Health Care Coverage" of the Financial Statements.

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

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See "APPENDIX A – Change in Net Assets". GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

#### **RATING**

The Bonds are rated "AAA" by S&P Global Ratings ("S&P") based upon the Texas Permanent School Fund Guarantee Program. (See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The District's underlying, unenhanced rating, including the Bonds, is "A+" from S&P. 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 ratings. The ratings reflect only the view of such organization and the District makes no representation as to the appropriateness of any rating. There is no assurance that any rating will continue for any given period of time one or both of such ratings will not be revised downward or withdrawn entirely by the rating company, if in the judgment of such company the circumstances so warrant. Any such downward revision or withdrawal of one or more ratings, may have an adverse effect on the market price or marketability of the Bonds.

#### **LEGAL MATTERS**

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), 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 Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C.

Bond Counsel represents the Financial Advisor and purchasers of school district bonds from time to time in matters unrelated to the issuance of the Bonds, but Bond Counsel has been engaged by and only represents the District in the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. 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 herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Order. The District intends to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from the proceeds of the Bonds.

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

#### **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 C – Form of Legal Opinion of Bond Counsel.

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 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 includable in gross income 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 with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. 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 maturity 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 Law, which is 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 Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit 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.

## 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 IRS. 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 foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

## 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.

## INVESTMENT POLICIES

### Investments

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

### Legal Investments

Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv) the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service.

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

Under State law, the District may contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term of up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance or resolution. The District has not contracted with, and has no present intention of contracting with, any such investment management firm or the Texas Securities Board to provide such services.

### **Investment Policies**

Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment owned by the District and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

### **Additional Provisions**

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

### **Current Investments**

As of May 31, 2023, the District had approximately \$22,474,476 (unaudited) invested in Lone Star and approximately \$51,785,839 (unaudited) invested in TexPool (both of which are government investment pools that generally have the characteristics of a money-market mutual fund). The market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) is approximately 100% of the book value. No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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

It is the obligation of the Purchaser to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District has agreed to cooperate, at the Purchaser's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

### **CYBERSECURITY RISK MANAGEMENT**

The District's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the District continually assesses and monitors its cybersecurity risks, the District has been (and may be in the future) subject to cyber-attacks from time to time. In response to such assessments and monitoring, the District takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, and taking other similar measures. To date, the District has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the District will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the District's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated

by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the District's operations and/or financial condition.

#### **FINANCIAL ADVISOR**

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as Financial Advisor to the District to assist in the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds that is contained in this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the District to determine the accuracy or completeness of this Official Statement. Because of their limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Financial Advisor may from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

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

#### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments 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. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "RATING" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The 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.

#### **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure obligations of the TEA, see "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Markets Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **Annual Reports**

The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes financial information and operating data with respect to the District of the general type included in this Official Statement in Appendix A (such information being the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2023. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("Rule 15c2-12").

The District's current fiscal year end is June 30. Accordingly, the Annual Operating Report must be provided by the last day of December in each year, and the Financial Statements must be provided by June 30 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

#### **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; and (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or others 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 their agreement described above

under "Annual Reports". The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Order make any provision for a bond trustee, debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement. In the Order, the District adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings.

For these purposes, (a) an event described in clause (12) of 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. For the purposes of the above describe event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12.

#### **Availability of Information**

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

#### **Limitations and Amendments**

The District has agreed to update information and to provide notices of 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 has been provided except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal or state securities laws.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if, but only if, (1) the agreement, as so amended, would have permitted underwriters to purchase or sell Bonds in the initial primary offering in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any qualified 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 SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it has agreed to include with the financial information and operating data next provided, in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and operating data so provided.

#### **Compliance with Prior Undertakings**

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

### **LITIGATION**

In the opinion of District officials, the District is not a party to any litigation or other proceeding pending or to their 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.

### **FORWARD-LOOKING STATEMENTS**

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

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

### **WINNING BIDDER**

After requesting competitive bids for the Bonds, the District accepted the bid of Fidelity Capital Markets (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net reoffering premium of \$1,028,958.85, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The initial reoffering yields shown on page 2 hereof will produce compensation to the Purchaser in the amount of \$140,938.59. The District can give no assurance that any trading market will be developed for the District after their sale by the District to the Purchaser. The District has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchaser.



**CERTIFICATION OF THE OFFICIAL STATEMENT AND NO LITIGATION**

At the time of payment for and delivery of the Initial Bond, the Purchaser will be furnished a certificate, executed by proper officials of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Bonds, on the date of such Official Statement, on the date of sale of said Bonds and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the District, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the District believes to be reliable and the District has no reason to believe that they are untrue in any material respect; (d) except as may be otherwise described in the Official Statement, there has been no material adverse change in the financial condition of the District, since June 30, 2022, the date of the last financial statements of the District appearing in the Official Statement; and (e) no litigation of any nature has been filed or is pending, as of the date hereof, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

**CONCLUDING STATEMENT**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

The Order authorized the issuance of the Bonds and approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the re-offering of the Bonds by the Purchaser. The Board has approved the Official Statement for distribution in accordance with the provisions of Rule 15c2-12.

/s/ Jeff Saldivar

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President, Board of Trustees

ATTEST:

/s/ Blake Roberts

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Secretary, Board of Trustees

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**APPENDIX A**  
**FINANCIAL INFORMATION OF THE DISTRICT**

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**ANDREWS INDEPENDENT SCHOOL DISTRICT**

**Financial Information**

**ASSESSED VALUATION <sup>(1)</sup>**

2022/23 Total Valuation.....	\$ 8,056,551,312
Less Exemptions & Deductions <sup>(2)</sup> :	
State Homestead Exemption	\$ 149,148,820
State Over-65 Exemption	11,167,513
Local 20% Homestead Exemption	142,317,733
Local Over-65 Exemption	8,076,945
Disabled Exemption	2,988,132
Veterans Exemption	662,872
Surviving Spouse 100% Veteran Exemption	462,862
Pollution Control Exemption	6,498,505
Productivity Loss	137,228,514
Homestead Cap Loss	8,214,496
	<u>\$ 466,766,392</u>
2022/23 Net Taxable Valuation .....	\$ 7,589,784,920
2023/24 Certified Net Taxable Valuation <sup>(3)</sup> .....	\$ 9,489,115,852

(1) Source: Comptroller of Public Accounts - Property Tax Division. The passage of a Texas Constitutional Amendment on May 7, 2022 election increased the homestead exemption from \$25,000 to \$40,000. See "AD VALOREM TAX PROCEDURES -- State Mandated Homestead Exemptions" in this Official Statement. The tax roll figures used in Appendix A represent the tax roll on which the District levies to fund the interest and sinking fund of the District for the payment of debt service on its unlimited tax-supported bonds (the "I&S" tax). Due to the Limitation Agreements described under "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT" in this Official Statement, the District has a bifurcated tax roll where abated amounts are not taxed for purposes of the District's M&O tax levy, but are taxed for purposes of the I&S tax.

(2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$29,333,072 in 2022/23.

(3) Source: Certified values from the Andrews County Appraisal District as of July 2023. During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023.

**VOTED GENERAL OBLIGATION DEBT**

Unlimited Tax Bonds Outstanding	\$ 25,585,000
Plus: The Bonds	<u>30,315,000</u>
Total Unlimited Tax Bonds	\$ 55,900,000
Less: Estimated Interest & Sinking Fund Balance (As of June 30, 2023) <sup>(1)</sup>	<u>(7,937,015)</u>
Net General Obligation Debt	\$ 47,962,985

Ratio of Net G.O. Debt to Net Taxable Valuation <sup>(2)</sup> 0.51%

2023 Population Estimate <sup>(3)</sup>	18,318
Per Capita Net Taxable Valuation	\$518,021
Per Capita Net G.O. Debt	\$2,618

(1) Source: Andrews ISD Estimate.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement and "DEBT SERVICE REQUIREMENTS" in this appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2022" in Appendix D for more information relative to the District's outstanding obligations.

(3) Source: Municipal Advisory Council of Texas.

**PROPERTY TAX RATES AND COLLECTIONS**

Fiscal Year	Net Taxable		% Collections <sup>(6)</sup>	
	Valuation	Tax Rate	Current <sup>(7)</sup>	Total <sup>(7)</sup>
2006/07	\$ 3,004,562,738 <sup>(1)</sup>	\$ 1.5164 <sup>(8)</sup>	99.38%	99.83%
2007/08	3,373,001,678 <sup>(1)</sup>	1.1719 <sup>(8)</sup>	99.57%	100.41%
2008/09	4,023,386,822 <sup>(1)</sup>	1.1708	99.52%	100.12%
2009/10	3,165,165,710 <sup>(1)</sup>	1.1995	99.18%	99.71%
2010/11	3,732,608,706 <sup>(1)</sup>	1.1784	99.45%	100.12%
2011/12	4,121,424,132 <sup>(1)</sup>	1.1672	99.34%	99.90%
2012/13	5,243,162,666 <sup>(1)</sup>	1.1700	99.22%	99.69%
2013/14	5,643,961,125 <sup>(1)</sup>	1.1700	98.48%	99.33%
2014/15	6,776,125,216 <sup>(1)</sup>	1.1700	98.62%	99.74%
2015/16	4,637,313,273 <sup>(1)(2)</sup>	1.1700	97.82%	99.24%
2016/17	3,310,970,078 <sup>(1)(2)</sup>	1.2000	97.12%	99.42%
2017/18	3,964,812,871 <sup>(1)(2)</sup>	1.2000	98.33%	100.46%
2018/19	4,363,355,128 <sup>(1)(2)</sup>	1.2000	98.47%	100.41%
2019/20	4,803,932,487 <sup>(1)(2)</sup>	1.1300 <sup>(9)</sup>	98.23%	99.70%
2020/21	4,756,171,827 <sup>(1)(2)</sup>	1.1164	97.65%	99.33%
2021/22	5,126,080,935 <sup>(1)(2)</sup>	1.1134	98.11%	100.41%
2022/23	7,589,784,920 <sup>(1)(3)</sup>	1.0046	99.80% <sup>(10)</sup>	99.91% <sup>(10)</sup>
2023/24	9,489,115,852 <sup>(4)(5)</sup>		(In Process of Collection)	

(1) Source: Comptroller of Public Accounts - Property Tax Division.

(2) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(3) The passage of a Texas Constitutional Amendment on May 7, 2022 increased the homestead exemption from \$25,000 to \$40,000.

(4) Source: Certified values from the Andrews County Appraisal District as of July 19, 2023.

(5) During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023.

(6) Source: Andrews ISD Audited Financial Statements.

(7) Excludes penalties and interest.

(8) The declines in the District's Maintenance & Operation Tax for the 2006/07 and 2007/08 fiscal years are a function of House Bill 1 adopted by the Texas Legislature in May 2006. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

(9) The decline in the District's Maintenance & Operation Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

(10) Source: Andrews ISD Estimate.

**TAX RATE DISTRIBUTION <sup>(1)</sup>**

	2018/19	2019/20 <sup>(2)</sup>	2020/21	2021/22	2022/23
Maintenance & Operations	\$1.0600	\$0.9900	\$0.9764	\$0.9734	\$0.8646
Debt Service	\$0.1400	\$0.1400	\$0.1400	\$0.1400	\$0.1400
<b>Total Tax Rate</b>	<b>\$1.2000</b>	<b>\$1.1300</b>	<b>\$1.1164</b>	<b>\$1.1134</b>	<b>\$1.0046</b>

(1) On October 4, 2008, the voters of the District approved a maintenance and operations tax rate of \$1.06 at a tax ratification election.

(2) The decline in the District's Maintenance & Operations Tax from the 2018/19 fiscal year to the 2019/20 fiscal year is a function of House Bill 3 adopted by the Texas Legislature in June 2019.

**VALUATION AND FUNDED DEBT HISTORY**

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding <sup>(1)</sup>	Ratio Debt to A.V. <sup>(2)</sup>
2006/07	\$ 3,004,562,738	\$ 34,975,288	1.16%
2007/08	3,373,001,678	31,775,288	0.94%
2008/09	4,023,386,822	28,460,288	0.71%
2009/10	3,165,165,710	25,020,288	0.79%
2010/11	3,732,608,706	34,436,408	0.92%
2011/12	4,121,424,132	30,726,408	0.75%
2012/13	5,243,162,666	33,841,408	0.65%
2013/14	5,643,961,125	33,296,408	0.59%
2014/15	6,776,125,216	28,346,408	0.42%
2015/16	4,637,313,273	22,876,408	0.49%
2016/17	3,310,970,078	22,226,408	0.67%
2017/18	3,964,812,871	24,647,800	0.62%
2018/19	4,363,355,128	22,995,637	0.53%
2019/20	4,803,932,487	29,663,749	0.62%
2020/21	4,756,171,827	27,640,000	0.58%
2021/22	5,126,080,935	33,690,000	0.66%
2022/23	7,589,784,920 <sup>(3)</sup>	55,900,000 <sup>(5)</sup>	0.74%
2023/24	9,489,115,852 <sup>(4)</sup>	39,230,000 <sup>(5)</sup>	0.41%

(1) The Bonds are illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement, "DEBT SERVICE REQUIREMENTS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended June 30, 2022" in Appendix D for more information.

(3) The passage of a Texas Constitutional Amendment on May 7, 2022 increased the homestead exemption from \$25,000 to \$40,000.

(4) Source: Certified values from the Andrews County Appraisal District as of July 19, 2023. During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023.

(5) Includes the Bonds.

**ESTIMATED OVERLAPPING DEBT STATEMENT**

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Andrews County	\$ 14,385,000	100.00%	\$ 14,385,000
Andrews County Hospital District	23,535,000	100.00%	23,535,000
Andrews, City of	-	100.00%	-
			-
<b>Total Overlapping Debt <sup>(1)</sup></b>			<b>\$ 37,920,000</b>
<b>Andrews Independent School District <sup>(2)</sup></b>			<b>47,962,985</b>
<b>Total Direct &amp; Overlapping Debt <sup>(2)</sup></b>			<b>\$ 85,882,985</b>
<b>Ratio of Net Direct &amp; Overlapping Debt to Net Taxable Valuation</b>		<b>0.91%</b>	
<b>Per Capita Direct &amp; Overlapping Debt</b>		<b>\$4,688</b>	

(1) Equals gross debt less self-supporting debt.

(2) Includes the Bonds.

Source: Municipal Advisory Council of Texas. The District has not independently verified the accuracy or completeness of such information (except for the amounts relating to the District), and no person should rely upon such information as being accurate or complete.

**PRINCIPAL TAXPAYERS <sup>(1)</sup>****2022/23 Top Ten Taxpayers**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
COG Operating LLC	Oil & Gas	\$ 798,095,076	10.52%
Diamondback E&P LLC	Oil & Gas	776,593,527	10.23%
Fasken Oil And Ranch LTD	Real Estate	412,262,905	5.43%
Pioneer Natural Resources USA Inc.	Oil & Gas	274,771,609	3.62%
XTO Energy Inc	Oil & Gas	258,651,941	3.41%
Oncor Electric Delivery Co. LLC	Electric Utility	181,917,856	2.40%
Elevation Resources LLC	Oil & Gas	164,300,208	2.16%
Lime Rock Resources IV-A LP	Oil & Gas	142,805,807	1.88%
Piedra Operating LLC	Oil & Gas	128,395,158	1.69%
Apache Corporation	Oil & Gas	117,409,908	1.55%
		<u>\$ 3,255,203,995</u>	<u>42.89%</u>

**2021/22 Top Ten Taxpayers**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
COG Operating LLC	Oil & Gas	\$ 402,825,614	7.86%
QEP Energy Co.	Oil & Gas	329,798,168	6.43%
2W Permian Solar LLC	Solar Energy Plant	255,033,400	4.98%
Pioneer Natural Resources USA Inc.	Oil & Gas	239,665,792	4.68%
Diamondback E&P LLC	Oil & Gas	207,326,029	4.04%
Oncor Electric Delivery Co. LLC	Electric Utility	179,836,139	3.51%
Fasken Oil And Ranch LTD	Real Estate	102,297,672	2.00%
Prospero Solar II LLC	Solar Energy Plant	95,479,440	1.86%
Apache Corporation	Oil & Gas	92,049,328	1.80%
XTO Energy Inc	Oil & Gas	84,942,566	1.66%
		<u>\$ 1,989,254,148</u>	<u>38.81%</u>

**2020/21 Top Ten Taxpayers**

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
COG Operating LLC	Oil & Gas	\$ 454,288,819	9.55%
Oncor Electric Delivery Co. LLC	Electric Utility	154,034,009	3.24%
Fasken Oil And Ranch LTD	Real Estate	143,724,839	3.02%
XTO Energy Inc	Oil & Gas	143,156,178	3.01%
Apache Corporation	Oil & Gas	140,517,727	2.95%
Diamondback E&P LLC	Oil & Gas	131,400,175	2.76%
Pioneer Natural Resources USA Inc.	Oil & Gas	121,367,410	2.55%
Texland Petroleum LP	Oil & Gas	79,544,807	1.67%
Ring Energy Inc.	Oil & Gas	77,610,875	1.63%
Prospero Energy Project LLC	Solar Energy Plant	75,000,000	1.58%
		<u>\$ 1,520,644,839</u>	<u>31.97%</u>

(1) Source: Comptroller of Public Accounts - Property Tax Division.

Note: As shown in the tables above, the top ten taxpayers in the District account for in excess of 42% of the District's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "REGISTERED OWNERS' REMEDIES" and "AD VALOREM TAX PROCEDURES – District's Rights in the Event of Tax Delinquencies" in this Official Statement.

**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY <sup>(1)</sup>**

<u>Category</u>	<u>2022/23</u>	<u>% of Total</u>	<u>2021/22</u>	<u>% of Total</u>	<u>2020/21</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 952,588,170	11.82%	\$ 914,579,742	16.50%	\$ 860,869,501	16.69%
Real, Residential, Multi-Family	26,959,755	0.33%	30,370,521	0.55%	23,322,244	0.45%
Real, Vacant Lots/Tracts	13,974,329	0.17%	15,407,033	0.28%	13,506,374	0.26%
Real, Qualified Land & Improvements	152,479,099	1.89%	152,040,974	2.74%	151,958,009	2.95%
Real, Non-Qualified Land & Improvements	44,628,337	0.55%	42,211,710	0.76%	40,792,653	0.79%
Real, Commercial & Industrial	1,164,027,902	14.45%	1,038,409,553	18.74%	537,368,011	10.42%
Oil & Gas	4,897,053,516	60.78%	2,580,228,961	46.56%	2,718,266,238	52.69%
Utilities	400,982,461	4.98%	387,401,260	6.99%	365,271,167	7.08%
Tangible Personal, Commercial	34,614,328	0.43%	33,708,770	0.61%	35,413,020	0.69%
Tangible Personal, Industrial	334,622,153	4.15%	311,740,866	5.63%	377,048,890	7.31%
Tangible Personal, Mobile Homes & Other	26,155,567	0.32%	26,344,371	0.48%	25,692,439	0.50%
Tangible Personal, Special Inventory	<u>8,465,695</u>	<u>0.11%</u>	<u>9,142,442</u>	<u>0.16%</u>	<u>9,565,959</u>	<u>0.19%</u>
<b>Total Appraised Value</b>	<b>\$ 8,056,551,312</b>	<b>100.00%</b>	<b>\$ 5,541,586,203</b>	<b>100.00%</b>	<b>\$ 5,159,074,505</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 8,214,496		\$ 12,273,348		\$ 16,703,541	
Productivity Loss	137,228,514		136,351,922		136,102,830	
Exemptions	<u>321,323,382</u> <sup>(2)</sup>		<u>266,879,998</u> <sup>(3)</sup>		<u>250,096,307</u> <sup>(3)</sup>	
Total Exemptions/Deductions <sup>(4)</sup>	<u>\$ 466,766,392</u>		<u>\$ 415,505,268</u>		<u>\$ 402,902,678</u>	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 7,589,784,920</b>		<b>\$ 5,126,080,935</b>		<b>\$ 4,756,171,827</b>	

<u>Category</u>	<u>2019/20</u>	<u>% of Total</u>	<u>2018/19</u>	<u>% of Total</u>	<u>2017/18</u>	<u>% of Total</u>
Real, Residential, Single-Family	\$ 792,814,509	15.25%	\$ 742,343,247	15.63%	\$ 730,648,569	16.76%
Real, Residential, Multi-Family	22,698,457	0.44%	22,434,066	0.47%	22,498,369	0.52%
Real, Vacant Lots/Tracts	13,077,391	0.25%	14,375,946	0.30%	14,529,229	0.33%
Real, Qualified Land & Improvements	151,815,681	2.92%	153,280,102	3.23%	158,096,581	3.63%
Real, Non-Qualified Land & Improvements	37,907,379	0.73%	35,984,413	0.76%	29,119,254	0.67%
Real, Commercial & Industrial	263,681,640	5.07%	249,784,115	5.26%	243,005,910	5.58%
Oil & Gas	3,110,134,599	59.83%	2,837,208,248	59.74%	2,485,211,073	57.02%
Utilities	338,762,820	6.52%	288,574,036	6.08%	248,876,444	5.71%
Tangible Personal, Commercial	35,599,879	0.68%	41,531,914	0.87%	38,279,375	0.88%
Tangible Personal, Industrial	399,725,051	7.69%	335,471,881	7.06%	363,127,246	8.33%
Tangible Personal, Mobile Homes & Other	23,612,590	0.45%	19,391,449	0.41%	18,278,984	0.42%
Tangible Personal, Special Inventory	<u>8,545,544</u>	<u>0.16%</u>	<u>9,092,199</u>	<u>0.19%</u>	<u>6,803,325</u>	<u>0.16%</u>
<b>Total Appraised Value</b>	<b>\$ 5,198,375,540</b>	<b>100.00%</b>	<b>\$ 4,749,471,616</b>	<b>100.00%</b>	<b>\$ 4,358,474,359</b>	<b>100.00%</b>
<b>Less:</b>						
Homestead Cap Adjustment	\$ 17,022,126		\$ 16,541,624		\$ 25,135,548	
Productivity Loss	136,290,147		137,271,875		141,901,864	
Exemptions	<u>241,130,780</u> <sup>(3)</sup>		<u>232,302,989</u> <sup>(3)</sup>		<u>226,624,076</u> <sup>(3)</sup>	
Total Exemptions/Deductions <sup>(4)</sup>	<u>\$ 394,443,053</u>		<u>\$ 386,116,488</u>		<u>\$ 393,661,488</u>	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 4,803,932,487</b>		<b>\$ 4,363,355,128</b>		<b>\$ 3,964,812,871</b>	

(1) Source: Comptroller of Public Accounts - Property Tax Division.

(2) The passage of a Texas Constitutional Amendment on May 7, 2022 increased the homestead exemption from \$25,000 to \$40,000.

(3) The passage of a Texas Constitutional Amendment on November 3, 2015 increased the homestead exemption from \$15,000 to \$25,000.

(4) Excludes values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers.



**PRINCIPAL REPAYMENT SCHEDULE <sup>(1)</sup>**

Fiscal Year	Outstanding	Plus:		Bonds	Percent of
Ending 8/31	Bonds	The	Total	Unpaid	Principal
		Bonds		At Year End	Retired
2023	\$ 8,105,000.00	\$ -	\$ 8,105,000.00	\$ 55,900,000.00	12.66%
2024	4,265,000.00	12,405,000.00	16,670,000.00	39,230,000.00	38.71%
2025	4,365,000.00	4,725,000.00	9,090,000.00	30,140,000.00	52.91%
2026	3,175,000.00	1,635,000.00	4,810,000.00	25,330,000.00	60.42%
2027	965,000.00	1,925,000.00	2,890,000.00	22,440,000.00	64.94%
2028	1,005,000.00	1,025,000.00	2,030,000.00	20,410,000.00	68.11%
2029	1,040,000.00	1,080,000.00	2,120,000.00	18,290,000.00	71.42%
2030	1,065,000.00	1,135,000.00	2,200,000.00	16,090,000.00	74.86%
2031	1,100,000.00	1,195,000.00	2,295,000.00	13,795,000.00	78.45%
2032	1,125,000.00	235,000.00	1,360,000.00	12,435,000.00	80.57%
2033	1,160,000.00	245,000.00	1,405,000.00	11,030,000.00	82.77%
2034	1,195,000.00	260,000.00	1,455,000.00	9,575,000.00	85.04%
2035	1,225,000.00	275,000.00	1,500,000.00	8,075,000.00	87.38%
2036	1,260,000.00	290,000.00	1,550,000.00	6,525,000.00	89.81%
2037	1,300,000.00	300,000.00	1,600,000.00	4,925,000.00	92.31%
2038	1,340,000.00	315,000.00	1,655,000.00	3,270,000.00	94.89%
2039	-	605,000.00	605,000.00	2,665,000.00	95.84%
2040	-	625,000.00	625,000.00	2,040,000.00	96.81%
2041	-	655,000.00	655,000.00	1,385,000.00	97.84%
2042	-	680,000.00	680,000.00	705,000.00	98.90%
2043	-	705,000.00	705,000.00	-	100.00%
<b>Total</b>	<b>\$ 33,690,000.00</b>	<b>\$ 30,315,000.00</b>	<b>\$ 64,005,000.00</b>		

(1) Debt service is illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends June 30th.

**DEBT SERVICE REQUIREMENTS <sup>(1)</sup>**

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Bonds <sup>(2)</sup>			Combined Total <sup>(2)(3)</sup>
		Principal	Interest	Total	
2023	\$ 8,999,744.50	\$ -	\$ 110,992.50	\$ 110,992.50	\$ 9,110,737.00
2024	4,878,332.75	12,405,000.00	1,116,334.17	13,521,334.17	18,399,666.92
2025	4,879,934.50	4,725,000.00	741,525.00	5,466,525.00	10,346,459.50
2026	3,617,678.75	1,635,000.00	582,525.00	2,217,525.00	5,835,203.75
2027	1,359,637.50	1,925,000.00	493,525.00	2,418,525.00	3,778,162.50
2028	1,360,912.50	1,025,000.00	419,775.00	1,444,775.00	2,805,687.50
2029	1,362,312.50	1,080,000.00	367,150.00	1,447,150.00	2,809,462.50
2030	1,358,887.50	1,135,000.00	311,775.00	1,446,775.00	2,805,662.50
2031	1,364,212.50	1,195,000.00	253,525.00	1,448,525.00	2,812,737.50
2032	1,358,562.50	235,000.00	217,775.00	452,775.00	1,811,337.50
2033	1,361,705.00	245,000.00	205,775.00	450,775.00	1,812,480.00
2034	1,363,420.00	260,000.00	193,150.00	453,150.00	1,816,570.00
2035	1,358,730.00	275,000.00	179,775.00	454,775.00	1,813,505.00
2036	1,357,536.25	290,000.00	165,650.00	455,650.00	1,813,186.25
2037	1,359,700.00	300,000.00	150,900.00	450,900.00	1,810,600.00
2038	1,360,172.50	315,000.00	137,100.00	452,100.00	1,812,272.50
2039	-	605,000.00	118,700.00	723,700.00	723,700.00
2040	-	625,000.00	94,100.00	719,100.00	719,100.00
2041	-	655,000.00	68,500.00	723,500.00	723,500.00
2042	-	680,000.00	41,800.00	721,800.00	721,800.00
2043	-	705,000.00	14,100.00	719,100.00	719,100.00
	<u>\$ 38,701,479.25</u>	<u>\$ 30,315,000.00</u>	<u>\$ 5,984,451.67</u>	<u>\$ 36,299,451.67</u>	<u>\$ 75,000,930.92</u>

(1) Debt service is illustrated on the State of Texas fiscal year end of August 31st, although the District's fiscal year ends on June 30th.

(2) Includes accrued interest in the amount of \$94,549.17.

(3) Based on its wealth per student, the District does not expect to receive Instructional Facilities Allotment nor Existing Debt Allotment state financial assistance for the payment of debt service for the fiscal year 2023/24. The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

**TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S BONDS**

Projected Maximum Debt Service Requirement <sup>(1)</sup>	\$ 18,399,666.92
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption in 2022/23 <sup>(2)</sup>	8,800.00
Projected Maximum Net Debt Service Requirement <sup>(1)(2)</sup>	\$ 18,390,866.92
 \$0.19777 Tax Rate @ 98% Collections Produces	 \$ 18,390,866.92
 2023/24 Certified Net Taxable Assessed Valuation <sup>(3)</sup>	 \$ 9,489,115,852

(1) Includes the Bonds.

(2) The amount of state financial assistance for debt service, if any, may differ substantially each year depending on a variety of factors, including the amount, if any, appropriated for that purpose by the state legislature and a school district's wealth per student. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement. The District will not receive any Instructional Facilities Allotment nor Existing Debt Allotment state aid in 2022/23, but will receive additional state aid for the increase in the homestead exemption.

(3) Source: Certified values from the Andrews County Appraisal District as of July 19, 2023. During the second special session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that reduce the maximum M&O tax compression rate by \$0.107, increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 will be submitted to voters of the State on November 7, 2023. SB 2 also makes provision for State aid funding to pay for the loss in school district I&S tax revenue (i.e. "hold harmless") for debt that (i) is issued prior to September 1, 2023, or (ii) is approved by voters but not yet issued as of September 1, 2023.

**AUTHORIZED BUT UNISSUED BONDS**

Following the issuance of the Bonds, the District will have \$125,730,000 (\$83,820,000 in Proposition A, \$29,835,000 in Proposition B and \$12,075,000 in Proposition C) authorized but unissued ad valorem tax bonds from the May 6, 2023 election and \$15,000,000 authorized but unissued ad valorem tax bonds from the May 5, 2018 election. The District may issue a portion of the remaining authorized but unissued bonds within the next twelve months. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

**COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES <sup>(1)</sup>**

	Fiscal Year Ended June 30				
	2018	2019	2020	2021	2022
<b>Beginning Fund Balance</b>	\$ 22,209,521	\$ 30,216,873	\$ 34,238,225	\$ 34,151,119	\$ 33,061,522
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 43,428,168	\$ 47,731,922	\$ 50,490,223	\$ 46,507,735	\$ 47,616,151
State Sources	8,591,109	5,821,808	4,282,205	5,821,947	5,505,159
Federal Sources & Other	181,064	271,166	118,639	213,571	189,739
<b>Total Revenues</b>	<b>\$ 52,200,341</b>	<b>\$ 53,824,896</b>	<b>\$ 54,891,067</b>	<b>\$ 52,543,253</b>	<b>\$ 53,311,049</b>
<b>Expenditures:</b>					
Instruction	\$ 19,760,114	\$ 20,836,044	\$ 24,206,136	\$ 25,007,744	\$ 25,539,213
Instructional Resources & Media Services	487,550	380,943	521,727	526,994	490,715
Curriculum & Instructional Staff Development	350,451	306,694	329,566	413,041	454,250
Instructional Leadership	567,291	570,742	679,824	931,292	939,156
School Leadership	2,068,399	2,138,851	2,378,569	2,380,587	2,356,274
Guidance, Counseling & Evaluation Services	1,082,746	1,182,370	1,296,996	1,294,557	1,359,569
Social Work Services	70,292	141,305	160,109	174,747	167,006
Health Services	395,160	324,910	403,883	405,218	413,023
Student (Pupil) Transportation	1,042,803	1,015,069	932,923	962,711	1,035,982
Cocurricular/Extracurricular Activities	1,765,348	1,977,245	1,920,729	2,006,406	2,385,888
General Administration	1,386,387	1,576,809	1,501,817	1,537,189	1,467,200
Plant Maintenance and Operations	4,514,753	4,705,067	4,758,389	5,187,595	5,544,360
Security and Monitoring Services	51,310	72,905	98,018	104,688	104,312
Data Processing Services	892,987	910,143	1,099,954	1,101,801	1,012,357
Community Services	354,753	442,456	460,509	470,437	424,946
Facilities Acquisition and Construction	-	-	884,234	232,635	-
Contracted Instructional Services Between Schools	8,393,317	13,130,687	12,504,276	10,284,748	11,890,330
Other Intergovernmental Charges	309,226	350,078	368,056	401,751	409,753
<b>Total Expenditures</b>	<b>\$ 43,492,887</b>	<b>\$ 50,062,318</b>	<b>\$ 54,505,715</b>	<b>\$ 53,424,141</b>	<b>\$ 55,994,334</b>
Excess (Deficiency) of Revenues over Expenditures	\$ 8,707,454	\$ 3,762,578	\$ 385,352	\$ (880,888)	\$ (2,683,285)
<b>Other Resources and (Uses):</b>					
Operating Transfers In	\$ 1,625,184	\$ 2,279,035	\$ 2,184,816	\$ 2,059,916	\$ 2,179,186
Operating Transfers Out	(2,352,361)	(2,031,512)	(2,652,314)	(2,352,340)	(2,190,309)
Sale of Real and Personal Property	12,923	-	2,138	83,715	45,005
Insurance Recovery	-	-	-	-	260,851
Other Resources	14,151	11,251	-	-	-
<b>Total Other Resources (Uses)</b>	<b>\$ (700,103)</b>	<b>\$ 258,774</b>	<b>\$ (465,360)</b>	<b>\$ (208,709)</b>	<b>\$ 294,733</b>
<b>Extraordinary Items:</b>					
Extraordinary Item (Use)	\$ -	\$ -	\$ (7,100)	\$ -	\$ -
<b>Total Other Resources (Uses)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (7,100)</b>	<b>\$ -</b>	<b>\$ -</b>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 8,007,351	\$ 4,021,352	\$ (87,108)	\$ (1,089,597)	\$ (2,388,552)
<b>Ending Fund Balance <sup>(2)</sup></b>	<b>\$ 30,216,872</b>	<b>\$ 34,238,225</b>	<b>\$ 34,151,117</b>	<b>\$ 33,061,522</b>	<b>\$ 30,672,970</b>

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS - Economic Factors and Next Year's Budget and Rates" in Appendix D hereto for a discussion of the 2022/23 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in this Official Statement.

(2) The District's estimated anticipated general fund balance as of June 30, 2023 is \$31,000,000.

**CHANGE IN NET ASSETS <sup>(1)</sup>**

	Fiscal Year Ended June 30				
	2018	2019	2020	2021	2022
<b>Revenues:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 1,655,593	\$ 1,510,921	\$ 1,621,525	\$ 2,236,976	\$ 2,977,072
Operating Grants and Contributions	(2,663,047)	5,405,990	6,908,439	6,542,865	9,495,164
<b>General Revenues:</b>					
Property Taxes Levied for General Purposes	41,434,860	45,823,601	48,625,385	44,989,585	44,672,374
Property Taxes Levied for Debt Service	5,472,613	6,052,210	6,876,801	6,521,248	6,897,497
Grants and Contributions Not Restricted	7,027,601	4,540,964	2,499,086	4,030,819	1,162,438
Investment Earnings	532,400	1,174,582	795,237	40,237	99,881
Miscellaneous	563,382	487,362	753,968	146,769	-
Other Income	27,074	11,251	-	-	309,467
Sale of Property	-	-	2,138	83,715	-
Extraordinary Item	-	-	(7,100)	-	-
<b>Total Revenue</b>	<b>\$ 54,050,476</b>	<b>\$ 65,006,881</b>	<b>\$ 68,075,479</b>	<b>\$ 64,592,214</b>	<b>\$ 65,613,893</b>
<b>Expenses:</b>					
Instruction	\$ 17,935,978	\$ 26,838,323	\$ 31,475,917	\$ 30,654,610	\$ 29,084,330
Instruction Resources & Media Services	314,662	397,831	553,176	534,813	448,200
Curriculum & Staff Development	242,081	322,365	350,797	421,395	523,681
Instructional Leadership	457,429	598,726	723,185	949,135	856,367
School Leadership	1,255,530	2,345,873	2,631,968	2,536,268	2,276,048
Guidance, Counseling & Evaluation Services	884,825	1,529,813	1,751,091	1,697,420	1,621,155
Social Services	44,417	150,233	173,130	179,009	151,647
Health Services	195,522	342,068	431,937	412,885	376,969
Student Transportation	1,005,132	1,380,671	1,403,248	1,392,303	1,381,336
Food Service	1,798,147	2,443,357	2,482,521	2,561,565	2,633,537
Cocurricular/Extracurricular Activities	1,809,388	2,324,891	2,285,742	2,659,827	3,290,442
General Administration	1,001,580	1,642,967	1,581,606	1,588,460	1,460,838
Plant Maintenance & Operations	3,570,168	4,823,052	4,630,689	4,949,538	5,457,658
Security and Monitoring Services	50,286	70,353	94,489	102,813	103,118
Data Processing Services	715,300	940,299	1,138,715	1,112,594	961,427
Community Services	253,311	462,721	488,156	478,587	398,298
Interest on Long-term Debt	615,774	927,368	866,968	811,528	667,724
Bond Issuance Cost and Fees	750	1,000	132,324	88,639	110,563
Capital Outlay	-	88,850	-	-	396,825
Contracted Instructional Services Between Schools	8,393,317	13,130,687	12,504,276	10,284,748	11,890,330
Other Intergovernmental Charges	309,226	350,078	368,056	401,751	409,753
Business-Type Activities - Enterprise Fund	610	31,050	27,703	29,719	38,807
<b>Total Expenditures</b>	<b>\$ 40,853,433</b>	<b>\$ 61,142,576</b>	<b>\$ 66,095,694</b>	<b>\$ 63,847,607</b>	<b>\$ 64,539,053</b>
<b>Change in Net Assets</b>	<b>\$ 13,197,043</b>	<b>\$ 3,864,305</b>	<b>\$ 1,979,785</b>	<b>\$ 744,607</b>	<b>\$ 1,074,840</b>
<b>Beginning Net Assets</b>	<b>\$ 68,290,796</b>	<b>\$ 58,070,025</b>	<b>\$ 61,934,330</b>	<b>\$ 63,914,116</b>	<b>\$ 65,409,137</b>
<b>Prior Period Adjustment</b>	<b>\$ (23,417,814) <sup>(2)</sup></b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 750,414 <sup>(3)</sup></b>	<b>\$ -</b>
<b>Ending Net Assets</b>	<b>\$ 58,070,025</b>	<b>\$ 61,934,330</b>	<b>\$ 63,914,115</b>	<b>\$ 65,409,137</b>	<b>\$ 66,483,977</b>

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34, which the District adopted for the 2002 fiscal year.

(2) The 2018 prior period adjustment was the result of the District implementing GASB Statement No. 75 for Other Post-Employment Benefits.

(3) The 2021 prior period adjustment was the result of the District implementing GASB Statement No. 84 for Fiduciary Activities.

**APPENDIX B**

**GENERAL INFORMATION REGARDING THE DISTRICT  
AND ITS ECONOMY**

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# ANDREWS INDEPENDENT SCHOOL DISTRICT

## General and Economic Information

Andrews Independent School District (the "District") has coterminous boundaries with Andrews County, Texas ("Andrews County"). The City of Andrews, Texas is the county seat and principal commercial center located on U.S. Highway 385. Many residents work in the Midland, Texas and Odessa, Texas areas. The District's current estimated population is 18,318.

Andrews County is a west Texas County bordering the State of New Mexico in the Permian Basin with an economy based on mineral production and agriculture.

Source: Texas Municipal Report for the District and Andrews County

### Enrollment Statistics

<u>Year Ending 6/30</u>	<u>Enrollment</u>
2009	3,094
2010	3,125
2011	3,209
2012	3,338
2013	3,514
2014	3,777
2015	3,916
2016	3,862
2017	3,946
2018	4,096
2019	4,316
2020	4,299
2021	3,985
2022	4,121
2023	4,199

### District Staff

Teachers	279
Auxiliary Personnel	115
Teachers' Aides & Secretaries	162
Administrators	26
Other (Librarians, Counselors, RNs)	48
Total	630

### Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Clearfork Elementary School	PK-1	788	940	1985	2014
Devonian Elementary School	2-3	640	840	2008	2014
Underwood Elementary School	4-5	652	840	2008	2014
Andrews Middle School	6-8	936	900	1975	2006
Andrews High School	9-12	1,141	1,180	1962	2014
Andrews Education Center	10-12	42	50	1954	1975

### Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Andrews ISD	Education	630
Permian General Hospital	Medical	350
Kirby West Company	Vacuum Cleaner Assembler	250
Andrews County	Municipality	153
Key Energy Services	Oil Field Service	145
Waste Control Specialists	Waste Disposal	130
Nabors Well Service	Oil Field Service	100
Basic Energy Services	Oil Field Service	100
Dennis Porter Inc.	Retail	75
TESSCO	Electrical Contractors	70

### Unemployment Rates

	<u>May 2021</u>	<u>May 2022</u>	<u>May 2023</u>
Andrews County	5.7%	3.0%	3.0%
State of Texas	5.7%	3.6%	4.1%

Source: Texas Workforce Commission

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**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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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.*

**ANDREWS INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2023  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$30,315,000**

---

AS BOND COUNSEL FOR THE ISSUER (the “Issuer”) of the Bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which are payable, bear interest and are subject to further provisions, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the Constitution and laws of the State of Texas, certified copies of the proceedings of the Issuer and other documents authorizing and relating to the issuance of said Bonds, including the executed Bonds.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been authorized, issued and duly delivered in accordance with law; and that except as may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium liquidation and other similar laws now or hereafter enacted relating to creditor's rights generally or by principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, without legal 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 thereof 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 alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith 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. We call your attention to the fact that if such representations are determined to be inaccurate or upon failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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, including the amount, accrual or receipt of interest on, 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.

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 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 an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion 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.

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 a result and are not binding on the Internal Revenue Service (the "Service"). Rather, our 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 as to 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, might result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

**APPENDIX D**

**AUDITED FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2022**

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**ANDREWS INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2022**

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# **Annual Financial Report**

**For the Fiscal Year Ended  
June 30, 2022**

**ANDREWS INDEPENDENT SCHOOL DISTRICT**

405 NW 3<sup>rd</sup> Street, Andrews, Texas 79714

---

**Prepared by the AISD Business Office**

**BILL BUTLER, JR.**  
Chief Financial Officer

**KIM LONG**  
**MAEGAN MCKENZIE**  
**MANDY PACE**  
**MARI RATLIFF**  
Accounting Department

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ANDREWS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2022

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Certificate of Board	i
	Organizational Chart	ii
	Principal Officials and Advisors	iii
	Independent Auditor's Report	1
	Management's Discussion and Analysis	5
<b><u>Basic Financial Statements</u></b>		
Government Wide Statements:		
A-1	Statement of Net Position	15
B-1	Statement of Activities	16
Governmental Fund Financial Statements:		
C-1	Balance Sheet	18
C-2	Reconciliation for C-1	19
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	20
C-4	Reconciliation for C-3	21
Proprietary Fund Financial Statements:		
D-1	Statement of Net Position	22
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	23
D-3	Statement of Cash Flows	24
Fiduciary Fund Financial Statements:		
E-1	Statement of Fiduciary Net Position	25
E-2	Statement of Changes in Fiduciary Net Position	26
Notes to the Financial Statements:		
F-1	Notes to the Financial Statements	27
<b><u>Required Supplementary Information</u></b>		
G-1	Budgetary Comparison Schedule - General Fund	58
G-6	Schedule of the District's Proportionate Share of the Net Pension Liability (TRS)	60
G-7	Schedule of District Contributions to the TRS Pension Plan	62
G-8	Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS)	64
G-9	Schedule of District Contributions to the TRS OPEB Plan	66
	Notes to Required Supplementary Information	68
<b><u>Combining and Other Schedules</u></b>		
Nonmajor Governmental Funds:		
H-1	Combining Balance Sheet	71
H-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	75

TABLE OF CONTENTS (CONTINUED)

<u>Exhibit</u>		<u>Page</u>
<b><u>Required TEA Schedules</u></b>		
J-1	Schedule of Delinquent Taxes	81
J-2	Budgetary Comparison Schedule - Child Nutrition Fund	83
J-3	Budgetary Comparison Schedule - Debt Service Fund	84
J-4	State Compensatory Education and Bilingual Expenditures	85
<b><u>Reports on Compliance, Internal Control, and Federal Awards</u></b>		
	Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	87
	Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	89
	Schedule of Findings and Questioned Costs	91
	Schedule of Status of Prior Findings	92
K-1	Schedule of Expenditures of Federal Awards	93
	Notes to Schedule of Expenditures of Federal Awards	95
L-1	Schools First Questionnaire	96

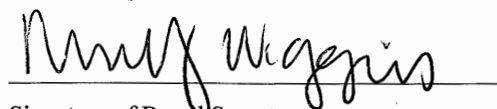
CERTIFICATE OF BOARD

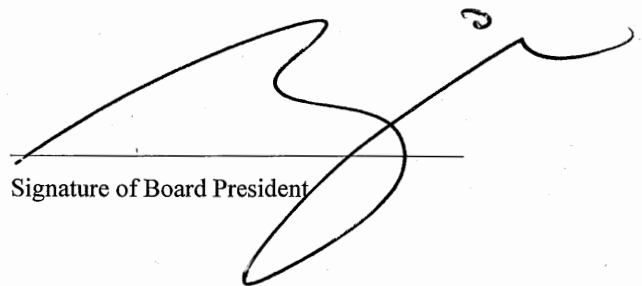
Andrews Independent School District  
Name of School District

Andrews County, Texas  
County

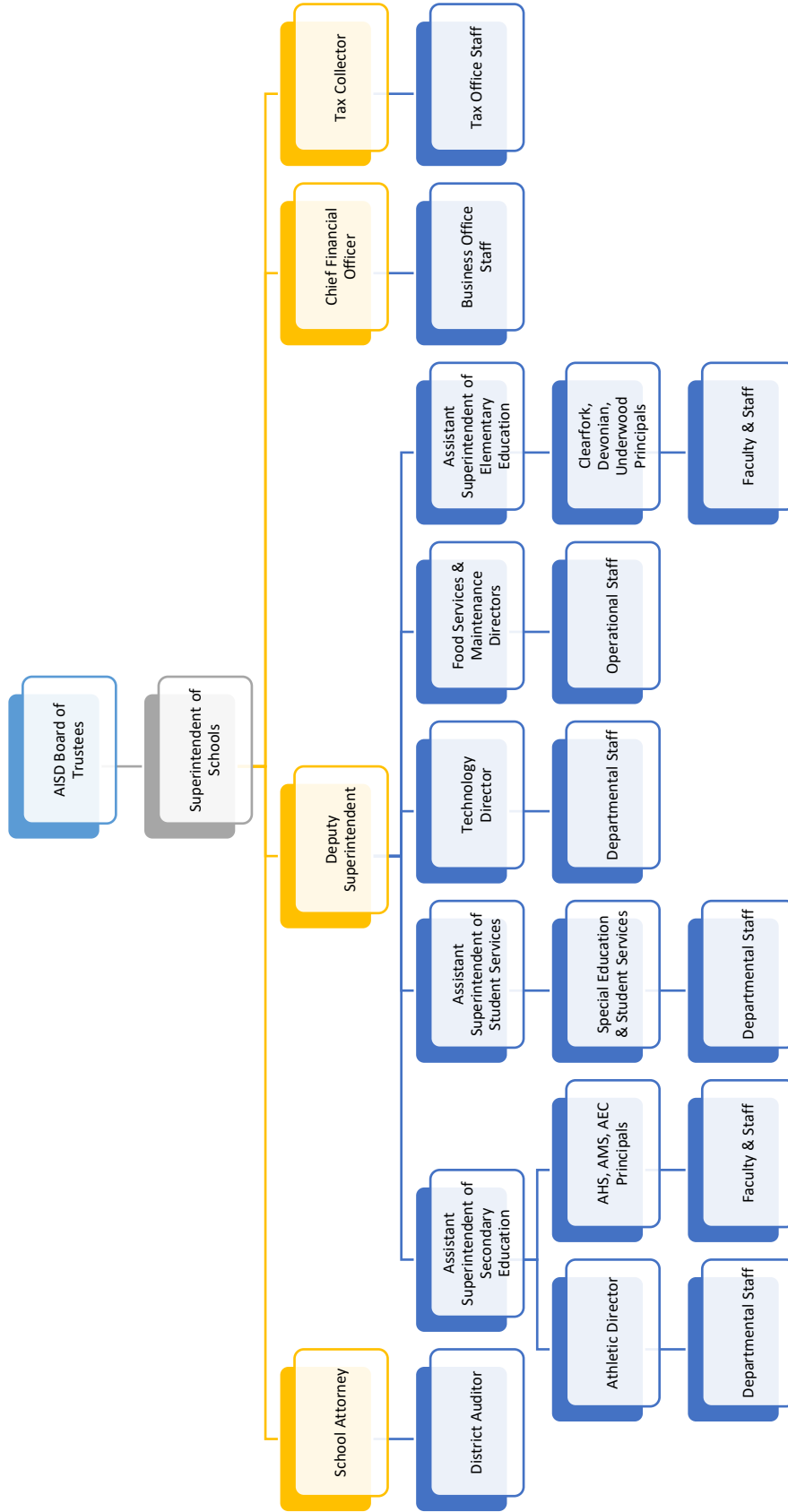
002901  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)  approved  disapproved for the year ended June 30, 2022 at a meeting of the Board of Trustees of such school district on the 21st of December, 2022.

  
Signature of Board Secretary

  
Signature of Board President

# Andrews Independent School District Organizational Chart



# ANDREWS INDEPENDENT SCHOOL DISTRICT

## Principal Officials and Advisors

### Board of Trustees

Jim Leach	President
Jeff Saldivar	Vice-President
Hunter Emfinger	Secretary
Jason Crutcher	Board Member
Xavier Emiliano	Board Member
Blake Roberts	Board Member
Mindy Wiggins	Board Member

### Consultants and Advisors

Wayne M. Manning, CPA Inc.	Independent Auditor
Buechler & Associates P.C.	General Counsel
McCall, Parkhurst & Horton LLP	Bond Counsel
SAMCO Capital Markets, Inc.	Financial Advisor
The National Bank of Andrews	Official Depository

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## Independent Auditor's Report

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

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Andrews Independent School District (the "District"), as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2022, and the respective changes in financial position, and, where applicable, cash flows thereof for the year 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

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

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



Texas Society of  
Certified Public Accountants



MEMBER OF  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

### ***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 *Governmental 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, misrepresentation, 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 judgement made by reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Governmental Auditing Standards*, we:

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

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

### ***Required Supplementary Information***

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

To the Board of Trustees  
Andrews Independent School District  
Page 3

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

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 and individual nonmajor fund financial statements, required by TEA are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

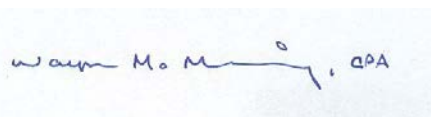
**Other Information**

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

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

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2022 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.



Wayne M. Manning, CPA  
Andrews, Texas  
November 23, 2022

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**ANDREWS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2022**

As management of Andrews Independent School District, we offer readers of the District’s annual financial report this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2022. Please read it in conjunction with the independent auditors’ report and the District’s basic financial statements, which follow this section.

**FINANCIAL HIGHLIGHTS**

- General revenues accounted for \$53,141,657 and program-specific revenues in the form of charges for services and grants and contributions accounted for \$12,433,765.
- The District had \$64,500,246 in expenses related to governmental activities; \$12,433,765 of these expenses were offset by program-specific charges for services or grants and contributions. General revenues of \$53,141,657 were adequate to provide for the remaining cost of these programs, resulting in an increase of \$1,075,176 to net position.
- The General Fund reported an ending fund balance of \$30,672,971. This was a decrease of \$2,388,552 from the prior year.
- At the end of the current fiscal period, the District’s governmental funds reported combined ending fund balances of \$36,678,009, which is an decrease of \$3,857,795 from the prior year. Over 45% of this total amount or \$16,508,717 is unassigned and available for use within the District’s commitments and policies.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This financial report consists of three parts—management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. 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.
- The governmental funds statements focus on how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the District’s concession stands.
- 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.

**ANDREWS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2022**

The basic financial statements also include notes that explain some of the information in the basic financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the basic financial statements. Figure A-1 summarizes the major features of the District’s basic 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.

**Figure A-1. Major Features of the District's Government-wide and Fund Financial Statements**

<i>Type of Statements</i>	<b>Government-wide</b>	<b>Governmental Funds</b>	<b>Proprietary Funds</b>	<b>Fiduciary Funds</b>
<i>Scope</i>	Entire Agency’s government (except fiduciary funds) and the Agency’s component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self-insurance	Instances in which the district is the trustee or agent for someone else’s resources
<i>Required financial statements</i>	Statement of net position  Statement of activities	Balance sheet  Statement of revenues, expenditures & changes in fund balance	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 fund net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	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 soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency’s funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during 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 and liabilities. 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 it has changed. Net position—the difference between the District’s assets and liabilities—is one way to measure the District’s financial health or position.

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

The government-wide financial statements of the District are divided into two categories:

*Governmental activities* - Most 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 and grants finance most of these activities.

*Business-type activities* - The District charges fees to customers to help it cover the costs of certain services it provides. The District’s concession fund, school supply sales and yearbook sales funds are included here.

**ANDREWS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2022**

**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 and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly utilizing certain taxes and grants.

The District has the following types of funds:

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

• *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. Our enterprise funds are presented in aggregate and account for activities such as concessions and yearbook sales. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities.

• *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 reported in a separate statement of 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.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The District's combined net position was \$66,483,977 at June 30, 2022.

Table A-1

Andrews Independent School District's Net Position

	Governmental Activities		Business-Type Activities		Total Government	
	2022	2021	2022	2021	2022	2021
<b>Assets</b>						
Cash and cash equivalents	\$ 54,093,691	\$ 54,865,140	\$ 45,057	\$ 43,797	\$ 54,138,748	\$ 54,908,937
Other assets	3,613,343	6,681,191	715	1,503	3,614,058	6,682,694
Capital assets, net	81,638,467	79,380,941	-	-	81,638,467	79,380,941
Total assets	<u>139,345,501</u>	<u>140,927,272</u>	<u>45,772</u>	<u>45,300</u>	<u>139,391,273</u>	<u>140,972,572</u>
Deferred outflows of resources	<u>6,762,732</u>	<u>7,269,653</u>	<u>-</u>	<u>-</u>	<u>6,762,732</u>	<u>7,269,653</u>
<b>Liabilities</b>						
Current liabilities	21,491,927	23,333,619	3,986	3,179	21,495,913	23,336,798
Long-term liabilities	42,980,011	48,678,342	-	-	42,980,011	48,678,342
Total liabilities	<u>64,471,938</u>	<u>72,011,961</u>	<u>3,986</u>	<u>3,179</u>	<u>64,475,924</u>	<u>72,015,140</u>
Deferred inflows of resources	<u>15,194,103</u>	<u>10,817,950</u>	<u>-</u>	<u>-</u>	<u>15,194,103</u>	<u>10,817,950</u>
<b>Net Position</b>						
Invested in capital assets, net of related debt	61,643,709	58,801,271	-	-	61,643,709	58,801,271
Restricted	7,947,617	10,337,723	-	-	7,947,617	10,337,723
Unrestricted	<u>(3,149,134)</u>	<u>(3,771,979)</u>	<u>41,785</u>	<u>42,121</u>	<u>(3,107,349)</u>	<u>(3,729,858)</u>
Total net position	<u>\$ 66,442,192</u>	<u>\$ 65,367,015</u>	<u>\$ 41,785</u>	<u>\$ 42,121</u>	<u>\$ 66,483,977</u>	<u>\$ 65,409,136</u>

**ANDREWS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2022**

**CHANGES IN NET POSITION**

The District's total revenues were \$65,575,422. 78.64% of the District's revenue comes from local property taxes (See Table A-2). 21.36% relates to state aid and federal grants, charges for services, and other miscellaneous sources including investment earnings. The total cost of all programs and services was \$64,500,246. The largest expense categories were instruction and instructional related services which totaled \$29,084,330 or 45.09% of total expenses.

Table A-2

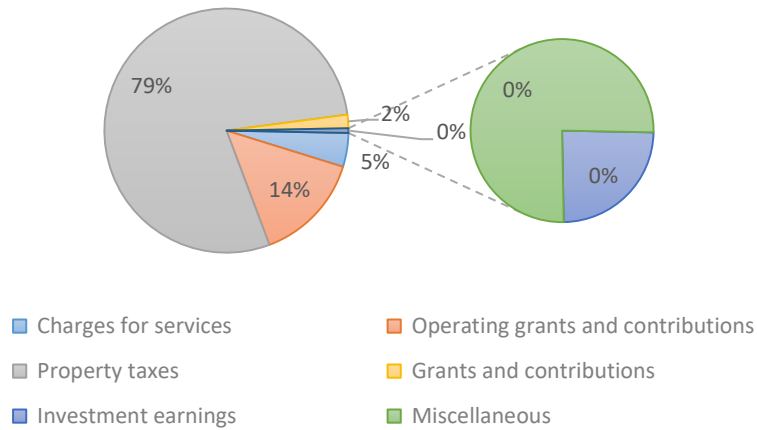
Andrews Independent School District's Net Position

	Governmental Activities		Business-Type Activities		Total Government	
	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>	<u>2022</u>	<u>2021</u>
Program Revenues						
Charges for services	\$ 2,938,601	\$ 2,204,541	\$ 38,471	\$ 32,435	\$ 2,977,072	\$ 2,236,976
Operating grants and contributions	9,495,164	6,542,865	-	-	9,495,164	6,542,865
General revenues						
Property taxes	51,569,871	51,510,833	-	-	51,569,871	51,510,833
Grants and contributions	1,162,438	4,030,819	-	-	1,162,438	4,030,819
Investment earnings	99,881	40,237	-	-	99,881	40,237
Miscellaneous	309,467	230,484	-	-	309,467	230,484
Total revenues	<u>65,575,422</u>	<u>64,559,779</u>	<u>38,471</u>	<u>32,435</u>	<u>65,613,893</u>	<u>64,592,214</u>
Expenses						
Instruction	29,084,330	30,654,610	-	-	29,084,330	30,654,610
Instructional resources and media sources	448,200	534,813	38,807	29,719	487,007	564,532
Curriculum and staff development	523,681	421,395	-	-	523,681	421,395
Instructional leadership	856,367	949,135	-	-	856,367	949,135
School leadership	2,276,048	2,536,268	-	-	2,276,048	2,536,268
Guidance, counseling, and evaluation services	1,621,155	1,697,420	-	-	1,621,155	1,697,420
Social work services	151,647	179,009	-	-	151,647	179,009
Health services	376,969	412,885	-	-	376,969	412,885
Student (pupil) transportation	1,381,336	1,392,303	-	-	1,381,336	1,392,303
Food services	2,633,537	2,561,565	-	-	2,633,537	2,561,565
Extracurricular activities	3,290,442	2,659,827	-	-	3,290,442	2,659,827
General administration	1,460,838	1,588,460	-	-	1,460,838	1,588,460
Facilities maintenance and operations	5,457,658	4,949,538	-	-	5,457,658	4,949,538
Security and monitoring services	103,118	102,813	-	-	103,118	102,813
Data processing services	961,427	1,112,594	-	-	961,427	1,112,594
Community services	398,298	478,587	-	-	398,298	478,587
Debt service	1,175,112	900,167	-	-	1,175,112	900,167
Contracted instructional	11,890,330	10,284,748	-	-	11,890,330	10,284,748
Other intergovernmental charges	409,753	401,751	-	-	409,753	401,751
Total expenses	<u>64,500,246</u>	<u>63,817,888</u>	<u>38,807</u>	<u>29,719</u>	<u>64,539,053</u>	<u>63,847,607</u>
Increase (decrease) in net position	1,075,176	741,891	(336)	2,716	1,074,840	744,607
Net position – beginning	65,367,016	63,874,710	42,121	39,405	65,409,137	63,914,115
Prior period adjustment	-	750,414	-	-	-	750,414
Net position - ending	<u>66,442,192</u>	<u>65,367,016</u>	<u>41,785</u>	<u>42,121</u>	<u>66,483,977</u>	<u>65,409,136</u>

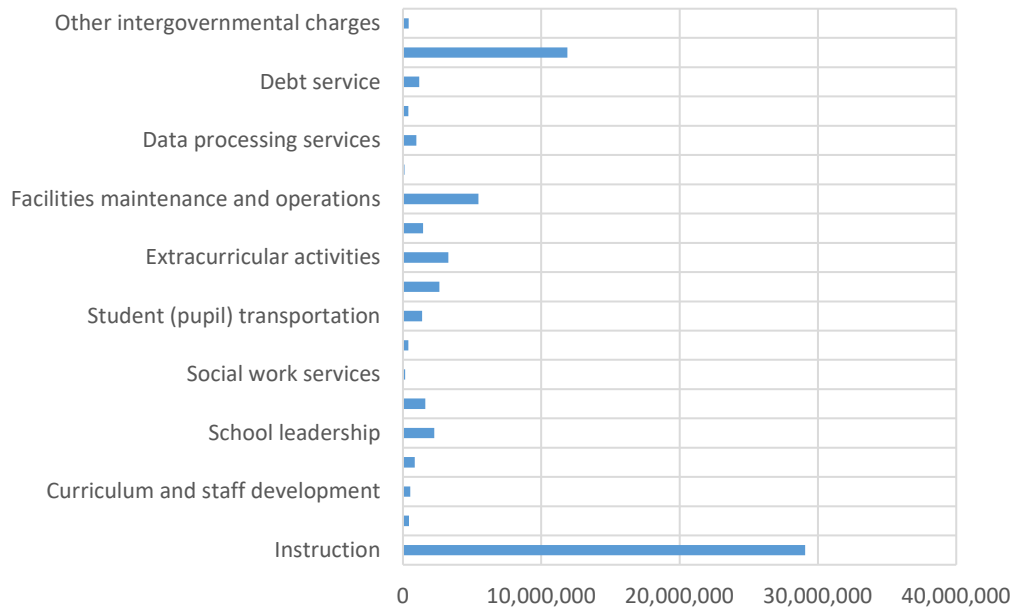


**ANDREWS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2022**

Government-Wide Revenues for Fiscal Year 2022  
(See Table A-2)



Government-wide Expenses for Fiscal Year 2022  
(See Table A-2)



**ANDREWS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2022**

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

Revenues from governmental fund types totaled \$68,404,479. Any increase in state revenues is a result of attendance gains. Any decrease in federal revenues is primarily due to a decrease in federal program revenue distributed through other agencies.

The General Fund reported an ending fund balance of \$30,672,970. This was a decrease in the General Fund balance from the prior year in the amount of \$2,388,552.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Over the course of the year, the District recommended and the Board of Trustees approved revisions of the District's general fund budget for various reasons. The following is a summary of significant budget amendments made to estimated revenues:

		<u>Estimated Revenues</u>
Beginning Estimated Revenues	\$	56,895,290
Adjust State & Federal Funding Estimates		<u>1,960,100</u>
Final Amended Estimated Revenues	\$	<u><u>58,855,390</u></u>

The following is a summary of significant budget amendments made to appropriations and other sources.

		<u>Appropriations</u>
Beginning Appropriations	\$	63,533,039
Adjust Due to Change in Funding		500,000
Adjust Due to Increased Salary Costs		1,922,501
Adjust Due to Construction		539,940
Adjust in Contracted Instructional Services (Recapture)		<u>3,500,000</u>
Final Amended Appropriations	\$	<u><u>69,995,480</u></u>

Resources available were \$1,960,100 higher than final budget due to higher than anticipated State and Federal funding. Expenditures were approximately \$6,462,441 more primarily due to higher recapture payments and increased salary costs.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

At the end of fiscal year 2022, the District had invested \$81,638,467 in a broad range of capital assets, including land, construction in progress, furniture and equipment, buildings and improvements and vehicles.

<b>Andrews Independent School District's</b>			
<b>Capital Assets</b>			
	Governmental Activities		Total Percentage
	<u>2022</u>	<u>2021</u>	<u>Change 2021-2022</u>
Land	\$ 1,681,954	\$ 1,681,954	0.00%
Buildings, net	69,410,785	71,205,331	(2.52%)
Furniture and equipment, net	6,850,496	6,487,620	5.59%
Construction in progress	<u>3,695,232</u>	<u>6,036</u>	611.20%
Net capital assets	<u>\$ 81,638,467</u>	<u>\$ 79,380,941</u>	2.84%

**ANDREWS INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2022**

**LONG TERM DEBT**

More detailed information about the District's debt is presented in the notes to the basic financial statements.

**Andrews Independent School District's  
Long-Term Debt**

	Governmental Activities		Total Percentage
	<u>2022</u>	<u>2021</u>	<u>Change 2021-2022</u>
Bonds payable	\$ 27,535,969	\$ 29,016,420	(5.10)%
Net pension liability	5,921,275	12,143,038	(51.24)%
Net OPEB liability	12,587,767	12,363,885	1.81%
Compensated absences	<u>697,622</u>	<u>807,596</u>	(13.62)%
 Total debt payable	 \$ <u>46,742,633</u>	 \$ <u>54,330,939</u>	 (13.97)%

**BOND RATING**

The credit rating for the District is "A+" by Standard & Poor's Rating Services.

**ECONOMIC FACTORS**

The District's overall tax rates are \$1.0046 for 2023 and \$1.1134 for 2022. The District's Maintenance tax rate for 2023 is \$0.8646 and the Interest and Sinking tax rate is \$0.14. The District's assessed valuation for property taxes is \$6,753,044,560 for fiscal year 2023, which is an increase of \$2,071,355,415 or 44.244% more than fiscal year 2022.

The District's current student enrollment is 4,196 for the fiscal year 2023 which is an increase of 30 from the fiscal year 2022. There is an increase of 9 students for the last three years.

**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, please address to the Chief Financial Officer, Andrews Independent School District, 405 NW 3<sup>rd</sup> Street, Andrews, TX 79714.

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# **BASIC FINANCIAL STATEMENTS**

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ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2022

EXHIBIT A-1

Data Control Codes	1	2	3
	Primary Government		
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 54,093,691	\$ 45,057	\$ 54,138,748
1220 Property Taxes - Delinquent	2,285,249	-	2,285,249
1230 Allowance for Uncollectible Taxes	(228,525)	-	(228,525)
1240 Due from Other Governments	1,025,209	-	1,025,209
1290 Other Receivables, Net	13,698	-	13,698
1300 Inventories	26,623	715	27,338
1410 Prepayments	491,089	-	491,089
Capital Assets:			
1510 Land	1,681,954	-	1,681,954
1520 Buildings, Net	69,410,785	-	69,410,785
1530 Furniture and Equipment, Net	6,850,496	-	6,850,496
1580 Construction in Progress	3,695,232	-	3,695,232
1000 Total Assets	<u>139,345,501</u>	<u>45,772</u>	<u>139,391,273</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
1705 Deferred Outflow Related to TRS Pension	3,559,330	-	3,559,330
1706 Deferred Outflow Related to TRS OPEB	3,203,402	-	3,203,402
1700 Total Deferred Outflows of Resources	<u>6,762,732</u>	<u>-</u>	<u>6,762,732</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	239,644	3,986	243,630
2120 Short Term Debt Payable	147,861	-	147,861
2140 Interest Payable	257,487	-	257,487
2150 Payroll Deductions and Withholdings	679,449	-	679,449
2160 Accrued Wages Payable	3,719,009	-	3,719,009
2180 Due to Other Governments	12,070,805	-	12,070,805
2200 Accrued Expenses	467,660	-	467,660
2300 Unearned Revenue	147,390	-	147,390
Noncurrent Liabilities:			
2501 Due Within One Year: Loans, Note, Leases, etc.	3,762,622	-	3,762,622
Due in More than One Year:			
2502 Bonds, Notes, Loans, Leases, etc.	24,470,969	-	24,470,969
2540 Net Pension Liability (District's Share)	5,921,275	-	5,921,275
2545 Net OPEB Liability (District's Share)	12,587,767	-	12,587,767
2000 Total Liabilities	<u>64,471,938</u>	<u>3,986</u>	<u>64,475,924</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2605 Deferred Inflow Related to TRS Pension	6,362,605	-	6,362,605
2606 Deferred Inflow Related to TRS OPEB	8,831,498	-	8,831,498
2600 Total Deferred Inflows of Resources	<u>15,194,103</u>	<u>-</u>	<u>15,194,103</u>
<b>NET POSITION</b>			
3200 Net Investment in Capital Assets and Right-to-Use Lease	61,643,709	-	61,643,709
Restricted:			
3820 Restricted for Federal and State Programs	403,326	-	403,326
3850 Restricted for Debt Service	1,530,037	-	1,530,037
3860 Restricted for Capital Projects	6,014,254	-	6,014,254
3900 Unrestricted	(3,149,134)	41,785	(3,107,349)
3000 Total Net Position	<u>\$ 66,442,192</u>	<u>\$ 41,785</u>	<u>\$ 66,483,977</u>

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	1	Program Revenues		
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11	Instruction	\$ 29,084,330	\$ -	\$ 4,220,211
12	Instructional Resources and Media Services	448,200	-	28,548
13	Curriculum and Instructional Staff Development	523,681	-	137,959
21	Instructional Leadership	856,367	-	47,093
23	School Leadership	2,276,048	-	142,183
31	Guidance, Counseling, and Evaluation Services	1,621,155	-	352,866
32	Social Work Services	151,647	-	9,702
33	Health Services	376,969	-	22,893
34	Student (Pupil) Transportation	1,381,336	-	54,654
35	Food Services	2,633,537	454,093	2,541,351
36	Extracurricular Activities	3,290,442	-	658,091
41	General Administration	1,460,838	2,484,508	69,677
51	Facilities Maintenance and Operations	5,457,658	-	382,368
52	Security and Monitoring Services	103,118	-	-
53	Data Processing Services	961,427	-	37,223
61	Community Services	398,298	-	27,104
72	Debt Service - Interest on Long-Term Debt	667,724	-	-
73	Debt Service - Bond Issuance Cost and Fees	110,563	-	-
81	Capital Outlay	396,825	-	763,241
91	Contracted Instructional Services Between Schools	11,890,330	-	-
99	Other Intergovernmental Charges	409,753	-	-
	[TG] Total Governmental Activities:	<u>64,500,246</u>	<u>2,938,601</u>	<u>9,495,164</u>
BUSINESS-TYPE ACTIVITIES:				
01	Enterprise Funds - Locally Defined	<u>38,807</u>	<u>38,471</u>	<u>-</u>
	[TB] Total Business-Type Activities:	<u>38,807</u>	<u>38,471</u>	<u>-</u>
	[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 64,539,053</u>	<u>\$ 2,977,072</u>	<u>\$ 9,495,164</u>
Data	General Revenues:			
Control	Taxes:			
Codes	MT	Property Taxes, Levied for General Purposes		
	DT	Property Taxes, Levied for Debt Service		
	GC	Grants and Contributions not Restricted		
	IE	Investment Earnings		
	FR	Other Revenues		
	TR	Total General Revenues & Transfers		
	CN	Change in Net Position		
	NB	Net Position - Beginning		
	NE	Net Position - Ending		

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



Net (Expense) Revenue and Changes in Net Position		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (24,864,119)	\$ -	\$ (24,864,119)
(419,652)	-	(419,652)
(385,722)	-	(385,722)
(809,274)	-	(809,274)
(2,133,865)	-	(2,133,865)
(1,268,289)	-	(1,268,289)
(141,945)	-	(141,945)
(354,076)	-	(354,076)
(1,326,682)	-	(1,326,682)
361,907	-	361,907
(2,632,351)	-	(2,632,351)
1,093,347	-	1,093,347
(5,075,290)	-	(5,075,290)
(103,118)	-	(103,118)
(924,204)	-	(924,204)
(371,194)	-	(371,194)
(667,724)	-	(667,724)
(110,563)	-	(110,563)
366,416	-	366,416
(11,890,330)	-	(11,890,330)
(409,753)	-	(409,753)
<u>(52,066,481)</u>	<u>-</u>	<u>(52,066,481)</u>
-	(336)	(336)
-	(336)	(336)
<u>(52,066,481)</u>	<u>(336)</u>	<u>(52,066,817)</u>
44,672,374	-	44,672,374
6,897,497	-	6,897,497
1,162,438	-	1,162,438
99,881	-	99,881
309,467	-	309,467
<u>53,141,657</u>	<u>-</u>	<u>53,141,657</u>
1,075,176	(336)	1,074,840
<u>65,367,016</u>	<u>42,121</u>	<u>65,409,137</u>
<u>\$ 66,442,192</u>	<u>\$ 41,785</u>	<u>\$ 66,483,977</u>

ANDREWS INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2022

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				3
1110 Cash and Cash Equivalents	\$ 45,892,077	\$ 1,505,072	\$ 4,728,294	\$ 52,125,449
1220 Property Taxes - Delinquent	2,015,193	270,056	-	2,285,249
1230 Allowance for Uncollectible Taxes	(201,519)	(27,006)	-	(228,529)
1240 Due from Other Governments	312,134	24,965	688,110	1,025,209
1260 Due from Other Funds	423,409	-	394,680	818,088
1290 Other Receivables	693	-	13,005	13,693
1300 Inventories	-	-	26,623	26,629
1410 Prepayments	491,089	-	-	491,085
1000 Total Assets	<u>\$ 48,933,076</u>	<u>\$ 1,773,087</u>	<u>\$ 5,850,712</u>	<u>\$ 56,556,873</u>
<b>LIABILITIES</b>				0
2110 Accounts Payable	\$ 225,917	\$ -	\$ 13,623	\$ 239,541
2120 Short Term Debt Payable - Current	147,861	-	-	147,869
2150 Payroll Deductions and Withholdings Payable	591,591	-	87,858	679,449
2160 Accrued Wages Payable	3,314,662	-	404,347	3,719,009
2170 Due to Other Funds	-	-	818,089	818,085
2180 Due to Other Governments	12,070,752	-	53	12,070,800
2300 Unearned Revenue	95,649	-	51,741	147,393
2000 Total Liabilities	<u>16,446,432</u>	<u>-</u>	<u>1,375,711</u>	<u>17,822,143</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				3
2601 Unavailable Revenue - Property Taxes	1,813,673	243,050	-	2,056,723
2600 Total Deferred Inflows of Resources	<u>1,813,673</u>	<u>243,050</u>	<u>-</u>	<u>2,056,723</u>
<b>FUND BALANCES</b>				6
<b>Restricted Fund Balance:</b>				7
3450 Federal or State Funds Grant Restriction	-	-	403,326	403,327
3470 Capital Acquisition and Contractual Obligation	-	-	3,250,847	3,250,847
3480 Retirement of Long-Term Debt	-	1,530,037	-	1,530,030
<b>Committed Fund Balance:</b>				4
3510 Construction	4,000,000	-	-	4,000,004
3530 Capital Expenditures for Equipment	2,014,254	-	-	2,014,250
3540 Self Insurance	2,150,000	-	-	2,150,008
3545 Other Committed Fund Balance	6,000,000	-	820,828	6,820,827
3600 Unassigned Fund Balance	16,508,717	-	-	16,508,799
3000 Total Fund Balances	<u>30,672,971</u>	<u>1,530,037</u>	<u>4,475,001</u>	<u>36,678,005</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 48,933,076</u>	<u>\$ 1,773,087</u>	<u>\$ 5,850,712</u>	<u>\$ 56,556,873</u>

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
 STATEMENT OF NET POSITION  
 JUNE 30, 2022

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	36,678,009
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, 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 to increase/(decrease) net position.		1,500,484
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$138,339,077 and the accumulated depreciation was \$59,258,136. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		49,258,228
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2022 capital outlays and debt principal payments is to increase (decrease) net assets.		12,169,494
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$3,559,330, a deferred resource inflow in the amount of \$6,362,605, and a net pension liability in the amount of \$5,921,275. This resulted in a decrease in net position.		(8,724,550)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$3,203,402, a deferred resource inflow in the amount of \$8,831,498, and a net OPEB liability in the amount of \$12,587,767. This resulted in a decrease to net position.		(18,215,863)
6 The 2022 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(4,662,052)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase/(decrease) net position.		(1,561,558)
<b>19 Net Position of Governmental Activities</b>	<b>\$</b>	<b>66,442,192</b>

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2022

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 47,616,151	\$ 7,023,067	\$ 1,079,449	\$ 55,718,667
5800 State Program Revenues	5,505,159	10,703	200,361	5,716,223
5900 Federal Program Revenues	189,739	-	6,779,850	6,969,589
020 Total Revenues	<u>53,311,049</u>	<u>7,033,770</u>	<u>8,059,660</u>	<u>68,404,479</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	25,539,213	-	2,802,065	28,341,278
0012 Instructional Resources and Media Services	490,715	-	3,588	494,303
0013 Curriculum and Instructional Staff Development	454,250	-	116,454	570,704
0021 Instructional Leadership	939,156	-	4,118	943,274
0023 School Leadership	2,356,274	-	16,971	2,373,245
0031 Guidance, Counseling, and Evaluation Services	1,359,569	-	280,269	1,639,838
0032 Social Work Services	167,006	-	1,029	168,035
0033 Health Services	413,023	-	3,088	416,111
0034 Student (Pupil) Transportation	1,035,982	-	7,274	1,043,256
0035 Food Services	-	-	2,596,826	2,596,826
0036 Extracurricular Activities	2,385,888	-	593,367	2,979,255
0041 General Administration	1,467,200	-	6,177	1,473,377
0051 Facilities Maintenance and Operations	5,544,360	-	214,979	5,759,339
0052 Security and Monitoring Services	104,312	-	-	104,312
0053 Data Processing Services	1,012,357	-	4,118	1,016,475
0061 Community Services	424,946	-	7,207	432,153
<b>Debt Service:</b>				
0071 Principal on Long-Term Liabilities	-	8,950,000	-	8,950,000
0072 Interest on Long-Term Liabilities	-	848,231	-	848,231
0073 Bond Issuance Cost and Fees	-	110,563	-	110,563
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	-	-	7,616,319	7,616,319
<b>Intergovernmental:</b>				
0091 Contracted Instructional Services Between Schools	11,890,330	-	-	11,890,330
6099 Other Intergovernmental Charges	409,753	-	-	409,753
1030 Total Expenditures	<u>55,994,334</u>	<u>9,908,794</u>	<u>14,273,849</u>	<u>80,176,977</u>
100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(2,683,285)</u>	<u>(2,875,024)</u>	<u>(6,214,189)</u>	<u>(11,772,498)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7911 Capital Related Debt Issued	-	7,608,846	-	7,608,846
8912 Sale of Real and Personal Property	45,005	-	-	45,005
7915 Transfers In	2,179,186	-	7,764,552	9,943,738
911 Transfers Out (Use)	(2,190,309)	(7,500,000)	(253,429)	(9,943,738)
7956 Insurance Recoverv	260,851	-	-	260,851
1080 Total Other Financing Sources (Uses)	<u>294,733</u>	<u>108,846</u>	<u>7,511,123</u>	<u>7,914,702</u>
0200 Net Change in Fund Balances	(2,388,552)	(2,766,178)	1,296,934	(3,857,796)
100 Fund Balance - July 1 (Beginning)	<u>33,061,522</u>	<u>4,296,216</u>	<u>3,178,067</u>	<u>40,535,805</u>
000 Fund Balance - June 30 (Ending)	<u>\$ 30,672,970</u>	<u>\$ 1,530,038</u>	<u>\$ 4,475,001</u>	<u>\$ 36,678,009</u>

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2022

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(3,857,796)
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds is reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.</p>		
		119,435
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2022 capital outlays and debt principal payments is to increase (decrease) net assets.</p>		
		12,169,494
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(4,662,052)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.</p>		
		(3,808,712)
<p>GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$936,565. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$827,906. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense increased the change in net position by \$447,578. The net result is a increase (decrease) in the change in net position.</p>		
		556,237
<p>GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$229,485. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$212,982. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$542,067. The net result is a increase (decrease) in the change in net position.</p>		
		558,570
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>1,075,176</b>

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2022

EXHIBIT D-1

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 45,057	\$ 1,968,248
Inventories	715	-
Total Assets	45,772	1,968,248
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	3,986	104
Short Term Debt Payable	-	467,660
Total Liabilities	3,986	467,764
<b>NET POSITION</b>		
Unrestricted Net Position	41,785	1,500,484
Total Net Position	\$ 41,785	\$ 1,500,484

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2022

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Internal Service Fund
OPERATING REVENUES:		
Local and Intermediate Sources	\$ 38,471	\$ 5,584,879
Total Operating Revenues	38,471	5,584,879
OPERATING EXPENSES:		
Professional and Contracted Services	565	5,465,444
Supplies and Materials	38,242	-
Total Operating Expenses	38,807	5,465,444
Operating Income (Loss)	(336)	119,435
Total Net Position - July 1 (Beginning)	42,121	1,381,049
Total Net Position - June 30 (Ending)	\$ 41,785	\$ 1,500,484

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2022

EXHIBIT D-3

	Business-Type Activities	Governmental Activities -
	Total	Internal
	Enterprise	Service Fund
	Funds	
<u>Cash Flows from Operating Activities:</u>		
Cash Received from User Charges	\$ 38,471	\$ 5,584,879
Cash Payments for Insurance Claims	-	(5,486,160)
Cash Payments for Suppliers	(37,435)	-
Cash Payments for Other Operating Expenses	224	-
Net Cash Provided by Operating Activities	1,260	98,719
Net Increase in Cash and Cash Equivalents	1,260	98,719
Cash and Cash Equivalents at Beginning of Year	43,797	1,869,529
Cash and Cash Equivalents at End of Year	\$ 45,057	\$ 1,968,248
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>		
<u>Provided by Operating Activities:</u>		
Operating Income (Loss):	\$ (336)	\$ 119,435
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Inventories	789	-
Increase (decrease) in Accounts Payable	807	(7)
Increase (decrease) in Short Term Debt Payable	-	(20,709)
Net Cash Provided by Operating Activities	\$ 1,260	\$ 98,719

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



ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2022

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	Custodial Fund
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 76,688
Total Assets	76,688
<b>NET POSITION</b>	
Restricted for Other Purposes	76,688
Total Net Position	\$ 76,688

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

ANDREWS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2022

	Custodial Fund
<b>ADDITIONS:</b>	
Miscellaneous Revenue - Student	\$ 87,298
Total Additions	<u>87,298</u>
<b>DEDUCTIONS:</b>	
Supplies and Materials	23,801
Other Deductions	66,440
Total Deductions	<u>90,241</u>
Change in Fiduciary Net Position	(2,943)
Total Net Position - July 1 (Beginning)	<u>79,631</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 76,688</u></u>

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

**ANDREWS INDEPENDENT SCHOOL DISTRICT**

Notes to the Financial Statements

June 30, 2022

**A. REPORTING ENTITY**

Andrews Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. The Board of Trustees (the "Board"), a seven-member group elected by registered voters of the District, has the fiscal accountability over all activities related to public elementary and secondary education with the jurisdiction of the District. 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 Texas Education Agency ("Agency") or to the State Board of Education are reserved for the Trustees, and the Agency 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 basic 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 sources. The District changed its fiscal year end from August 31 to June 30 during the 2013 fiscal year.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles ("GAAP") promulgated by the Governmental Accounting Standards Board ("GASB") and other authoritative sources identified in GASB Statement No. 56; and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

The District participates with the City of Andrews and the Permian Regional Medical Center in an inter-local cooperation contract for the collection and remittance of their property taxes. Both entities reimburse the District a set fee for collecting and remitting property taxes.

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

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

## **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **1. Government-Wide and Fund Financial Statements**

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

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

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

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

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

### **2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements use the *economic resources measurement* focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows or resources and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

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

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

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable; and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

### **3. Fund Accounting**

The District reports the following major governmental fund:

- **General Fund** – The General Fund is the District's primary operating fund and used to account for all financial transactions except those required to be accounted for in another fund. This is a budgeted fund, and any fund balances are considered as resources available for current operations. General Fund primary revenue sources include local property taxes and state funding. The District's General Fund includes state distributed federal funds and direct federal funds not required to be included in the Special Revenue Funds.
- **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Additionally, the District reports the following non-major governmental fund types:

- **Capital Projects Fund** – The proceeds from long-term debt financing, and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund. The District has capital projects funds to separately account for various locally funded capital projects occurring throughout the District.
- **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a special revenue fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- **Enterprise Fund** – The Enterprise Fund, a proprietary fund type, accounts for activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District's non-major Enterprise Fund is comprised to account for the concession stand that serves the general public at school sponsored events.
- **Internal Service Fund** – The Internal Service Fund, a proprietary fund type, accounts for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is comprised of the fund for health care self-insurance.
- **Fiduciary Funds** – The District accounts for resources held for others in a custodial capacity. This fund uses the economic resources measurement focus and accrual basis. The District's Fiduciary Fund is comprised of the student activity fund.

Proprietary funds distinguish operating revenues and expenses from non-operating revenues and expenses. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the funds and/or employees for self-funded health services. Operating expenses for the internal service fund are charges to the fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**4. Other Accounting Policies**

For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

**5. Budgetary Data**

The following procedures are utilized in establishing the budgetary data reflected in the basic financial statements:

- Prior to June 20<sup>th</sup> of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1<sup>st</sup>. The operating budget includes proposed expenditures and the means of financing them.
- 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.
- Prior to July 1<sup>st</sup>, the budget is legally enacted through the passage of a resolution by the **Board**.

## **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The legal level of the budgetary control is at the major functional expenditure level by fund type. Each budget is controlled by the budget coordinator. Annual budgets are adopted for the General Fund, Food Service Fund, and Debt Service on a basis consistent with generally accepted accounting principles. Budgets for the Special Revenue funds as well as the Capital Projects funds are adopted on a project basis rather than on an annual basis. Appropriations in these funds remain open as carryover to succeeding years until related expenditures are made or until they are modified or cancelled. All budget appropriations lapse at year end.

Once a budget is approved, it may be amended by management without Board approval within a major functional expenditure category and can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments at the function and fund level are presented to the Board at its regular meetings. As dictated by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget amounts included in this report reflect various amendments made by management or adopted by the Board throughout the year through the final amended budget. The General and Debt Service Fund Budgets are prepared on the modified accrual basis and the Food Service Fund budget is prepared on the accrual basis of accounting.

Expenditures may not legally exceed budgeted appropriations at the function level within an individual fund for General Funds, Debt Service Funds, and the Capital Projects Fund, except when a budget amendment is approved by the Board. For Special Revenue Funds, a budget amendment is required by the TEA when cumulative transfers among direct cost categories exceed or are expected to exceed twenty-five percent of the total current approved budget. The District may transfer resources among categories without submitting an amendment as long as the total amount of resources transferred is twenty-five percent or less of the total current approved budget. The total expenditures per funding source per fiscal year cannot exceed the total amount approved. The budget was amended during the year for certain supplementary appropriations as discussed in Management's Discussion and Analysis.

### **6. Deficit Fund Equity**

Any deficits in fund equity will be supported with entity-wide funding through transfers.

### **7. Encumbrance Accounting**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods or services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

### **8. Inventories**

The District reports inventories of supplies at weighted average cost. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

## **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **9. Inter-fund Receivable and Payable Balances**

During the course of normal operations, the District has numerous transactions between funds. The most significant are short-term inter-fund loans, due to the fact that checking account balances for most governmental funds are pooled into one demand account.

### **10. Net Position**

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

### **11. Data Control Codes**

Data control codes refer to the account code structure prescribed by the Agency in the Guide. The Agency requires the District to display these codes in its financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the Texas State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Resource Guide. Mandatory codes are recorded in the order provided in the Resource Guide.

### **12. Foundation School Program Revenue**

The State of Texas provides funding to Districts through the Foundation School Program based on instructional days, average daily attendance by fiscal year, and other factors.

### **13. Eliminations**

Eliminating entries have not been made in the basic financial statements for transactions between or within fund types.

### **14. Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Accretion is an adjustment of the difference between the price of a bond issued at an original discount and the par value of the bond. For the governmental activities debt, the accreted value is recognized as it accrues by fiscal year.

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



**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****15. Deferred Outflows / Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of a government's net position (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

- Deferred outflows of resources for refunding – Reported in the government-wide financial statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred outflows of resources for pension – Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results 1) changes in actuarial assumptions; 2) differences between expected and actual actuarial experiences and 3) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.
- Deferred outflows of resources for post-employment benefits – Reported in the government wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of 1) differences between projected and actual earnings on pension plan investments and 2) changes in the District's proportional share of pension liabilities. The deferred outflows of resources related to post-employment benefits resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net post-employment benefit liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on OPEB plan investments will be amortized over a closed five-year period. The remaining deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with post-employment benefits through the post-employment benefit plan.

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 (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

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

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****15. Deferred Outflows / Inflows of Resources (continued)**

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

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

**16. 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.

**17. Other Post-Employment Benefits**

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

**18. Accumulated Unpaid Compensatory Leave**

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide financial statements.

**B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****19. Internal Service Fund Consolidation**

Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

**20. Capital Assets**

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed and materially complete. Buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	40
Vehicles	5-10
Office Equipment	5
Computer Equipment	3-5

**21. Health Care Self-Insurance**

The District sponsors a modified self-insurance plan to provide health care benefits to employees and their dependents which are accounted for in the Internal Service Fund, which is a proprietary fund. The District contributes 100% for employee coverage; employee-paid contributions are required for dependent coverage. Claims incurred but not reported (IBNR) are accrued if it is probable that a claim will be asserted and the loss can reasonably be estimated. The accrued liabilities for IBNR in the self-insurance fund are based on estimates provided by a third-party administrator.

**22. Estimates**

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

## **B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **15. Implementation of New Accounting Standards**

The following GASB pronouncements have been implemented by the District in the current fiscal year:

GASB Statement No. 87 *Leases* was issued in June 201 and was effective for periods beginning after June 15, 2021. This Statement established a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under the Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The District has evaluated the effects of this standard and has determined that this Statement does not impact the financial statements.

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

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

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

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

## **C. DEPOSITS AND INVESTMENTS**

### **District Policies and Legal and Contractual Provisions Governing Deposits and Investments**

*Custodial Credit Risk for Deposits* State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits. The District's cash deposits at June 30, 2022 of \$5,790,501 and also throughout the year ended June 30, 2022 were covered by the FDIC insurance and by pledged collateral held by the District's agent in the District's name.

*Foreign Currency Risk* The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by not participating in foreign currency transactions.

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

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

As of June 30, 2022, Andrews Independent School District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>
Lone Star Investment Pool	\$ 25,106,482
TexPool	24,448,899
Total Fair Value	<u>\$ 49,555,381</u>

Due to the immediate availability of the funds, the District's temporary investments at June 30, 2022 are included in cash and cash equivalents. Local government investment pools are recorded at amortized cost which approximates fair value. Texpool and Lone Star Investment Pool do not impose any liquidity fees or redemption gates.

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

*Credit Risk* To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in obligations of, or guaranteed by, governmental entities, public funds investment pools rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent and certificates of deposit and share certificates. As of June 30, 2022, the District's investments in the state investment pool was rated AAA<sub>m</sub> by Standard & Poor's with a weighted average maturity of 23 days.

### **C. DEPOSITS AND INVESTMENTS (Continued)**

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

*Concentration of Credit Risk/Interest Rate Risk* The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity or specific issuer.

*Foreign Currency Risk for Investments* The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign currencies.

*Interest Rate Risk* Investments shall be made in a manner that ensures the preservation of capital in the overall portfolio and offsets during a 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. No individual investment transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

Information regarding the District's investment pools may be obtained by contacting the following:

Lone Star:      Internet:      [www.firstpublic.com](http://www.firstpublic.com)  
                   Telephone:    1-800-558-8875  
                   Address:       First Public  
                                   12007 Research Boulevard  
                                   Austin, Texas 78759

TexPool:        Internet:      [www.texpool.com](http://www.texpool.com)  
                   Telephone:    1-866-839-7665  
                   Address:       TexPool Participant Services  
                                   c/o Federated Investors, Inc.  
                                   1001 Texas Avenue, Suite 1150  
                                   Houston, Texas 77002

*Fair Value Measurements* The District categorizes its fair value investments with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets. Level 2 inputs are significant other observable inputs. Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. The District's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

**C. DEPOSITS AND INVESTMENTS (Continued)****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

	Balance at <u>06/30/22</u>	Fair Values Measured Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by Fair Value Level:</b>				
Equity Securities				
Other	\$ 49,555,381	-	49,555,381	-
Total Investments by Fair Value Level	\$ 49,555,381	-	49,555,381	-

The fair value of investment pools at June 30, 2022 was determined primarily based on level 2 inputs. The District estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The District has no level 1 or 3 investments.

**D. PROPERTY TAXES**

Property taxes are levied by October 1<sup>st</sup> on the assessed value listed as of the prior January 1<sup>st</sup> for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1<sup>st</sup> of the year following the year in which imposed. On January 31<sup>st</sup> of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the District's fiscal year. The assessed value of the property tax roll (net of exemptions) on January 1, 2021, upon which the levy for the June 30, 2022, period was based was \$4,681,689,145.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2022, property taxes receivable, net of estimated uncollectible taxes of \$228,525, totaled \$2,056,724.

The tax rate to finance general governmental services was \$0.9734 per \$100 for the year ended June 30, 2022, and a tax rate of \$0.1400 per \$100 was assessed to finance the payment of principal and interest on long-term obligations.

**E. INTER-FUND RECEIVABLES AND PAYABLES**

The District has numerous transactions between funds which involve receipts and disbursements by one fund for amounts for another fund. Those transactions which require one fund to reimburse another are classified in the balance sheets of the various funds as “due to/from other funds,” as appropriate. Transactions that would be treated as revenues, expenditures, or expenses if they involved organizations external to the District, are accounted for as revenues, expenditures or expenses of the funds involved.

The inter-fund balances between funds result mainly from federal and state grants that operate on a reimbursement basis. Inter-fund balances occur when one fund pays or receives resources for another fund. The inter-fund balances between the General Fund and the Non-Major Funds are specifically due to accounts payable invoices that were dated and merchandise/supplies received before June 30, 2022.

Inter-fund balances at June 30, 2022, consisted of the following amounts:

	<u>Due From Other Funds</u>	<u>Due to Other Funds</u>
<b>General Fund:</b>		
Special Revenue Funds	\$ 379,110	\$ -
Capital Projects Fund	44,299	-
Total General Fund	<u>423,409</u>	<u>-</u>
<b>Capital Projects Fund:</b>		
General Fund	-	44,299
Total Capital Projects Fund	<u>-</u>	<u>44,299</u>
<b>Special Revenue Funds:</b>		
General Fund	-	379,110
Special Revenue Funds	394,680	394,680
Total Special Revenue Funds	<u>394,680</u>	<u>773,790</u>
<b>TOTAL</b>	<u>\$ 818,089</u>	<u>\$ 818,089</u>

Inter-fund transfers during fiscal year ended June 30, 2022 consisted of the following amounts:

	<u>Transfers Out</u>	<u>Transfers In</u>
<b>General Fund:</b>		
Special Revenue Funds	\$ 11,123	\$ -
General Fund	2,179,186	2,179,186
<b>Capital Projects Fund:</b>		
General Fund	-	253,429
Debt Service Fund	-	7,500,000
<b>Debt Service Fund:</b>		
Capital Projects Fund	7,500,000	-
<b>Special Revenue Funds:</b>		
General Fund	253,429	11,123
<b>Internal Service Fund:</b>		
General Fund	<u>-</u>	<u>-</u>
<b>TOTAL</b>	<u>\$ 9,943,738</u>	<u>\$ 9,943,738</u>



**F. CAPITAL ASSET ACTIVITY**

Capital asset activity for the District for the year ended June 30, 2022, was as follows:

Governmental Activities:	<u>Primary Government</u>				Ending Balance
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Transfers</u>	
Land	\$ 1,681,954	-	-	-	1,681,954
Buildings and Improvements	116,993,995	1,300,137	-	-	118,294,132
Furniture and Equipment	19,657,092	2,230,161	(1,197,355)	-	20,689,898
Construction in Progress	6,036	3,689,196	-	-	3,695,232
Totals at Historic Cost	\$ <u>138,339,077</u>	<u>7,219,494</u>	<u>(1,197,355)</u>	<u>-</u>	<u>144,361,216</u>
Less Accumulated Depreciation for:					
Buildings and Improvements	\$ (45,788,664)	(3,094,683)	-	-	(48,883,347)
Furniture and Equipment	(13,169,472)	(1,567,369)	897,439	-	(13,839,402)
Total Accumulated Depreciation	\$ <u>(58,958,136)</u>	<u>(4,662,052)</u>	<u>897,439</u>	<u>-</u>	<u>(62,722,749)</u>
Governmental Activities Capital Assets, Net	\$ <u>79,380,941</u>	<u>2,557,442</u>	<u>(299,916)</u>	<u>-</u>	<u>81,638,467</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 3,291,985
School Leadership	137,028
Guidance, Counseling and Evaluation Services	137,028
Student (Pupil) Transportation	419,058
Food Services	142,020
Co-curricular/Extracurricular Activities	429,726
General Administration	105,207
Total Depreciation Expense	\$ <u>4,662,052</u>

**G. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES**

Long-term activity for the year ended June 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
General Obligation Bonds	\$ 27,640,000	7,500,000	(8,950,000)	\$ 26,190,000	\$ 3,065,000
Accreted interest on capital appreciation bonds	-	-	-	-	-
Deferred amounts for issuance premiums/discounts	1,376,420	108,846	(139,296)	1,345,970	-
Other Liabilities:					
Net Pension Liability	12,143,038	(5,229,521)	(992,242)	5,921,275	-
Net OPEB Liability	12,363,885	478,815	(254,933)	12,587,767	-
Compensated Absences	807,596	164,677	(274,651)	697,622	697,622
Total Governmental Activities Long-term Liabilities	\$ <u>54,330,939</u>	<u>3,022,817</u>	<u>(10,611,122)</u>	\$ <u>46,742,634</u>	\$ <u>3,762,622</u>
Deferred amount on refunding	-	-	-	-	-
Long-term Assets	-	-	-	-	-
<b>Business-type Activities:</b>					
Total Business-type Activities					
Long-term Liabilities	-	-	-	-	-

**G. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES (Continued)**

The bonded debt payable is supported by a pledge of the District's full faith and credit. The bond indentures require a levy and collection of taxes without limitation as to rate or amount on all property subject to taxation by the District sufficient in amount to pay the principal and interest on such bonds as they become due. The indentures also require that a debt service fund be created and administered by the District solely for the purpose of paying principal and interest when due. Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group.

A summary of changes in general long-term debt for the year ended June 30, 2022 is as follows:

	Interest Rate Payable	Amount Original Issue	Outstanding 07/01/21	Issued / Accretion	Retired / Refunded	Outstanding 06/30/22	Maturity Date
Unlimited Tax School Building Bonds – Series 2013	4.00%	5,000,000	2,230,000	-	(2,230,000)	-	2/15/23
Unlimited Tax School Building Bonds – Series 2015	1.75% to 2.50%	5,000,000	710,000	-	(710,000)	-	8/31/23
Unlimited Tax School Building Bonds – Series 2017	1.70% to 3.50%	4,965,000	1,955,000	-	(1,955,000)	-	2/15/22
Unlimited Tax School Building Bonds – Series 2018	3.0% to 4.0%	7,040,000	7,040,000	-	-	7,040,000	2/15/38
Unlimited Tax School Building Bonds – Series 2019	2.25% to 4.2%	3,000,000	2,970,000	-	(2,970,000)	-	2/15/24
Unlimited Tax School Building Bonds – Series 2019a	3.0% to 5.0%	6,020,000	4,900,000	-	(200,000)	4,700,000	2/15/38
Unlimited Tax School Building Bonds – Series 2020	1.0% to 3.0%	5,835,000	5,835,000	-	(280,000)	5,555,000	2/15/38
Unlimited Tax School Building Bonds – Series 2021	1.05% to 3.25%	2,000,000	2,000,000	-	-	2,000,000	2/15/26
Unlimited Tax School Building Bonds – Series 2021A	0.73% to 2.25%	5,000,000	-	5,000,000	(605,000)	4,395,000	2/15/26
Unlimited Tax School Building Bonds – Series 2021B	1.15% to 2.50%	2,500,000	-	2,500,000	-	2,500,000	2/15/26
Total Bonded Debt Payable		\$ <u>46,360,000</u>	\$ <u>27,640,000</u>	\$ <u>7,500,000</u>	\$ <u>(8,950,000)</u>	\$ <u>26,190,000</u>	

*Authorized Debt Status*

Voters have authorized the issuance of additional bonds for construction and improvements. The following authorizations are effective at year end:

Date of Authorization	Amount Authorized	Amount Issued	Remaining Unissued
May 12, 2018	<u>\$50,000,000</u>	<u>\$27,500,000</u>	<u>\$22,500,000</u>
	\$50,000,000	\$27,500,000	\$22,500,000

**G. BONDS PAYABLE AND OTHER LONG-TERM LIABILITIES (Continued)**

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2022. Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ended June 30,	<u>General Obligations</u>		Total Requirements
	<u>Principal</u>	<u>Interest</u>	
2023	3,065,000	690,447	3,755,447
2024	3,050,000	599,647	3,649,647
2025	3,120,000	522,642	3,642,642
2026	3,175,000	471,745	3,646,745
2027	965,000	413,613	1,378,613
2028-2032	5,335,000	1,548,713	6,883,713
2033-2037	6,140,000	749,925	6,889,925
2038	1,340,000	40,345	1,380,345
	\$ <u>26,190,000</u>	\$ <u>5,037,077</u>	\$ <u>31,227,077</u>

During the year ended June 30, 2022, the District issued \$5,000,000 in Unlimited Tax School Building Bonds – Series 2021A and \$2,500,000 in Unlimited Tax School Building Bonds – Series 2021B. The net proceeds were used to fund District construction, improvements, renovations, equip school buildings and upgrade classroom technology.

*Arbitrage Payable*

In accordance with the provisions of Section 148(f) of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Positive arbitrage is the excess of (1) the amount earned on investments purchased with bond proceeds over (2) the amount that such investments would have earned if such investments had been invested at a rate equal to the yield on the bonds issue. In order to comply with the arbitrage rebate requirements, positive arbitrage must be paid to the U.S. Treasury at the end of each five year anniversary date of the bond issue. The District had no arbitrage liability as of June 30, 2022.

**H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS**

Upon retirement or death of certain employees, the District pays any accrued sick leave and vacation leave in a lump cash payment to such employee or his/her estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments. A summary of changes in the accumulated sick leave and vacation leave liability follows:

	<u>Sick Leave</u>	<u>Vacation Leave</u>
Balance, July 1, 2021	\$752,498	\$55,098
Additions - New Entrants and Salary Increments	47,258	117,418
Deductions – Payments to Participants	<u>(165,978)</u>	<u>(108,672)</u>
Balance, June 30, 2022	<u>\$633,778</u>	<u>\$63,844</u>

## **I. DEFINED BENEFIT PENSION PLAN**

**Plan Description.** Andrews Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). 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.

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

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

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

**I. DEFINED BENEFIT PENSION PLAN (Continued)**

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

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

	<u>Contribution Rates</u>	
	<u>2021</u>	<u>2022</u>
Member	7.70%	8.00%
Non-Employer Contributing Entity (State)	7.50%	7.75%
Employers	7.50%	7.75%
Current fiscal year employer contributions		\$ 1,095,893
Current fiscal year member contributions		\$ 2,426,468
2021 measurement year NECE on-behalf contributions		\$ 1,669,789

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, including public schools, are required to pay the employer contribution rate in the following instances:

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

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

- All public schools, charter schools, and regional educational service centers must contribute 1.5% of the member's salary beginning in fiscal year 2020, gradually increasing to 2% in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

**I. DEFINED BENEFIT PENSION PLAN (Continued)**

**Actuarial Assumptions.** The total pension liability in the August 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.25%
Long-term Expected Rate	7.25%
Municipal Bond Rate	2.33%
Last year ending August 31 in projection period	2120
Inflation	2.30%
Salary Increases	3.05% to 9.05% including inflation
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, 2020. For a full description of these assumptions, please see the actuarial valuation report dated November 9, 2020.

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

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

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

**I. DEFINED BENEFIT PENSION PLAN (Continued)**

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

Asset Class	Target Allocation	Long-Term Expected Arithmetic Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns
<b>Global Equity</b>			
USA	18.0%	3.9%	0.99%
Non-U.S. Developed	13.0%	5.1%	0.92%
Emerging Markets	9.0%	5.6%	0.83%
Private Equity	14.0%	6.7%	1.41%
<b>Stable Value</b>			
Government Bonds	16.0%	-0.7%	-0.05%
Absolute Return	0.0%	1.1%	0.0%
Stable Value Hedge Funds	5.0%	2.2%	0.12%
<b>Real Return</b>			
Real Estate	15.0%	4.5%	1.0%
Energy, Natural Resources, and Infrastructure	6.0%	4.7%	0.35%
Commodities	0.0%	1.7%	0.0%
<b>Risk Parity</b>			
Risk Parity	8.0%	2.8%	0.28%
<b>Leverage</b>			
Cash	2.0%	-0.70%	-0.01%
Asset Allocation Leverage	-6.0%	-0.50%	0.03%
Inflation Expectation			2.20%
Volatility Drag			-0.95%
<b>Total</b>	<b>100%</b>		<b>6.90%</b>

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

	1% Decrease in Discount Rate (6.25%)	Discount Rate (7.25%)	1% Increase in Discount Rate (8.25%)
Proportionate share of the net pension liability:	\$12,938,925	\$5,921,275	\$277,830

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2022, the District reported a liability of \$5,921,275 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	\$5,921,275
State's Proportionate share that is associated with the District	<u>\$9,964,584</u>
Total	<u>\$15,885,859</u>

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

**I. DEFINED BENEFIT PENSION PLAN (Continued)**

At August 31, 2021 the employer's proportion of the collective net pension liability was 0.0232512656%, which was an increase (decrease) of 0.0005785606% from its proportion measured as of August 31, 2020.

***Changes since the Prior Actuarial Valuation.***

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

For the year ended June 30, 2022, the District recognized pension expense of \$420,165 and revenue of \$39,837 for support provided by the State.

At June 30, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$9,909	\$416,862
Changes in actuarial assumptions	2,093,055	912,392
Differences between projected and actual investment earnings	-	4,964,912
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	519,801	68,439
Total as of August 31, 2021 measurement date	\$2,622,765	\$6,362,605
Contributions paid to TRS subsequent to the measurement date	936,565	-
Total as of fiscal year-end	\$3,559,330	\$6,362,605

Deferred outflows of resources resulting from District contributions subsequent to the measurement date in the amount of \$936,565 will be recognized as a reduction of the net pension liability in the year ended June 30, 2023. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30,		Pension Expense Amount
2023	\$	(659,351)
2024		(642,335)
2025		(1,066,077)
2026		(1,392,064)
2027		18,157
Thereafter		1,830
	\$	(3,739,840)

For the year ended June 30, 2022, the District received approximately \$130,221 in Medicare Part D on-behalf payments. The General and Special Revenue Funds are used to liquidate pension liabilities.

Long-Term Liability Disclosure	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$12,143,038	\$(5,229,521)	\$992,242	\$5,921,275

**J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

**Plan Description.** Andrews Independent School 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 (OPEB) plan with a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.



**J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)**

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 order 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 a separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [http://www.trs.texas.gov/Pages/about\\_publications.aspx](http://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 and charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

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

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

<b>TRS-Care Monthly Premium Rates</b>		
	<b>Medicare</b>	<b>Non-Medicare</b>
Retiree or Surviving Spouse	\$135	\$200
Retiree & Spouse	529	689
Retiree or Surviving Spouse & Children	468	408
Retiree & 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 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public 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:

**J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)**

	<u>Contribution Rates</u>	
	<u>2021</u>	<u>2022</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 270,602
Current fiscal year member contributions		\$ 198,385
2021 measurement year NECE on-behalf contributions		\$ 341,553

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether 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 \$5,520,343 in fiscal year 2021 to maintain premiums and benefit levels in the 2021-2022 biennium.

**Actuarial Assumptions.** The actuarial valuation was performed as of August 31, 2020. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2021. The actuarial valuation 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. All the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2020 TRS pension actuarial valuation that was rolled forward to August 31, 2021:

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

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

**J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)*****Additional Actuarial Methods and Assumptions:***

Valuation Date	August 31, 2020 rolled forward to August 31, 2021
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	1.95% as of August 31, 2021
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 65% participation prior to age 65 and 40% after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65
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	The initial medical trend rates were 8.50% form Medicare retirees and 7.10% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.50% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 12 years.

Ad hoc post-employment benefit changes None

**Discount Rate.** A single discount rate of 1.95% was used to measure the total OPEB liability. There was a increase of 0.0039 percent 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 used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate is the Fidelity “20-Year Municipal GO AA Index” of August 31, 2021 using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

***Discount Rate Sensitivity Analysis.***

**Discount Rate** - The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1 percentage point lower than and 1 percentage point higher than the discount rate that was used (1.95%) in measuring the Net OPEB Liability.

Discount Rate			
	1% Decrease in Discount Rate (.95%)	Current Rate (1.95%)	1% Increase in Discount Rate (2.95%)
District’s proportionate share of the net OPEB liability:	\$15,183,748	\$12,587,767	\$10,544,646

**Healthcare Cost Trend Rate** - The following schedule presents the District’s proportional share of the net OPEB liability of the plan using net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare trend rate:

Healthcare Cost Trend			
	1% Decrease in Discount Rate (.95%)	Current Rate (1.95%)	1% Increase in Discount Rate (2.95%)
District’s proportionate share of the net OPEB liability:	\$10,195,674	\$12,587,767	\$15,797,362

**J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)**

***OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.*** At June 30, 2022, the District reported a liability of \$12,587,767 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	\$12,587,767
State's Proportionate share that is associated with the District	<u>\$16,864,803</u>
Total	<u>\$29,452,570</u>

The net OPEB liability was measured as of August 31, 2020 and rolled forward to August 31, 2021, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The employer'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, 2020 thru August 31, 2021.

At August 31, 2020, the employer's proportion of the collective net OPEB liability was 0.0326323799%, which was an increase (decrease) of 0.0001082647% from its proportion measured at August 31, 2020.

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

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

- The discount rate changed from 2.33% as of August 31, 2020 to 1.95% as of August 31, 2021. This change increased the Total OPEB Liability.
- There were no changes in benefit terms since the prior measurement date.

For the year ended June 30, 2022, the District recognized OPEB expense of (\$951,525) and revenue of (\$622,440) for support provided by the State.

At June 30, 2022, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$541,963	\$6,093,360
Changes in actuarial assumptions	1,394,243	2,662,080
Differences between projected and actual investment earnings	13,666	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	1,024,045	76,058
Total as of August 31, 2021 measurement date	\$2,973,917	\$8,831,498
Contributions paid to TRS subsequent to the measurement date	229,485	-
Total as of fiscal year-end	\$3,203,402	\$8,831,498

**J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (Continued)**

The \$229,485 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending June 30, 2023. The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal year ended June 30		OPEB Expense Amount
2023	\$	(1,193,106)
2024	\$	(1,193,414)
2025	\$	(1,193,333)
2026	\$	(861,991)
2027	\$	(413,405)
Thereafter	\$	(1,002,332)

Long-Term Liability Disclosure	Beginning Balance	Additions	Retirements	Ending Balance
Net OPEB Liability	\$12,363,885	\$478,815	\$254,933	\$12,587,767

**K. HEALTH CARE COVERAGE**

The District sponsors a modified self-funded insurance plan to provide health care benefits to staff members and their dependents. Transactions related to the plan are accounted for in the Health Insurance Fund (the "Fund"), an internal service fund of the District. The District contributes 100% for employee coverage; employee-paid contributions are required for dependent coverage. The District obtained excess loss insurance which limited annual claims paid from the Fund for the year ended June 30, 2022 to \$130,000 for any individual participant and an aggregate limit equal to \$5,964,685. Estimates of claims payable and of claims incurred, but not reported at June 30, 2022, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claims liabilities during the past year are as follows:

	Year Ended June 30, 2022
Unpaid claims, beginning of the fiscal year	\$ 488,369
Incurred claims (including IBNR's)	4,772,356
Claim payments	(4,793,065 )
Unpaid claims, end of fiscal year	<u>\$ 467,660</u>

**L. UNEARNED OR UNAVAILABLE REVENUE**

Unearned or unavailable revenue at June 30, 2022 consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$ 1,813,673	\$ -	\$ 243,050	\$ 2,056,723
Food Service Receipts	-	51,741	-	51,741
Technology Deposits	95,649	-	-	95,649
Total Unearned or Unavailable Revenue	<u>\$ 1,909,322</u>	<u>\$ 51,741</u>	<u>\$ 243,050</u>	<u>\$ 2,204,113</u>

**M. DUE FROM STATE AGENCIES**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2022, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due From/Receivables from Other Governments.

	State Entitlements	Federal Grants	Other Governments	Total
General	\$ 134,566	\$ -	\$ 177,568	\$ 312,134
Debt Service Fund	-	-	24,965	24,965
Special Revenue	-	688,110	-	688,110
Total	\$ 134,566	\$ 688,110	\$ 202,533	\$ 1,025,209

**N. 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 2022, 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.

**O. FUND BALANCE**

The District has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

- *Non-spendable*: Portion of the Fund Balance that is legally or contractually required to be maintained in tact (and is generally not expected to be converted to cash).
- *Restricted*: Amounts that can be spent only for specific purposes because of restrictions by external sources (creditors, laws of other governments, etc.) or by constitutional provision or enabling legislation.
- *Committed*: Amounts that can be used only for specific purposes determined by formal action by the Board of Trustees, the highest level of decision-making authority.
- *Assigned*: Represents amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority.
- *Unassigned*: Amounts not included in other spendable classifications.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance are available, the District considers restricted funds to have been spent first. When an expenditure for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

When the District incurs an expense for which it may use either restricted or unrestricted resources, it uses the restricted resources first unless unrestricted resources will have to be returned because they were not used. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid “grossing up” the revenues and expenses of the District as a whole.

The District sponsors self-insured plans to provide workers’ compensation benefits to employees and a Medical Trust Fund to provide health care benefits to employees and dependents. Revenues of these Internal Service Funds are received from both the District’s governmental funds. Expenses are comprised of claims incurred during the fiscal year, professional and contracted services, and other miscellaneous expenses.

The General Fund is contingently liable for liabilities of these funds.

**P. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 45,258,545	-	6,973,823	-	\$ 52,232,368
Penalties, Interest and Other Tax-related Income	336,559	-	45,931	-	382,490
Investment Income	87,568	-	3,313	9,000	99,881
Food Sales	-	454,093	-	-	454,093
Co-curricular Student Activities	26,560	-	-	-	26,560
Other	1,906,919	616,356	-	-	2,523,275
Total	<u>\$ 47,616,151</u>	<u>1,070,449</u>	<u>7,023,067</u>	<u>9,000</u>	<u>\$ 55,718,667</u>

**Q. LITIGATION AND 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 combined financial statements for such contingencies.

The District participates in numerous federally-funded programs, on both a direct and state pass-through basis. In connection with these grants, the District is required to comply with specific terms and agreements, as well as applicable federal and state laws and regulations. Such compliance is subject to review and audit by grantors and their representatives, including audits under the "Single Audit" concept and compliance examinations which build upon such audits. In the opinion of the District, the District has materially complied with all requirements. However, as such programs are subject to future audit or review, the possibility of disallowed expenditures exists. In the event of such disallowance of claimed expenditures, the District does not expect the resulting liability to have a material adverse effect on its combined financial statements as of June 30, 2022.

**R. CONSTRUCTION COMMITMENTS**

The District had the following construction commitments as of June 30, 2022:

Name of Project	Contractor	Original Contract Amount
AHS Culinary Lab	Allen Teinert	\$2,408,000
AMS Tennis Office	Allen Teinert	\$141,000
Natatorium Flooring	Johnson & Sons	\$123,055
Natatorium Pool Surfacing	Allen Teinert	\$71,127
Playground Equipment – Clearfork	Playground, Etc.	\$279,845
Soccer Field Complex	Hellas	\$2,435,030

**S. RELATED ORGANIZATIONS**

The A.I.S.D. Education Foundation (the "Foundation"), a not-for-profit entity organized to provide scholarship funds, is a "related organization" of the District as defined by *Governmental Accounting Standards Board Statement No. 14*. The members of the Board of the Foundation are appointed by an outside taxpayer group.

## **T. MAINTENANCE OF EFFORT**

The District contributions for health care for 2021-2022 were \$4,555,644, of which non-medical life insurance premiums were \$34,623, resulting in maintenance of effort of \$4,521,021.

## **U. TAX ABATEMENTS**

Value limitation agreements are part of a state program, originally created in 2001, which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in the statute. The project(s) under the Chapter 313 Agreement(s) must be consistent with the State's goal to "encourage large scale capital investments in this state." Chapter 313 of the Texas Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each Applicant has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the Applications' approval, each of the Agreements were deemed to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the projects. The Applications, the Agreements, and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>.

In prior fiscal years, the District Board of Trustees approved an agreement with third parties, for a Limitation on Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to Chapter 313 of the Texas Tax Code, i.e., the Texas Economic Development Act, as set forth in Chapter 313 of the Texas Tax Code, as amended. The third parties qualified for a tax limitation agreement under Texas Tax Code §313.024(b)(5), as a renewable energy electric generation project.

After approval, the Applicant third party must maintain a viable presence in the District for the entire period of the value limitation, plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

## **V. SUBSEQUENT EVENTS**

The District's management has evaluated subsequent events through November 23, 2022, the date that the financial statements were available to be issued and concluded there are no other events requiring disclosure in the notes or recognition in the financial statements.

The World Health Organization declared the COVID-19 outbreak a public health emergency on January 30, 2020, relating an outbreak, which was first detected December 2019 in Wuhan, China. On March 11, 2020, it was announced that the novel coronavirus was officially a global pandemic which triggered financial market reactions and additional health and safety precautions. On March 13, 2020, the State of Texas and the United States declared an emergency in response to the COVID-19 virus pandemic. On March 19, 2020, Andrews County declared an emergency in response to the pandemic. Because this is an evolving situation that may have a significant financial impact on the District, they have started to assess potential impacts that are yet to be determined.



**REQUIRED SUPPLEMENTARY  
INFORMATION**

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ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 45,301,982	\$ 45,301,982	\$ 47,616,151	\$ 2,314,169
5800 State Program Revenues	1,862,097	1,862,097	5,505,159	3,643,062
5900 Federal Program Revenues	-	-	189,739	189,739
5020 Total Revenues	<u>47,164,079</u>	<u>47,164,079</u>	<u>53,311,049</u>	<u>6,146,970</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	26,025,625	26,075,625	25,539,213	536,412
0012 Instructional Resources and Media Services	534,542	534,542	490,715	43,827
0013 Curriculum and Instructional Staff Development	620,015	620,515	454,250	166,265
0021 Instructional Leadership	935,204	950,204	939,156	11,048
0023 School Leadership	2,326,186	2,370,186	2,356,274	13,912
0031 Guidance, Counseling, and Evaluation Services	1,374,285	1,374,285	1,359,569	14,716
0032 Social Work Services	171,228	171,228	167,006	4,222
0033 Health Services	424,024	424,024	413,023	11,001
0034 Student (Pupil) Transportation	1,010,716	1,049,716	1,035,982	13,734
0036 Extracurricular Activities	2,361,878	2,399,878	2,385,888	13,990
0041 General Administration	1,731,773	1,731,773	1,467,200	264,573
0051 Facilities Maintenance and Operations	5,109,520	5,500,020	5,544,360	(44,340)
0052 Security and Monitoring Services	105,980	105,980	104,312	1,668
0053 Data Processing Services	1,173,051	1,212,593	1,012,357	200,236
0061 Community Services	497,353	497,353	424,946	72,407
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	251,000	-	251,000
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	8,728,469	12,228,469	11,890,330	338,139
0099 Other Intergovernmental Charges	419,000	419,000	409,753	9,247
6030 Total Expenditures	<u>53,548,849</u>	<u>57,916,391</u>	<u>55,994,334</u>	<u>1,922,057</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(6,384,770)</u>	<u>(10,752,312)</u>	<u>(2,683,285)</u>	<u>8,069,027</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7912 Sale of Real and Personal Property	-	-	45,005	45,005
7915 Transfers In	-	-	2,179,186	2,179,186
8911 Transfers Out (Use)	-	-	(2,190,309)	(2,190,309)
7956 Insurance Recovery	-	-	260,851	260,851
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>294,733</u>	<u>294,733</u>
1200 Net Change in Fund Balances	<u>(6,384,770)</u>	<u>(10,752,312)</u>	<u>(2,388,552)</u>	<u>8,363,760</u>
0100 Fund Balance - July 1 (Beginning)	<u>33,061,522</u>	<u>33,061,522</u>	<u>33,061,522</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 26,676,752</u>	<u>\$ 22,309,210</u>	<u>\$ 30,672,970</u>	<u>\$ 8,363,760</u>

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED JUNE 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
District's Proportion of the Net Pension Liability (Asset)	0.023251266%	0.22672705%	0.021941902%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 5,921,275	\$ 12,143,038	\$ 11,406,086
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	9,964,584	20,613,721	18,670,023
Total	<u>\$ 15,885,859</u>	<u>\$ 32,756,759</u>	<u>\$ 30,076,109</u>
District's Covered Payroll	\$ 30,066,998	\$ 28,613,951	\$ 25,383,680
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	19.69%	42.44%	44.93%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	88.79%	75.54%	75.24%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2021 for year 2022, August 31, 2020 for year 2021, August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>	<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
0.02169029%	0.021840679%	0.021569701%	0.0237108%	0.0165225%
\$ 11,938,862	\$ 6,983,473	\$ 8,150,869	\$ 8,381,452	4,413,388
20,025,509	12,443,553	16,774,504	15,302,050	12,267,251
<u>\$ 31,964,371</u>	<u>\$ 19,427,026</u>	<u>\$ 24,925,373</u>	<u>\$ 23,683,502</u>	<u>\$ 16,680,639</u>
\$ 24,351,625	\$ 24,597,526	\$ 25,422,502	\$ 24,374,480	22,920,299
49.03%	28.39%	32.06%	34.39%	19.26%
73.74%	82.17%	78.00%	78.43%	83.25%

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2022

	2022	2021	2020
Contractually Required Contribution	\$ 1,095,893	\$ 977,649	\$ 915,195
Contribution in Relation to the Contractually Required Contribution	(1,095,893)	(977,649)	(915,195)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 30,520,651	\$ 29,855,982	\$ 28,117,867
Contributions as a Percentage of Covered Payroll	3.59%	3.27%	3.25%

Note: GASB Codification, Vol. 2, P20.183 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

	2019	2018	2017	2016	2015
\$	764,474	\$ 717,489	\$ 715,681	\$ 678,534	\$ 662,588
	(764,474)	(717,489)	(715,681)	(678,534)	(662,588)
\$	-	\$ -	\$ -	\$ -	\$ -
\$	25,131,092	\$ 24,277,473	\$ 24,721,571	\$ 25,333,808	\$ 24,181,792
	3.04%	2.96%	2.89%	2.68%	2.74%

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED JUNE 30, 2022

	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020	FY 2020 Plan Year 2019
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.03263238%	0.032524115%	0.031098603%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 12,587,767	\$ 12,363,885	\$ 14,706,912
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	16,864,803	16,614,098	19,542,194
Total	<u>\$ 29,452,570</u>	<u>\$ 28,977,983</u>	<u>\$ 34,249,106</u>
District's Covered Payroll	\$ 30,066,998	\$ 28,613,951	\$ 25,383,680
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	41.87%	43.21%	57.94%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	6.18%	4.99%	2.66%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. The amounts reported for FY 2022 are for measurement date August 31, 2021. The amounts reported for FY 2021 are for the measurement date of August 31, 2020. The amounts for FY 2020 are for the measurement date August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.



<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>
0.030457614%	0.030677949%
\$ 15,207,765	\$ 13,340,689
20,855,527	19,339,435
<u>\$ 36,063,292</u>	<u>\$ 32,680,124</u>
\$ 24,351,625	\$ 24,597,526
62.45%	54.24%
1.57%	0.91%

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2022

	2022	2021	2020
Contractually Required Contribution	\$ 270,602	\$ 253,137	\$ 245,027
Contribution in Relation to the Contractually Required Contribution	(270,602)	(253,137)	(245,027)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 30,520,651	\$ 29,855,982	\$ 28,117,867
Contributions as a Percentage of Covered Payroll	0.89%	0.85%	0.87%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

<hr/>	
2019	2018
<hr/>	
\$ 218,124	\$ 199,754
(218,124)	(199,754)
<hr/>	
\$ -	\$ -
<hr/> <hr/>	
\$ 25,131,092	\$ 24,277,473
0.87%	0.82%

ANDREWS INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2022

A. Notes to Schedules for the TRS Pension

*Changes of Benefit terms.*

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

*Changes of Assumptions.*

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

B. Notes to Schedules for the TRS OPEB Plan

*Changes in Benefits.*

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

*Changes in Assumptions.*

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

## **COMBINING AND OTHER STATEMENTS**

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2022

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ -	\$ 81,820	\$ 50,943	\$ 457,712
1240 Due from Other Governments	225,320	228,693	2,140	-
1260 Due from Other Funds	175,358	-	30,866	123,814
1290 Other Receivables	-	-	-	-
1300 Inventories	-	-	-	26,623
1000 Total Assets	<u>\$ 400,678</u>	<u>\$ 310,513</u>	<u>\$ 83,949</u>	<u>\$ 608,149</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	22,091	19,152	884	39,204
2160 Accrued Wages Payable	109,774	105,461	5,555	142,607
2170 Due to Other Funds	267,338	185,900	77,510	-
2180 Due to Other Governments	-	-	-	-
2300 Unearned Revenue	-	-	-	51,741
2000 Total Liabilities	<u>399,203</u>	<u>310,513</u>	<u>83,949</u>	<u>233,552</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	1,475	-	-	374,597
3470 Capital Acquisition and Contractual Obligation	-	-	-	-
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	-	-
3000 Total Fund Balances	<u>1,475</u>	<u>-</u>	<u>-</u>	<u>374,597</u>
4000 Total Liabilities and Fund Balances	<u>\$ 400,678</u>	<u>\$ 310,513</u>	<u>\$ 83,949</u>	<u>\$ 608,149</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	266 ESSER -School Emergency Relief -CARES	281 ESSER II CRRSA Act Supplemental	282 ESSER III ARP Act	284 IDEA B Formula ARP Act	285 IDEA B Preschool ARP Act
\$ -	\$ 1,380	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
12,863	-	18,832	-	19,646	80,831	27,071	-
17,302	47,340	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 30,165</u>	<u>\$ 48,720</u>	<u>\$ 18,832</u>	<u>\$ -</u>	<u>\$ 19,646</u>	<u>\$ 80,831</u>	<u>\$ 27,071</u>	<u>\$ -</u>
\$ 11,144	\$ -	\$ -	\$ -	\$ -	\$ 413	\$ -	\$ -
-	1,609	-	-	-	4,918	-	-
-	9,100	-	-	-	31,850	-	-
18,968	38,011	18,832	-	19,646	43,650	27,071	-
53	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>30,165</u>	<u>48,720</u>	<u>18,832</u>	<u>-</u>	<u>19,646</u>	<u>80,831</u>	<u>27,071</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 30,165</u>	<u>\$ 48,720</u>	<u>\$ 18,832</u>	<u>\$ -</u>	<u>\$ 19,646</u>	<u>\$ 80,831</u>	<u>\$ 27,071</u>	<u>\$ -</u>

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2022

Data Control Codes	289 Other Federal Special Revenue Funds	397 Advanced Placement Incentives	410 State Instructional Materials	429 Other State Special Revenue Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 14,627	\$ 117	\$ -	\$ (13)
1240 Due from Other Governments	-	-	72,714	-
1260 Due from Other Funds	-	-	-	-
1290 Other Receivables	-	-	-	-
1300 Inventories	-	-	-	-
1000 Total Assets	<u>\$ 14,627</u>	<u>\$ 117</u>	<u>\$ 72,714</u>	<u>\$ (13)</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	-	-	-	-
2160 Accrued Wages Payable	-	-	-	-
2170 Due to Other Funds	14,627	-	45,460	-
2180 Due to Other Governments	-	-	-	-
2300 Unearned Revenue	-	-	-	-
2000 Total Liabilities	<u>14,627</u>	<u>-</u>	<u>45,460</u>	<u>-</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	27,254	-
3470 Capital Acquisition and Contractual Obligation	-	-	-	-
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	117	-	(13)
3000 Total Fund Balances	<u>-</u>	<u>117</u>	<u>27,254</u>	<u>(13)</u>
4000 Total Liabilities and Fund Balances	<u>\$ 14,627</u>	<u>\$ 117</u>	<u>\$ 72,714</u>	<u>\$ (13)</u>



461 Campus Activity Funds	480 Teacher Academy	499 Other Local Special Revenue Funds	Total Nonmajor Special Revenue Funds	616 Capital Projects	618 Capital Projects	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 545,330	\$ 277,424	\$ 3,808	\$ 1,433,148	\$ 2,531,949	\$ 763,197	\$ 3,295,146	\$ 4,728,294
-	-	-	688,110	-	-	-	688,110
-	-	-	394,680	-	-	-	394,680
-	-	13,005	13,005	-	-	-	13,005
-	-	-	26,623	-	-	-	26,623
<u>\$ 545,330</u>	<u>\$ 277,424</u>	<u>\$ 16,813</u>	<u>\$ 2,555,566</u>	<u>\$ 2,531,949</u>	<u>\$ 763,197</u>	<u>\$ 3,295,146</u>	<u>\$ 5,850,712</u>
\$ 2,066	\$ -	\$ -	\$ 13,623	\$ -	\$ -	\$ -	\$ 13,623
-	-	-	87,858	-	-	-	87,858
-	-	-	404,347	-	-	-	404,347
-	-	16,777	773,790	-	44,299	44,299	818,089
-	-	-	53	-	-	-	53
-	-	-	51,741	-	-	-	51,741
<u>2,066</u>	<u>-</u>	<u>16,777</u>	<u>1,331,412</u>	<u>-</u>	<u>44,299</u>	<u>44,299</u>	<u>1,375,711</u>
-	-	-	403,326	-	-	-	403,326
-	-	-	-	2,531,949	718,898	3,250,847	3,250,847
543,264	277,424	36	820,828	-	-	-	820,828
<u>543,264</u>	<u>277,424</u>	<u>36</u>	<u>1,224,154</u>	<u>2,531,949</u>	<u>718,898</u>	<u>3,250,847</u>	<u>4,475,001</u>
<u>\$ 545,330</u>	<u>\$ 277,424</u>	<u>\$ 16,813</u>	<u>\$ 2,555,566</u>	<u>\$ 2,531,949</u>	<u>\$ 763,197</u>	<u>\$ 3,295,146</u>	<u>\$ 5,850,712</u>

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 454,093
5800 State Program Revenues	-	-	-	128,316
5900 Federal Program Revenues	725,274	926,726	33,667	2,355,893
5020 Total Revenues	725,274	926,726	33,667	2,938,302
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	723,799	656,751	33,667	-
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling, and Evaluation Services	-	269,975	-	-
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	2,573,784
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	-
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	723,799	926,726	33,667	2,573,784
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	1,475	-	-	364,518
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	-	10,079
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	-	-	10,079
1200 Net Change in Fund Balance	1,475	-	-	374,597
0100 Fund Balance - July 1 (Beginning)	-	-	-	-
3000 Fund Balance - June 30 (Ending)	\$ 1,475	\$ -	\$ -	\$ 374,597

244	255	263	266	281	282	284	285
Career and Technical - Basic Grant	ESEA II,A Training and Recruiting	Title III, A English Lang. Acquisition	ESSER -School Emergency Relief -CARES	ESSER II CRRSA Act Supplemental	ESSER III ARP Act	IDEA B Formula ARP Act	IDEA B Preschool ARP Act
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
48,808	107,984	65,347	187,494	1,110,332	1,151,272	27,071	-
48,808	107,984	65,347	187,494	1,110,332	1,151,272	27,071	-
48,808	107,984	65,347	-	93,661	918,883	27,071	-
-	-	-	-	-	3,588	-	-
-	-	-	-	-	116,454	-	-
-	-	-	-	-	4,118	-	-
-	-	-	-	-	16,971	-	-
-	-	-	-	-	10,294	-	-
-	-	-	-	-	1,029	-	-
-	-	-	-	-	3,088	-	-
-	-	-	-	-	7,274	-	-
-	-	-	-	-	23,042	-	-
-	-	-	-	-	1,544	-	-
-	-	-	-	-	6,177	-	-
-	-	-	187,494	-	27,485	-	-
-	-	-	-	-	4,118	-	-
-	-	-	-	-	7,207	-	-
-	-	-	-	763,242	-	-	-
48,808	107,984	65,347	187,494	856,903	1,151,272	27,071	-
-	-	-	-	253,429	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	(253,429)	-	-	-
-	-	-	-	(253,429)	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	289 Other Federal Special Revenue Funds	397 Advanced Placement Incentives	410 State Instructional Materials	429 Other State Special Revenue Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	71,670	375
5900 Federal Program Revenues	39,982	-	-	-
5020 Total Revenues	39,982	-	71,670	375
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	39,982	-	72,714	393
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling, and Evaluation Services	-	-	-	-
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	-	-	-
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	39,982	-	72,714	393
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(1,044)	(18)
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	-	1,044	-
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	-	-	1,044	-
1200 Net Change in Fund Balance	-	-	-	(18)
0100 Fund Balance - July 1 (Beginning)	-	117	27,254	5
3000 Fund Balance - June 30 (Ending)	\$ -	\$ 117	\$ 27,254	\$ (13)

461 Campus Activity Funds	480 Teacher Academy	499 Other Local Special Revenue Funds	Total Nonmajor Special Revenue Funds	616 Capital Projects	618 Capital Projects	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 551,028	\$ 52,323	\$ 13,005	\$ 1,070,449	\$ 6,784	\$ 2,216	\$ 9,000	\$ 1,079,449
-	-	-	200,361	-	-	-	200,361
-	-	-	6,779,850	-	-	-	6,779,850
551,028	52,323	13,005	8,050,660	6,784	2,216	9,000	8,059,660
-	-	13,005	2,802,065	-	-	-	2,802,065
-	-	-	3,588	-	-	-	3,588
-	-	-	116,454	-	-	-	116,454
-	-	-	4,118	-	-	-	4,118
-	-	-	16,971	-	-	-	16,971
-	-	-	280,269	-	-	-	280,269
-	-	-	1,029	-	-	-	1,029
-	-	-	3,088	-	-	-	3,088
-	-	-	7,274	-	-	-	7,274
-	-	-	2,596,826	-	-	-	2,596,826
501,872	89,951	-	593,367	-	-	-	593,367
-	-	-	6,177	-	-	-	6,177
-	-	-	214,979	-	-	-	214,979
-	-	-	4,118	-	-	-	4,118
-	-	-	7,207	-	-	-	7,207
-	-	-	763,242	5,288,404	1,564,673	6,853,077	7,616,319
501,872	89,951	13,005	7,420,772	5,288,404	1,564,673	6,853,077	14,273,849
49,156	(37,628)	-	629,888	(5,281,620)	(1,562,457)	(6,844,077)	(6,214,189)
-	-	-	11,123	7,500,000	253,429	7,753,429	7,764,552
-	-	-	(253,429)	-	-	-	(253,429)
-	-	-	(242,306)	7,500,000	253,429	7,753,429	7,511,123
49,156	(37,628)	-	387,582	2,218,380	(1,309,028)	909,352	1,296,934
494,108	315,052	36	836,572	313,569	2,027,926	2,341,495	3,178,067
\$ 543,264	\$ 277,424	\$ 36	\$ 1,224,154	\$ 2,531,949	\$ 718,898	\$ 3,250,847	\$ 4,475,001

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## **T.E.A. REQUIRED SCHEDULES**

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FISCAL YEAR ENDED JUNE 30, 2022

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2013 and prior years	Various	Various	\$ 9,282,850,898
2014	1.060000	0.110000	5,597,100,107
2015	1.060000	0.110000	6,821,769,759
2016	1.060000	0.110000	4,617,679,700
2017	1.060000	0.140000	3,320,004,510
2018	1.060000	0.140000	3,876,326,735
2019	1.060000	0.140000	4,292,305,773
2020	0.990000	0.140000	4,898,780,876
2021	0.976400	0.140000	4,672,258,679
2022 (School year under audit)	0.973400	0.140000	4,696,820,772
1000 TOTALS			



(10) Beginning Balance 7/1/2021	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2022
\$ 161,891	\$ -	\$ 4,956	\$ 524	\$ -	\$ 156,411
73,148	-	2,685	279	-	70,184
80,492	-	5,458	566	-	74,468
154,326	-	10,406	1,080	(272)	142,568
139,035	-	33,278	4,395	(32,602)	68,760
121,585	-	34,008	4,492	499	83,584
188,231	-	69,423	9,169	(8,815)	100,824
361,997	-	129,591	18,326	(27,894)	186,186
1,216,133	-	607,175	87,060	(107,186)	414,712
-	52,294,402	44,326,729	6,847,939	(132,183)	987,551
<u>\$ 2,496,838</u>	<u>\$ 52,294,402</u>	<u>\$ 45,223,709</u>	<u>\$ 6,973,830</u>	<u>\$ (308,453)</u>	<u>\$ 2,285,248</u>

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 1,004,950	\$ 1,004,950	\$ 454,093	\$ (550,857)
5800 State Program Revenues	-	-	128,316	128,316
5900 Federal Program Revenues	1,507,000	1,507,000	2,355,893	848,893
5020 Total Revenues	<u>2,511,950</u>	<u>2,511,950</u>	<u>2,938,302</u>	<u>426,352</u>
<b>EXPENDITURES:</b>				
Current:				
0035 Food Services	<u>2,787,422</u>	<u>2,787,422</u>	<u>2,573,784</u>	<u>213,638</u>
6030 Total Expenditures	<u>2,787,422</u>	<u>2,787,422</u>	<u>2,573,784</u>	<u>213,638</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(275,472)</u>	<u>(275,472)</u>	<u>364,518</u>	<u>639,990</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	<u>-</u>	<u>-</u>	<u>10,079</u>	<u>10,079</u>
1200 Net Change in Fund Balances	<u>(275,472)</u>	<u>(275,472)</u>	<u>374,597</u>	<u>650,069</u>
0100 Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ (275,472)</u>	<u>\$ (275,472)</u>	<u>\$ 374,597</u>	<u>\$ 650,069</u>

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2022

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 6,894,776	\$ 6,894,776	\$ 7,023,067	\$ 128,291
5800 State Program Revenues	-	-	10,703	10,703
5020 Total Revenues	6,894,776	6,894,776	7,033,770	138,994
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Liabilities	4,845,000	8,950,000	8,950,000	-
0072 Interest on Long-Term Liabilities	806,701	851,701	848,231	3,470
0073 Bond Issuance Cost and Fees	2,000	157,000	110,563	46,437
6030 Total Expenditures	5,653,701	9,958,701	9,908,794	49,907
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	1,241,075	(3,063,925)	(2,875,024)	188,901
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued	-	-	7,608,846	7,608,846
8911 Transfers Out (Use)	-	-	(7,500,000)	(7,500,000)
7080 Total Other Financing Sources (Uses)	-	-	108,846	108,846
1200 Net Change in Fund Balances	1,241,075	(3,063,925)	(2,766,178)	297,747
0100 Fund Balance - July 1 (Beginning)	4,296,216	4,296,216	4,296,216	-
3000 Fund Balance - June 30 (Ending)	\$ 5,537,291	\$ 1,232,291	\$ 1,530,038	\$ 297,747

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS  
 FOR THE YEAR ENDED JUNE 30, 2022

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**Section A: Compensatory Education Programs**

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
<hr/>		
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
<hr/>		
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	3041640
<hr/>		
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	3504364
<hr/>		

**Section B: Bilingual Education Programs**

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
<hr/>		
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
<hr/>		
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	417376
<hr/>		
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25,35)	664477
<hr/>		

**REPORTS ON**  
**INTERNAL CONTROLS, COMPLIANCE**  
**AND**  
**FEDERAL AWARDS**

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

Board of Trustees  
Andrews Independent School District  
405 N.W. 3<sup>rd</sup> Street  
Andrews, Texas 79714

To the Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Andrews Independent School District (the "District") as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 23, 2022.

**Internal Control over Financial Reporting**

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

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



Texas Society of  
Certified Public Accountants



MEMBER OF  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

A handwritten signature in blue ink that reads "Wayne M. Manning, CPA".

Wayne M. Manning, CPA  
Andrews, Texas  
November 23, 2022

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

Board of Trustees  
Andrews Independent School District  
405 N.W. 3<sup>rd</sup> Street  
Andrews, Texas 79714

To the Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited Andrews Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Andrews Independent School District's major federal programs for the year ended June 30, 2022. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Andrews Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Andrews Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Andrews Independent School District's compliance.



### *Opinion on Each Major Federal Program*

In our opinion, Andrews Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

### Report on Internal Control over Compliance

Management of Andrews Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

A handwritten signature in blue ink that reads "Wayne M. Manning, CPA". The signature is written in a cursive style.

Wayne M. Manning, CPA  
Andrews, Texas  
November 23, 2022

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2022

**I. Summary of the Auditor's Results**

Financial Statements

- The type of report issued on the financial statements of the Andrews Independent School District was an unmodified opinion.
- With respect to internal control over financial reporting we identified no material weaknesses and we reported no significant deficiencies.
- We noted no noncompliance material to the financial statements.

Federal Awards

- With respect to internal control over major federal programs we identified no material weaknesses and we reported no significant deficiencies.
- The type of report we issued on compliance for major programs was an unmodified opinion.
- We disclosed no audit findings which the auditor is required to report in accordance with 2 CFR 200.516(a).
- Identification of Major Programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number (ALN)</u>
<i>U.S. Department of Education</i>	
ESEA, Title I, Part A - Improving Basic Programs	84.010A
COVID-19 - ESSER II	84.425D
COVID-19 - TCLAS - ESSER III	84.425U

The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.

The Auditee does qualify as a low-risk auditee.

Financial Statement Findings: None.

Federal Award Findings and Questioned Costs: None.

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2022

Status of prior year findings / non-compliance: none noted.

ANDREWS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2022

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	21610101002901	\$ 173,686
ESEA, Title I, Part A - Improving Basic Programs	84.010A	22610101002901	<u>550,112</u>
Total Assistance Listing Number 84.010			<u>723,798</u>
*IDEA - Part B, Formula	84.027A	216600010029016600	174,954
*IDEA - Part B, Formula	84.027A	226600010029016600	751,772
*IDEA, Part B, Formula - American Rescue Act (ARP)	84.027X	225330020029016610	<u>27,071</u>
Total Assistance Listing Number 84.027			<u>953,797</u>
*IDEA - Part B, Preschool	84.173A	216610010029016610	15,881
*IDEA - Part B, Preschool	84.173A	226610010029016610	<u>17,786</u>
Total Assistance Listing Number 84.173			<u>33,667</u>
Total Special Education Cluster (IDEA)			<u>987,464</u>
Career and Technical - Basic Grant	84.048A	21420006002901	2,545
Career and Technical - Basic Grant	84.048A	22420006002901	<u>46,263</u>
Total Assistance Listing Number 84.048			<u>48,808</u>
Title III, Part A - English Language Acquisition	84.365A	21671001002901	36,069
Title III, Part A - English Language Acquisition	84.365A	22671001002901	<u>29,278</u>
Total Assistance Listing Number 84.365			<u>65,347</u>
ESEA, Title II, Part A, Teacher Principal Training	84.367A	21694501002901	42,154
ESEA, Title II, Part A, Teacher Principal Training	84.367A	22694501002901	<u>65,830</u>
Total Assistance Listing Number 84.367			<u>107,984</u>
Title IV, Part A, Subpart 1	84.424A	21680101002901	22,875
Title IV, Part A, Subpart 1	84.424A	22680101002901	<u>17,107</u>
Total Assistance Listing Number 84.424			<u>39,982</u>
COVID 19 - Elementary & Secondary School Emergency Relief	84.425D	20521001002901	187,494
COVID 19 - Elementary Secondary School Emergency Relief II	84.425D	21521001002901	856,903
COVID 19 - ESSER III - ARP School Emergency Relief	84.425U	21528001002901	<u>1,151,272</u>
Total Assistance Listing Number 84.425			<u>2,195,669</u>
Total Passed Through Texas Education Agency			<u>4,169,052</u>
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<u>4,169,052</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the Texas Department of Agriculture</u>			
*School Breakfast Program	10.553	71402101	352,525
*National School Lunch Program - Cash Assistance	10.555	71302101	1,859,599
*National School Lunch Prog. - Non-Cash Assistance	10.555	71302101	<u>143,769</u>
Total Assistance Listing Number 10.555			<u>2,003,368</u>
Total Child Nutrition Cluster			<u>2,355,893</u>
Total Passed Through the Texas Department of Agriculture			<u>2,355,893</u>

ANDREWS INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED JUNE 30, 2022

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<u>2,355,893</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 6,524,945</u>

\*Clustered Programs

ANDREWS INDEPENDENT SCHOOL DISTRICT

NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2022

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*.
  - (i) **General Fund** - is used to account for, among other things, resources related to the United States Department of Defense ROTC program and the United States Department of Education's Impact Aid.
  - (ii) **Special Revenue Funds** - are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund or, in some instances, in the General Fund which are Governmental Fund type funds.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

- The District must submit to the pass-through entity, no later than 90 calendar days (or an earlier date as agreed upon by the pass-through entity and District) after the end date of the period of performance, all financial, performance, and other reports as required by the terms and conditions of the Federal award. The Federal awarding agency or pass-through entity may approve extensions when requested and justified by the non-Federal entity, as applicable. (2 CFR 200.344(a))

Unless the Federal awarding agency or pass-through entity authorizes an extension, a non-Federal entity must liquidate all financial obligations incurred under the Federal award no later than 120 calendar days after the end date of the period of performance as specified in the terms and conditions of the Federal award.(2 CFR 200.344(b))

- Assistance Listing numbers for commodity assistance are the Assistance Listing numbers of the programs under which USDA donated the commodities.
- At June 30, 2022, the District had food commodities totaling \$26,623 in inventory.
- The District does not use the 10% de minimis indirect cost rate for federal programs.
- The District did not pass through any federal funding to sub-recipients.
- Federal financial assistance revenues are reported in the District's general purpose financial statements as follows:

Amount reported on the Schedule of Expenditures of Federal awards	\$ 6,524,945
SHARS Revenue reported in the General Fund	189,739
LEP Summer School for prior years	1,475
Plus any pre-award expenditures related to COVID relief for prior years	253,430
Total Federal Program Revenue Reported on Exhibit C-3	<u>\$ 6,969,589</u>

## SCHOOLS FIRST QUESTIONNAIRE

Andrews Independent School District

Fiscal Year 2022

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SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement?	No
SF3	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If there was a warrant hold not cleared in 30 days, then not timely.)	Yes
SF4	Was the school district issued a warrant hold? (Yes even if cleared within 30 days.)	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules in effect at the fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end.	0

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**APPENDIX E**

**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/](http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/) and with the MSRB at [www.emma.msrb.org](http://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](http://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 through 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 87<sup>th</sup> Regular Session the LBB issued a fiscal note on SB 1232. The fiscal note stated that uncertainty exists regarding the nature of future returns and the effect of the bill on distributions from all components of the PSF to the ASF, such that the financial impact of the bill could not be determined during the legislative session. However, the fiscal note stated that TEA and the GLO projected that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. No assurances can be given as to future investment results for the Fund.

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

### **The Total Return Constitutional Amendment**

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

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

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

The November 8, 2011, referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets was already included in the value of the Fund for purposes of the Guarantee Program, but

prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately \$2 billion, no new resources were provided for deposit to the Fund. As described under “The Total Return Constitutional Amendment” the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

**Annual Distributions to the Available School Fund<sup>1</sup>**

<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>
PSF(SBOE) Distribution	\$1,021	\$839	\$839	\$1,056	\$1,056	\$1,236	\$1,236	\$1,102	\$1,102	\$1,731
PSF(SLB) Distribution	\$300	\$0	\$0	\$0	\$0	\$0	\$300	\$600	\$600 <sup>2</sup>	\$415
Per Student Distribution	\$281	\$175	\$173	\$215	\$212	\$247	\$306	\$347	\$341	\$432

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

<sup>2</sup> 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 Rate<sup>1</sup></u>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32% <sup>2</sup>

<sup>1</sup> 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.

<sup>2</sup> 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

	<b>PSF(SBOE)</b>	<b>PSF(SLB)</b>	<b>Liquid Account</b>
<b>Equity Total</b>	55%	0%	77%
<b>Public Equity Total</b>	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%
<b>Private Equity</b>	18%	0%	0%
<b>Fixed Income Total</b>	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%
<b>Alternative Investments Total</b>	22%	100%	0%
Absolute Return	7%	0%	0%
Real Estate	11%	33%	0%
Real Return	4%	0%	0%
Energy	0%	31%	0%
Infrastructure	0%	36%	0%
<b>Emerging Manager Program</b>	1%	0%	0%
<b>Cash</b>	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.

<b>Asset Class</b>	<b>Strategic Asset Allocation</b>	<b>Range</b>
<b>Equities</b>		
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%	
<b>Fixed Income</b>		
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%	
<b>Cash Equivalents</b>	0%	
<b>Alternatives</b>		
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)<sup>1</sup>

Fair Value (in millions) August 31, 2022 and 2021				
<u>ASSET CLASS</u>	<u>August 31, 2022</u>	<u>August 31, 2021</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
EQUITY				

Domestic Small Cap	\$ 2,358.4	\$ 2,597.3	\$ (238.9)	-9.2%
Domestic Large Cap	<u>4,730.4</u>	<u>6,218.7</u>	<u>(1,488.3)</u>	<u>-23.9%</u>
Total Domestic Equity	7,088.8	8,816.0	(1,727.2)	-19.6%
International Equity	<u>5,972.5</u>	<u>8,062.1</u>	<u>(2,089.6)</u>	<u>-25.9%</u>
<b>TOTAL EQUITY</b>	<b>13,061.3</b>	<b>16,878.1</b>	<b>(3,816.8)</b>	<b>-22.6%</b>
<b>FIXED INCOME</b>				
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>
<b>TOTAL FIXED INCOME</b>	<b>8,036.9</b>	<b>8,780.1</b>	<b>(743.2)</b>	<b>-8.5%</b>
<b>ALTERNATIVE INVESTMENTS</b>				
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>
<b>TOT ALT INVESTMENTS</b>	<b>16,673.0</b>	<b>16,652.1</b>	<b>20.9</b>	<b>0.1%</b>
UNALLOCATED CASH	<u>196.5</u>	<u>262.9</u>	<u>(66.4)</u>	<u>-25.3%</u>
<b>TOTAL PSF(SBOE) INVESTMENTS</b>	<b>\$ 37,967.7</b>	<b>\$ 42,573.2</b>	<b>\$ (4,605.5)</b>	<b>-10.8%</b>

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

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

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

#### Liquid Account Fair Value at August 31, 2022<sup>1</sup>

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

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

<sup>1</sup> In millions of dollars.

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

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

**Comparative Investment Schedule - PSF(SLB)**

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

Asset Class	As of 8-31-22	As of 8-31-21	Increase (Decrease)	Percent Change
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds <sup>1</sup>				
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 Investments	271.5	223.9	47.6	21.3%
Total Discretionary Real Assets Investments	6,534.0	4,860.5	1,673.5	34.4%
Dom. Equity Rec'd as In-Kind Distribution	-	1.7	(1.7)	-100.0%
Sovereign and Other Lands	428.3	405.4	22.9	5.6%
Mineral Interests	5,622.2	2,720.4	2,901.8	106.7%
Cash at State Treasury <sup>2</sup>	<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%

<sup>1</sup> 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.

<sup>2</sup> 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/](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 <sup>(1)</sup>	Market Value <sup>(1)</sup>
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 <sup>(2)</sup>	42,511,350,050	56,754,515,757

<sup>(1)</sup> 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.

<sup>(2)</sup> 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.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
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 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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<sup>(1)</sup>**

<u>Fiscal Year Ended 8/31</u>	<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 <sup>(2)</sup>	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929

<sup>(1)</sup> 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.

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

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

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

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

The Fund is invested in global markets and experiences volatility commensurate with the related indices. The Fund is broadly

diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted and implemented to make the cost structure more effective and efficient. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2022.

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

**PSF Returns Fiscal Year Ended 8-31-2022<sup>1</sup>**

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return<sup>2</sup></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

<sup>1</sup> 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.

<sup>2</sup> 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](https://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](http://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](http://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.

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