

OFFICIAL STATEMENT
Dated: August 5, 2024

NEW ISSUE: BOOK-ENTRY-ONLY

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

\$11,695,000
CAYUGA INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Anderson County, Texas)
Unlimited Tax School Building Bonds, Series 2024

Dated Date: August 15, 2024

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

The Cayuga Independent School District Unlimited Tax School Building Bonds, Series 2024 (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 4, 2024 and the order (the "Order") authorizing the issuance of the Bonds adopted on August 5, 2024 by the Board of Trustees (the "Board") of the Cayuga 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 initially on February 15 and August 15 of each year, commencing February 15, 2025, 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 on the close of business as of the last business day of the month next preceding each interest payment date.

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 purposes of (i) the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings (with priority given to agricultural science career and technology education facilities, additional campus parking areas and electrical system infrastructure upgrades), (ii) the demolition/relocation of the District's baseball and softball complex to create sufficient space for a potential future expansion of the District's school buildings, an expansion of existing parking areas and a band practice area, (iii) the construction and equipment of a replacement baseball and softball complex with additional parking areas (iv) funding capitalized interest for the Bonds, and (v) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on or after February 15, 2030 are subject to redemption at the option of the District in whole or in part on August 15, 2029 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 (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 Leon Alcala, PLLC, Austin, Texas, Bond Counsel. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about September 4, 2024.

\$11,695,000
CAYUGA INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Anderson County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

MATURITY SCHEDULE
Base CUSIP No.: 149794⁽¹⁾

Maturity Date 2/15	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2025	\$930,000	5.00%	2.80%	AX7
2026	975,000	5.00	2.80	AY5
2027	1,025,000	5.00	2.77	AZ2
2028	1,080,000	5.00	2.76	BA6
2029	1,135,000	5.00	2.75	BB4
2030	1,195,000	5.00	2.76 ⁽²⁾	BC2
2031	1,255,000	5.00	2.79 ⁽²⁾	BD0
2032	1,315,000	4.00	2.90 ⁽²⁾	BE8
2033	1,365,000	4.00	2.95 ⁽²⁾	BF5
2034	1,420,000	4.00	3.00 ⁽²⁾	BG3

(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, 2029, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

CAYUGA INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected or Appointed</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Tim West, President	11/2014	2026	Retired
Todd Winkel, Vice President	5/2016	2024	Contractor
David Link, Secretary	9/2021	2024	Teacher
Josh Hinshaw, Member	2/2023	2024	Wal-Mart Manager
Donald Loving, Member	5/2001	2024	Retired
Clint Satterwhite, Member	11/2022	2026	Business Owner
Daniel Sims, Member	9/2021	2026	Railroad Track Inspector

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with the District</u>
Dr. Joe E. Satterwhite III	Superintendent	21 Years	5 Years
Dr. Rick Webb	Assistant Superintendent	38 Years	25 Years
Kellie Gatewood	Business Director	23 Years	23 Years

CONSULTANTS AND ADVISORS

Leon Alcala, PLLC, Austin, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Pattillo, Brown & Hill, L.L.P., Waco, Texas	Certified Public Accountants

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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.

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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.

The District	The Cayuga Independent School District (the "District") is a political subdivision of the State of Texas located in Anderson 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.
The Bonds	The Bonds are being issued in the principal amount of \$11,695,000 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 4, 2024, and an order (the "Order") authorizing the issuance of the Bonds adopted by the Board on August 5, 2024. Proceeds from the sale of the Bonds will be used for purposes of (i) the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings (with priority given to agricultural science career and technology education facilities, additional campus parking areas and electrical system infrastructure upgrades), (ii) the demolition/relocation of the District's baseball and softball complex to create sufficient space for a potential future expansion of the District's school buildings, an expansion of existing parking areas and a band practice area, (iii) the construction and equipment of a replacement baseball and softball complex with additional parking areas and (iv) funding capitalized interest for the Bonds, and (v) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").
Paying Agent/Registrar	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).
Security	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").
Optional Redemption	The Bonds maturing on or after February 15, 2030 are subject to redemption at the option of the District in whole or in part on August 15, 2029 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").
Permanent School Fund Guarantee	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.")
Rating	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.)
Tax Matters	In the opinion of Bond Counsel, assuming the accuracy of certain representations and certifications, and continuing compliance with certain tax covenants, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. In the case of the federal alternative minimum tax imposed by Section 55(b)(2) of the Code on applicable corporations (as defined in Section 59(k) of the Code), interest on the Bonds is not excluded from the determination of adjusted financial statement income. (See "TAX MATTERS" and "Appendix C – Form of Legal Opinion of Bond Counsel.")
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legal Opinion	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 Leon Alcalá, PLLC, Austin, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about September 4, 2024.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Cayuga Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Anderson County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2024 (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 Cayuga Independent School District, 17750 N. US Hwy 287, Tennessee Colony, TX 75861 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail without charge or by physical delivery 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 \$11,695,000 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 4, 2024 (the "Election") and an order (the "Order") authorizing the issuance of the Bonds adopted by the Board of Trustees (the "Board") on August 5, 2024. Proceeds from the sale of the Bonds will be used for purposes of (i) the construction, acquisition, rehabilitation, renovation, expansion and equipment of school buildings (with priority given to agricultural science career and technology education facilities, additional campus parking areas and electrical system infrastructure upgrades), (ii) the demolition/relocation of the District's baseball and softball complex to create sufficient space for a potential future expansion of the District's school buildings, an expansion of existing parking areas and a band practice area, (iii) the construction and equipment of a replacement baseball and softball complex with additional parking areas (iv) funding capitalized interest for the Bonds, and (v) paying the costs of issuing the Bonds.

General Description

The Bonds are dated August 15, 2024 (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 semiannually on February 15 and August 15 of each year, commencing February 15, 2025, 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, 2030 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, 2029 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. If less than all of the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in the Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

Notice of Redemption and DTC Notices

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. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE BONDHOLDER, AND, SUBJECT TO PROVISION FOR PAYMENT OF THE REDEMPTION PRICE HAVING BEEN MADE AND THE SATISFACTION OF ANY OTHER CONDITION SPECIFIED IN THE NOTICE, INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND HAS NOT BEEN PRESENTED FOR PAYMENT.

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

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

The District may, without the consent of or notice to any holders of the Bonds, from time to time and at any time amend the Order without the consent of any Beneficial Owner in any manner not detrimental to the interests of the beneficial owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the beneficial owners of the Bonds then outstanding, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereof or in any other way modify the terms of payment of the principal or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the percentage of the aggregate principal amount of Bonds required to be held for beneficial owners for consent to any amendment, addition, or waiver, or rescission.

Defeasance

The Order provides that the Bonds may be defeased, refunded or discharged in any manner permitted by applicable law. Under current State law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested in (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 of the United States of America, and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding obligations to refund the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid for any purposes. After firm banking and financial arrangements for the discharge, final payment, or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District may reserve 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.

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

Sources and Uses of Funds

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

Sources

Par Amount of Bonds	\$	11,695,000.00
Accrued Interest		28,697.92
Reoffering Premium		724,886.25
Total Sources of Funds	\$	12,448,584.17

Uses

Deposit to Construction Fund	\$	12,000,000.00
Costs of Issuance		154,553.84
Purchaser's Discount		65,332.41
Deposit to Interest and Sinking Fund		228,697.92
Total Uses of Funds	\$	12,448,584.17

REGISTERED OWNERS' REMEDIES

The Order does not establish specific events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, 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 Order 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 periodically. 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.

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

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

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

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

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

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, nor 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.

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed bond certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration" below.

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. 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 Finance System. The information contained under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding based on information available to the District as of the date of this Official Statement. 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. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

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

2023 Regular and Special Legislative Sessions

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

When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded four special sessions during the 88th Texas Legislature (such special sessions, together with the 88th Regular Session, the “2023 Legislative Sessions”). During the second called special session, legislation was passed, and at an election held in the State on November 7, 2023, voters approved a State constitutional amendment that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and holds districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption (in connection with the Bonds, the District will not be held harmless from I&S tax revenue losses associated with such increased exemption); (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibited school districts, cities and counties from repealing or reducing a general optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an 15 appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. This legislation reduces the amount of property taxes paid by homeowners and businesses and increases the State’s share of the cost of funding public education.

The proclamation for the fourth called special session included the consideration of (i) “legislation relating to primary and secondary education, including the establishment of an education savings account program, the certification, compensation, and health coverage of certain public school employees, the public school finance system, special education in public schools, measures to support the education of public school students that include certain educational grant programs, reading instruction, and early childhood education, the provision of virtual education, and public school accountability;” and (ii) “legislation related to school safety measures and related state funding mechanisms.” The session adjourned on December 5, 2023 without any action on these items. The Governor may call additional special sessions. During any additional called special session, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. The District can make no representations or predictions regarding the scope of additional legislation that may be considered during any additional called special sessions or the potential impact of such legislation at this time.

Local Funding for School Districts

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

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

State Compression Percentage

The State Compression Percentage is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2024, the State Compression Percentage is set at 68.80%.

Maximum Compressed Tax Rate

The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is 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 2023 Legislative Session, took action to reduce the maximum MCR for the 2023-2024 school year. It established \$0.6680 as the maximum rate and \$0.6192 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 2024-2025 State fiscal biennium, the State Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

Tier One

Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics 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 the school district's MCR, is \$6,160 for each student in ADA and is revised downward for school districts 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.

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 \$315 million for the 2023-2024 school year.

Tier Two

Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2024-2025 State fiscal biennium, school districts are guaranteed a yield of \$126.21 per student in WADA in 2024 and \$129.52 per student WADA in 2025 for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2024-2025 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 percent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2024-2025 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

Since future-year IFA awards were not funded by the State Legislature for the 2024-2025 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2024-2025 State fiscal biennium on new bonds issued by school districts in the 2024-2025 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent the bonds of a school district are eligible for hold harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption from \$40,000 to \$100,000. Hold harmless applies only to bonds authorized by voters prior to September 1, 2023.

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities. In the 2023 Legislative Sessions, the State Legislature appropriated funds in the amount of \$100,000,000 for each fiscal year of the 2024-2025 State fiscal biennium for NIFA allotments.

Tax Rate and Funding Equity

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

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis, which will be phased out in 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. Additionally, school districts and open-enrollment charter schools may be entitled to receive an allotment in the form of a formula transition grant, but they will not be entitled to an allotment beginning with the 2024-2025 school year. This grant is meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. Furthermore, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

For the 2023-2024 school year, school districts will be held harmless and entitled to additional state aid to the extent that state and local revenue used to service eligible debt is less than the state and local revenue that would have been available to the district under state law providing for state aid to districts to account for increases in the general residence homestead exemption and the elderly or disabled tax ceiling as such state law existed on September 1, 2022, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred.

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 2024-2025 school year, the District was not designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State Law. As a district with local revenues less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "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 Anderson 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.

Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "maximum property value") to an amount exceeding 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 unless extended by the State Legislature, 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.

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a \$100,000 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. Senate Bill 1, which was also passed during the Third Special Session of the 87th 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 2nd Special Session of the 88th Texas Legislature. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 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.

Cities, counties, and school districts are prohibited from repealing or reducing a general optional homestead exemption that was granted in tax year 2022 through December 31, 2027. 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.

The total amount of ad valorem taxes that may be imposed for general elementary and secondary public school purposes on the residence homestead of a person who is sixty-five (65) years old or older or disabled may be adjusted to reflect any statutory reduction from the preceding tax year in the MCR of the M&O taxes imposed for those purposes on the homestead.

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”).

Tax Limitation Agreements

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

During the Regular Session of the 88th Texas Legislature, House Bill 5 (“HB 5”) was enacted into law. HB 5 is intended as a replacement of former Chapter 313, Texas Tax Code, but it contains significantly different provisions than the prior program under former Chapter 313, Texas Tax Code. Under HB 5, a school district may offer a 50% limitation on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% value limitation. HB 5 also provides a 100% value limitation of maintenance and operations taxes for eligible property during a project’s construction period. **Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be limited under HB 5.** Eligible projects are limited and include manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects. Projects must create and maintain jobs, as well as meet certain minimum investment requirements. The District does not expect that HB 5 will have any material adverse effect on its ability to repay the Bonds or its finances or operations more generally.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

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 \$59,562,331 for the 2024 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 pursuant to 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. In connection with prior bond issues, the District has not used State financial assistance other than EDA or IFA allotment funding and has not used projected property values to satisfy this threshold test. In connection with the Bonds, the District will use approximately \$1,100,000 of Tier One funds to comply with 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 Rate".

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 Anderson County, Texas (the "County"). The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year (or when billed if billed after October 1) and generally become delinquent on February 1 of the following year.

The District does not grant a local option, additional exemption to disabled veterans above the State-mandated exemption.

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 Anderson County Appraisal District.

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 up to 20% of the market value of residence homesteads.

The District does grant a local option, additional exemption for persons who are 65 years of age or older or disabled above the State-mandated exemption.

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

Chapter 313 Agreements

<u>Company</u>	<u>First Year of Taxable Value for I&S Taxation¹ 2024/25</u>	<u>Total Investment² \$141,298,000</u>	<u>Capped Value for M&O Taxation \$40,000,000</u>	<u>First Year Of Capped Value And Payments to the District³ 2024/25</u>
Skull Creek Solar, LLC				

¹ First year that a portion of the value will be placed on the tax rolls as set forth in the company's application.

² Total cumulative investment amount as set forth in the company's Agreement and Findings.

³ First year that payments in lieu of taxes were or will be remitted to the District as set forth in the company's application.

The District does not guarantee the actual value of the properties, nor does it guarantee the performance of the company's fulfillment of the agreements.

In accordance with Chapter 313, each agreement provides that the full value of the facility is subject to taxation during the first 1 to 2 years of the agreement, and thereafter the District may levy its M&O Tax against a capped value for 8 to 10 years depending on the agreement. The agreements do not limit the tax value with respect to the District's debt service tax rate during any year. After the 8 to 10 year limitation period, the full tax value of the facilities is subject to taxation by the District for both operating and debt service purposes.

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 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 August 31, 2023, 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 Plan, see "II. Detailed Notes on Activities and funds, F. 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 TRS, 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 "II. Detailed Notes on Activities and funds, G. Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

During the year ended August 31, 2023, employees of the District were covered by a fully-insured health insurance plan (the "Health Care Plan"). The District contributed \$225 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "II. Detailed Notes on Activities and funds, H. Health Care" 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.

RATING

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. 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.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations revise, their rating methodologies and criteria for municipal issuers such as the District. A revision in a rating agency's rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while the Bonds remain outstanding could undertake such an evaluation process.

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 Leon Alcalá, PLLC, 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 the 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 purchasers of school district bonds (which may include the Financial Advisor) 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. In its capacity as Bond Counsel, Leon Alcalá, PLLC, has not independently verified any of the factual information contained in this Official Statement nor has such firm conducted an investigation into the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel's role in connection with this Official Statement was limited to reviewing the information describing the Bonds to verify that such descriptions conform to the provisions of the Order. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind, with regard to the accuracy or completeness of any of the information contained herein.

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 opened 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

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

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

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the interest on the Bonds, or the ownership or disposition of the Bonds. The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations, foreign corporations operating branches in the United States of America, and certain corporations subject to the alternative minimum tax imposed on corporations), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds.

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

The IRS has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. Under existing procedures relating to audits of tax-exempt obligations such as the Bonds by the IRS, owners of the Bonds would have little, if any, right to participate in the audit examination process. It is also possible that the market value of the Bonds might be adversely affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

Original Issue Premium and Discount

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

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

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

Changes in Tax Law

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

Information Reporting and Backup Withholding

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

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; (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the PFIA; and (17) 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, 2024, the District had approximately \$4,518,662 (unaudited) invested in TexPool (which is a government investment pool that generally has 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.

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 2024. 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 the Rule.

The District's current fiscal year end is August 31. Accordingly, the Annual Operating Report must be provided by the last day of February in each year, and the Financial Statements must be provided by August 31 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 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 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.

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 the Rule) has been provided to the MSRB consistent with the Rule.

Availability of Information

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be 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.

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 the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any 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 the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District 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 last five years, the District has not had any outstanding obligations for which it had a continuing disclosure agreement under the Rule.

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 Raymond James & Associates, Inc. (the "Purchaser" or the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the page ii of this Official Statement at a price of par, plus a reoffering premium of \$724,886.25, plus accrued interest on the Bonds from their Dated Date to their date of initial delivery. The initial reoffering yields shown on page ii hereof will produce compensation to the Purchaser in the amount of \$65,332.41. 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 one or more certificates, executed by proper officials of the District, acting in their official capacities, substantially 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 August 31, 2023, 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 the Rule.

/s/ Tim West

President, Board of Trustees

ATTEST:

/s/ David Link

Secretary, Board of Trustees

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APPENDIX A
FINANCIAL INFORMATION OF THE DISTRICT

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CAYUGA INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2024/25 Total Valuation.....	\$ 1,025,944,228
Less Exemptions & Deductions ⁽²⁾ :	
State Homestead Exemption	\$ 61,319,702
State Over-65 Exemption	2,193,359
Disabled Homestead Exemption Loss	2,113,967
Local Optional Over-65 & Disabled Exemption	602,188
Local Optional Percentage Homestead Exemption	17,418,161
Veterans Exemption Loss	462,105
Pollution Control Exemption Loss	16,794,284
Productivity Loss	478,774,957
Homestead Cap Loss	22,403,276
Non-Homestead (23.231) Cap Loss	3,269,636
	\$ 605,351,635
 2024/25 Certified Net Taxable Valuation	 \$ 420,592,593

(1) Source: Certified Values from the Anderson County Appraisal District as of July 22, 2024. The passage of a Texas constitutional amendment on November 7, 2023 increased the homestead exemption from \$40,000 to \$100,000. See "AD VALOREM TAX PROCEDURES – Residential Homestead Exemptions" in this Official Statement.
 (2) Excludes the values on which property taxes are frozen for persons 65 years of age or older and disabled taxpayers which totaled \$7,430,220 in 2023/24.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding	\$ -
Plus: The Bonds	11,695,000
Total Unlimited Tax Bonds	\$ 11,695,000
Less: Interest & Sinking Fund Balance (As of August 31, 2023) ⁽¹⁾	-
Net General Obligation Debt	\$ 11,695,000
 Ratio of Net G.O. Debt to Net Taxable Valuation ⁽²⁾	 2.78%
 2024 Population Estimate ⁽³⁾	 10,527
Per Capita Net Taxable Valuation	\$39,954
Per Capita Net G.O. Debt	\$1,111

(1) Source: Cayuga ISD Audited Financial Statements. The District expects to have a balance of \$228,697.92 in the Interest & Sinking Fund as of the closing date for the Bonds, representing capitalized interest and accrued interest on the Bonds.
 (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 August 31, 2023" in Appendix D for more information relative to the District's outstanding obligations. Ratio calculated on basis of the Certified 2024/25 tax roll figure shown above.
 (3) Source: Municipal Advisory Council of Texas.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net		% Collections ⁽⁶⁾	
	Taxable Valuation	Tax Rate	Current ⁽⁷⁾	Total ⁽⁷⁾
2006/07	\$ 294,375,995 ⁽¹⁾	\$ 1.3700 ⁽⁶⁾	97.03%	99.99%
2007/08	340,915,181 ⁽¹⁾	1.0400 ⁽⁶⁾	98.15%	101.53%
2008/09	331,096,913 ⁽¹⁾	1.0400	98.26%	101.72%
2009/10	306,248,204 ⁽¹⁾	1.0400	97.10%	98.80%
2010/11	299,765,017 ⁽¹⁾	1.0400	97.96%	100.84%
2011/12	282,562,306 ⁽¹⁾	1.0400	97.54%	99.60%
2012/13	288,454,196 ⁽¹⁾	1.0400	96.55%	99.14%
2013/14	278,270,225 ⁽¹⁾	1.0400	96.96%	101.02%
2014/15	277,077,262 ⁽¹⁾	1.0400	97.46%	100.91%
2015/16	268,259,739 ⁽¹⁾⁽²⁾	1.0400	97.45%	99.48%
2016/17	252,283,773 ⁽¹⁾⁽²⁾	1.0400	97.13%	98.97%
2017/18	277,984,914 ⁽¹⁾⁽²⁾	1.0400	98.32%	102.92%
2018/19	281,953,174 ⁽¹⁾⁽²⁾	1.1700	98.23%	100.84%
2019/20	305,542,982 ⁽¹⁾⁽²⁾	1.0684 ⁽⁹⁾	96.96%	98.93%
2020/21	292,280,694 ⁽¹⁾⁽²⁾	1.0547	98.96%	101.73%
2021/22	303,842,630 ⁽¹⁾⁽²⁾	1.0376	98.36%	100.54%
2022/23	352,529,276 ⁽¹⁾⁽³⁾	0.9429	98.27%	100.81%
2023/24	422,346,762 ⁽¹⁾⁽⁴⁾	0.7575 ⁽¹⁰⁾	(In Process of Collection)	
2024/25	420,592,593 ⁽⁴⁾⁽⁵⁾			

(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) The passage of a Texas constitutional amendment on November 7, 2023 increased the homestead exemption from \$40,000 to \$100,000.
 (5) Source: Certified Values from the Anderson County Appraisal District as of July 22, 2024.
 (6) Source: Cayuga 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) The decline in the District's Maintenance & Operation Tax in the 2023/24 fiscal is a function of Statutorily required tax compression. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

TAX RATE DISTRIBUTION ⁽¹⁾

	2019/20	2020/21	2021/22	2022/23	2023/24
Maintenance & Operations ⁽²⁾	\$1.0684	\$1.0547	\$1.0376	\$0.9429	\$0.7575
Debt Service	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
Total Tax Rate	\$1.0684	\$1.0547	\$1.0376	\$0.9429	\$0.7575

(1) On August 18, 2018, the District successfully held a tax ratification election at which the voters of the District approved a maintenance and operations tax not to exceed \$1.17.

(2) The decline in the District's Maintenance & Operations Tax from the 2019/20 fiscal year to the 2023/24 fiscal is a function of Statutorily required tax compression. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 294,375,995	\$ -	0.00%
2007/08	340,915,181	-	0.00%
2008/09	331,096,913	-	0.00%
2009/10	306,248,204	-	0.00%
2010/11	299,765,017	-	0.00%
2011/12	282,562,306	-	0.00%
2012/13	288,454,196	-	0.00%
2013/14	278,270,225	-	0.00%
2014/15	277,077,262	-	0.00%
2015/16	268,259,739	-	0.00%
2016/17	252,283,773	-	0.00%
2017/18	277,984,914	-	0.00%
2018/19	281,953,174	-	0.00%
2019/20	305,542,982	-	0.00%
2020/21	292,280,694	-	0.00%
2021/22	303,842,630	-	0.00%
2022/23	352,529,276	-	0.00%
2023/24	422,346,762	11,695,000 ⁽⁴⁾	2.77%
2024/25	420,592,593 ⁽³⁾	10,765,000 ⁽⁴⁾	2.56%

(1) At Fiscal Year End.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement, "DEBT SERVICE REQUIREMENTS" and "OTHER OBLIGATIONS" in this Appendix and see the "Audited Financial Report Fiscal Year Ended August 31, 2023" in Appendix D for more information.

(3) Source: Certified Values from the Anderson County Appraisal District as of July 22, 2024.

(4) Includes the Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Anderson County	\$ 22,970,000	13.83%	\$ 3,176,751
Total Overlapping Debt ⁽¹⁾			\$ 3,176,751
Cayuga Independent School District ⁽²⁾			11,695,000
Total Direct & Overlapping Debt ⁽²⁾			\$ 14,871,751
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation ⁽³⁾		3.54%	
Per Capita Direct & Overlapping Debt		\$1,413	

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

(2) Includes the Bonds.

(3) Ratio calculated on basis of the Certified 2024/25 tax roll figure shown above.

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 ⁽¹⁾

2024/25 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Atmos Energy/Mid-Tex Pipeline	Pipeline	\$ 62,701,986	14.91%
Energy Transfer Fuel LP	Pipeline	37,641,159	8.95%
Atmos Energy/Mid-Tex Division	Oil & Gas	21,157,415	5.03%
Comstock Oil & Gas	Oil & Gas	20,462,574	4.87%
McGowan Working Partners Inc.	Oil & Gas	10,771,249	2.56%
Oncor Electric Delivery Co. LLC	Electric Utility	8,965,600	2.13%
Elmwood Bradley Oaks LP	Ranch	8,026,011	1.91%
Lochridge Ranch LLC	Ranch	6,049,707	1.44%
Cayuga Sand LLC	Equipment	5,453,865	1.30%
Rail 1 LLC	Equipment	4,000,000	0.95%
		<u>\$ 185,229,566</u>	<u>44.04%</u>

2023/24 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Atmos Energy/Mid-Tex Pipeline	Pipeline	\$ 63,787,281	15.10%
Energy Transfer Fuel LP	Pipeline	52,875,186	12.52%
Comstock Oil & Gas	Oil & Gas	35,347,611	8.37%
Atmos Energy/Mid-Tex Division	Oil & Gas	23,169,859	5.49%
McGowan Working Partners Inc.	Oil & Gas	14,175,375	3.36%
Oncor Electric Delivery Co. LLC	Electric Utility	8,038,125	1.90%
Midcoast Pipelines ETX-LP G&P	Pipeline	8,027,233	1.90%
Elmwood Bradley Oaks LP	Ranch	6,951,921	1.65%
Lochridge Ranch LLC	Ranch	5,539,677	1.31%
Thanh Nguyen	Residence	3,610,235	0.85%
		<u>\$ 221,522,503</u>	<u>52.45%</u>

2022/23 Top Ten Taxpayers

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Energy Transfer Fuel LP	Pipeline	\$ 45,597,646	12.93%
Atmos Energy/Mid-Tex Pipeline	Pipeline	41,720,618	11.83%
Legacy Reserves	Oil & Gas	19,316,075	5.48%
Atmos Energy/Mid-Tex Division	Oil & Gas	16,665,664	4.73%
McGowan Working Partners Inc.	Oil & Gas	14,299,117	4.06%
Oncor Electric Delivery Co. LLC	Electric Utility	7,330,338	2.08%
Midcoast Pipelines ETX-LP G&P	Pipeline	6,268,388	1.78%
Elmwood Bradley Oaks LP	Ranch	6,075,021	1.72%
Lochridge Ranch LLC	Ranch	4,646,763	1.32%
Thanh Nguyen	Residence	3,186,547	0.90%
		<u>\$ 165,106,177</u>	<u>46.83%</u>

(1) Source: Anderson County Appraisal District.

Note: As shown in the tables above, the top ten taxpayers in the District account for over 44% 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. In the event of a payment default by the District, bondholders will become reliant on the Permanent School Fund Guarantee to receive payments, see "APPENDIX E" in this Official Statement for more information.

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Category	2024/25 ⁽¹⁾	% of Total	2023/24 ⁽²⁾	% of Total	2022/23 ⁽²⁾	% of Total
Real, Residential, Single-Family	\$ 43,535,653	4.24%	\$ 40,973,893	3.98%	\$ 32,537,881	4.43%
Real, Residential, Multi-Family	457,415	0.04%	499,407	0.05%	437,071	0.06%
Real, Vacant Lots/Tracts	47,195	0.00%	47,195	0.00%	26,100	0.00%
Real, Qualified Land & Improvements	491,982,180	47.95%	499,477,945	48.51%	313,657,877	42.71%
Real, Non-Qualified Land & Improvements	256,501,293	25.00%	233,175,509	22.64%	177,845,490	24.22%
Real, Commercial & Industrial	9,894,678	0.96%	9,608,085	0.93%	8,932,793	1.22%
Oil & Gas	17,351,290	1.69%	25,199,352	2.45%	22,246,743	3.03%
Utilities	67,804,783	6.61%	76,420,372	7.42%	65,429,035	8.91%
Tangible Personal, Commercial & Industrial	126,682,448	12.35%	133,074,913	12.92%	102,972,801	14.02%
Tangible Personal, Mobile Homes & Other	11,687,293	1.14%	11,249,118	1.09%	10,292,144	1.40%
Tangible Personal, Special Inventory	-	0.00%	-	0.00%	-	0.00%
Total Appraised Value	\$ 1,025,944,228	100.00%	\$ 1,029,725,789	100.00%	\$ 734,377,935	100.00%
Less:						
Homestead Cap Adjustment	\$ 22,403,276		\$ 27,364,463		\$ 14,918,509	
Non-Homestead (23.231) Cap Adjustment	3,269,636		-		-	
Productivity Loss	478,774,957		487,367,766		303,198,343	
Exemptions	100,903,766 ⁽³⁾		92,646,798 ⁽³⁾		63,731,807 ⁽⁴⁾	
Total Exemptions/Deductions ⁽⁶⁾	<u>\$ 605,351,635</u>		<u>\$ 607,379,027</u>		<u>\$ 381,848,659</u>	
Net Taxable Assessed Valuation	\$ 420,592,593		\$ 422,346,762		\$ 352,529,276	

Category	2021/22 ⁽²⁾	% of Total	2020/21 ⁽²⁾	% of Total	2019/20 ⁽²⁾	% of Total
Real, Residential, Single-Family	\$ 27,160,500	4.47%	\$ 25,286,113	4.57%	\$ 25,679,245	4.61%
Real, Residential, Multi-Family	361,041	0.06%	331,811	0.06%	331,811	0.06%
Real, Vacant Lots/Tracts	18,985	0.00%	17,956	0.00%	17,831	0.00%
Real, Qualified Land & Improvements	263,065,308	43.25%	220,945,595	39.90%	212,391,863	38.12%
Real, Non-Qualified Land & Improvements	137,930,197	22.68%	127,678,347	23.06%	121,236,415	21.76%
Real, Commercial & Industrial	8,423,905	1.38%	8,328,684	1.50%	9,254,289	1.66%
Oil & Gas	12,574,177	2.07%	14,129,921	2.55%	22,433,586	4.03%
Utilities	57,986,050	9.53%	56,824,832	10.26%	59,908,574	10.75%
Tangible Personal, Commercial & Industrial	92,023,708	15.13%	91,897,281	16.60%	97,713,329	17.54%
Tangible Personal, Mobile Homes & Other	8,737,636	1.44%	8,281,903	1.50%	8,165,978	1.47%
Tangible Personal, Special Inventory	-	0.00%	2,678	0.00%	2,678	0.00%
Total Appraised Value	\$ 608,281,507	100.00%	\$ 553,725,121	100.00%	\$ 557,135,599	100.00%
Less:						
Homestead Cap Adjustment	\$ 579,427		\$ 82,440		\$ -	
Non-Homestead (23.231) Cap Adjustment	-		-		-	
Productivity Loss	252,720,449		210,653,883		201,691,151	
Exemptions	51,139,001 ⁽⁵⁾		50,708,104 ⁽⁵⁾		49,901,466 ⁽⁵⁾	
Total Exemptions/Deductions ⁽⁶⁾	<u>\$ 304,438,877</u>		<u>\$ 261,444,427</u>		<u>\$ 251,592,617</u>	
Net Taxable Assessed Valuation	\$ 303,842,630		\$ 292,280,694		\$ 305,542,982	

(1) Source: Certified Values from the Anderson County Appraisal District as of July 22, 2024.

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

(3) The passage of a Texas constitutional amendment on November 7, 2023 increased the homestead exemption from \$40,000 to \$100,000.

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

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

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

PRINCIPAL REPAYMENT SCHEDULE

Fiscal Year	Outstanding	Plus:		Bonds	Percent of
Ending 8/31	Bonds	The		Unpaid	Principal
		Bonds	Total	At Year End	Retired
2024	\$ -	\$ -	\$ -	\$ 11,695,000.00	0.00%
2025	-	930,000.00	930,000.00	10,765,000.00	7.95%
2026	-	975,000.00	975,000.00	9,790,000.00	16.29%
2027	-	1,025,000.00	1,025,000.00	8,765,000.00	25.05%
2028	-	1,080,000.00	1,080,000.00	7,685,000.00	34.29%
2029	-	1,135,000.00	1,135,000.00	6,550,000.00	43.99%
2030	-	1,195,000.00	1,195,000.00	5,355,000.00	54.21%
2031	-	1,255,000.00	1,255,000.00	4,100,000.00	64.94%
2032	-	1,315,000.00	1,315,000.00	2,785,000.00	76.19%
2033	-	1,365,000.00	1,365,000.00	1,420,000.00	87.86%
2034	-	1,420,000.00	1,420,000.00	-	100.00%
Total	\$ -	\$ 11,695,000.00	\$ 11,695,000.00		

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service	Plus: The Bonds ⁽¹⁾			Combined Total ⁽¹⁾⁽²⁾
		Principal	Interest	Total	
2024	\$ -	\$ -	\$ -	\$ -	\$ -
2025	-	930,000.00	520,500.00	1,450,500.00	1,450,500.00
2026	-	975,000.00	472,875.00	1,447,875.00	1,447,875.00
2027	-	1,025,000.00	422,875.00	1,447,875.00	1,447,875.00
2028	-	1,080,000.00	370,250.00	1,450,250.00	1,450,250.00
2029	-	1,135,000.00	314,875.00	1,449,875.00	1,449,875.00
2030	-	1,195,000.00	256,625.00	1,451,625.00	1,451,625.00
2031	-	1,255,000.00	195,375.00	1,450,375.00	1,450,375.00
2032	-	1,315,000.00	137,700.00	1,452,700.00	1,452,700.00
2033	-	1,365,000.00	84,100.00	1,449,100.00	1,449,100.00
2034	-	1,420,000.00	28,400.00	1,448,400.00	1,448,400.00
	<u>\$ -</u>	<u>\$ 11,695,000.00</u>	<u>\$ 2,803,575.00</u>	<u>\$ 14,498,575.00</u>	<u>\$ 14,498,575.00</u>

(1) Includes accrued interest in the amount of \$28,697.92.

(2) Based on its wealth per student, the District does not expect to receive 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 ⁽¹⁾	\$ 1,452,700.00
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption in 2023/24 ⁽²⁾	-
Projected Net Debt Service Requirement ⁽¹⁾⁽²⁾	\$ 1,452,700.00
 \$0.35244 Tax Rate @ 98% Collections Produces	 \$ 1,452,700.00
 2024/25 Certified Net Taxable Assessed Valuation ⁽³⁾	 \$ 420,592,593

(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.

(3) Source: Certified Values from the Anderson County Appraisal District as of July 22, 2024.

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will not have any authorized but unissued unlimited ad valorem tax bonds from the May 4, 2024 bond election. The District may incur, without an additional election, 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 ⁽¹⁾

	Fiscal Year Ended August 31				
	2019	2020	2021	2022	2023
Beginning Fund Balance	\$ 1,832,126	\$ 2,169,970	\$ 3,133,032	\$ 3,755,025	\$ 4,946,879
Revenues:					
Local and Intermediate Sources	\$ 3,513,342	\$ 3,378,362	\$ 3,193,732	\$ 3,316,031	\$ 3,803,896
State Sources	2,871,751	3,995,209	4,087,647	4,521,700	4,676,849
Federal Sources & Other	61,107	39,697	26,642	91,436	491
Total Revenues	\$ 6,446,200	\$ 7,413,268	\$ 7,308,021	\$ 7,929,167	\$ 8,481,236
Expenditures:					
Instruction	\$ 3,103,303	\$ 3,507,279	\$ 3,444,822	\$ 3,598,228	\$ 3,791,506
Instructional Resources & Media Services	34,130	37,427	45,247	50,774	27,330
Curriculum & Instructional Staff Development	1,395	1,383	1,545	9,182	9,357
School Leadership	306,384	330,440	323,644	338,867	390,749
Guidance, Counseling & Evaluation Services	162,712	185,498	176,132	182,865	185,595
Health Services	37,883	53,318	50,594	48,710	21,178
Student (Pupil) Transportation	530,752	417,649	399,720	441,933	622,384
Cocurricular/Extracurricular Activities	356,796	357,543	436,477	420,966	493,207
General Administration	280,943	293,572	340,523	429,087	580,844
Plant Maintenance and Operations	851,649	685,390	797,712	609,414	893,195
Security and Monitoring Services	-	-	300	-	56,657
Data Processing Services	173,488	176,091	170,364	166,435	184,579
Capital Outlay: Facilities Acquisition & Construction	-	298,948	173,637	173,712	613,480
Payments to Fiscal Agent/Member Districts of SSA	162,451	165,691	177,192	209,818	219,006
Other Intergovernmental Charges	57,838	59,625	57,503	57,322	58,985
Total Expenditures	\$ 6,059,724	\$ 6,569,854	\$ 6,595,412	\$ 6,737,313	\$ 8,148,052
Excess (Deficiency) of Revenues					
over Expenditures	\$ 386,476	\$ 843,414	\$ 712,609	\$ 1,191,854	\$ 333,184
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ -	\$ 199,504	\$ -	\$ -	\$ -
Operating Transfers Out	(24,698)	(73,370)	(75,000)	-	(31,151)
Other (Uses)	(23,934)	(6,486)	(15,616)	-	-
Total Other Resources (Uses)	\$ (48,632)	\$ 119,648	\$ (90,616)	\$ -	\$ (31,151)
Excess (Deficiency) of					
Revenues and Other Sources					
over Expenditures and Other Uses	\$ 337,844	\$ 963,062	\$ 621,993	\$ 1,191,854	\$ 302,033
Ending Fund Balance	\$ 2,169,970	\$ 3,133,032	\$ 3,755,025	\$ 4,946,879	\$ 5,248,912

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS" in Appendix D and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" in this Official Statement.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended August 31				
	2019	2020	2021	2022	2023
Revenues:					
Program Revenues:					
Charges for Services	\$ 484,965	\$ 324,362	\$ 495,964	\$ 1,617,570	\$ 1,780,539
Operating Grants and Contributions	3,596,931	3,368,612	3,122,305	2,583,256	2,966,375
General Revenues:					
Property Taxes Levied for General Purposes	3,229,385	3,186,952	3,123,656	3,049,659	3,303,458
State Aid - Formula Grants	2,084,205	-	-	-	-
Grants and Contributions Not Restricted	-	3,524,692	3,691,425	4,197,261	4,325,658
Investment Earnings	57,564	30,282	11,759	24,591	206,666
Miscellaneous	83,241	28,413	25,378	134,290	220,173
Special Item - Gain on Asset Sale	-	154,824	-	-	-
	<u>\$ 9,536,291</u>	<u>\$ 10,618,137</u>	<u>\$ 10,470,487</u>	<u>\$ 11,606,627</u>	<u>\$ 12,802,869</u>
Expenses:					
Instruction	\$ 4,924,549	\$ 5,411,628	\$ 4,584,645	\$ 4,302,330	\$ 3,839,271
Instruction Resources & Media Services	68,215	75,164	85,344	54,424	17,903
Curriculum & Staff Development	5,138	3,547	4,986	13,548	7,675
Instructional Leadership	277,955	276,883	312,896	345,225	292,181
School Leadership	316,442	341,528	331,936	340,055	237,392
Guidance, Counseling & Evaluation Services	1,055,808	1,174,748	1,294,226	998,546	1,130,060
Health Services	39,300	55,030	65,460	54,613	8,222
Student Transportation	388,461	369,755	384,519	413,680	428,264
Food Service	302,382	329,310	349,839	414,627	393,092
Cocurricular/Extracurricular Activities	343,690	483,075	587,068	578,674	587,300
General Administration	291,756	307,581	368,415	431,034	513,264
Plant Maintenance & Operations	1,010,635	876,514	998,524	1,084,852	1,143,503
Security and Monitoring Services	1,807	-	300	-	46,438
Data Processing Services	175,091	179,740	178,456	161,621	185,958
Capital Outlay	-	-	64,877	-	-
Payments to Fiscal Agent/Member Districts of SSA	-	-	-	737,485	833,426
Other Intergovernmental Charges	57,838	59,625	57,503	57,322	58,985
Total Expenditures	<u>\$ 9,259,067</u>	<u>\$ 9,944,128</u>	<u>\$ 9,668,994</u>	<u>\$ 9,988,036</u>	<u>\$ 9,722,934</u>
Change in Net Assets	\$ 277,224	\$ 674,009	\$ 801,493	\$ 1,618,591	\$ 3,079,935
Beginning Net Assets	\$ 2,257,707	\$ 2,534,932	\$ 1,156,294	\$ 1,957,787	\$ 3,576,378
Prior Period Adjustment	\$ -	\$ (2,052,647) ⁽²⁾	\$ -	\$ -	\$ -
Ending Net Assets	<u>\$ 2,534,931</u>	<u>\$ 1,156,294</u>	<u>\$ 1,957,787</u>	<u>\$ 3,576,378</u>	<u>\$ 6,656,313</u>

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

(2) The prior period adjustment in 2020 is due to the auditor discovering Anderson County Special Education CO-OP's share of pension and OPEB liabilities had never been included on the District's Government-wide financial statements. In addition, the auditor discovered accumulated depreciation did not agree to the District's depreciation schedule as of August 31, 2019.

APPENDIX B

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

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CAYUGA INDEPENDENT SCHOOL DISTRICT

General and Economic Information

Cayuga Independent School District (the "District") is an agricultural and petroleum producing area which includes a large portion of the Cayuga Oil Field. Also included in the District are the unincorporated communities of Cayuga, Stafford Springs and Tennessee Colony. The current estimated population of the District is approximately 10,527.

Anderson County (the "County") is an east Texas county located between the Trinity and Neches Rivers with an economy based on agriculture, manufacturing, mineral production, and tourism. U.S. Highways 287, 79, and 84 provide the major transportation routes through the County. The County is partly in the Texas Claypan area and partly in the East Texas Timberlands of the Southern Coastal Plains. The Claypan area is used mainly for cultivated cropland and pasture; the Timberlands are used mostly for pasture and woodland. The Texas Almanac designates cattle, hogs, hay and vegetables as principal sources of agricultural income. The county seat is Palestine.

Source: *Texas Municipal Report for Cayuga ISD and Anderson County*

Enrollment Statistics

<u>Year Ending 10/1</u>	<u>Enrollment</u>
2014	577
2015	570
2016	580
2017	576
2018	564
2019	557
2020	535
2021	576
2022	594
2023	589
Current	594

District Staff

Teachers	50
Teachers' Aides & Secretaries	23
Auxiliary Personnel	30
Administrators	6
Other (Counselors)	10
Total	<u>119</u>

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Elementary School	PK – 5	278	320	1987	1995 & 2000
Middle School	6 - 8	131	165	1974	1985 & 2010
High School	9 - 12	185	200	1972	1981 & 2010

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Cayuga ISD	Public Education	119

Unemployment Rates

	<u>June 2022</u>	<u>June 2023</u>	<u>June 2024</u>
Anderson County	3.7%	3.7%	4.4%
State of Texas	4.2%	4.2%	4.5%

Source: *Texas Workforce Commission*

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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LEON | ALCALA

ATTORNEYS AT LAW

September 4, 2024

Re: Cayuga Independent School District
Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”)

Ladies and Gentlemen:

We have acted as Bond Counsel to the captioned issuer (the “District”) in connection with the issuance of the Bonds, which are being issued in the aggregate original principal amount of \$11,695,000. The Bonds are authorized by an order adopted by the Board of Trustees of the District on August 5, 2024 (the “Order”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and the excludability of interest on the Bonds from gross income for federal income tax purposes. In such capacity, we have reviewed a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the Order and the federal tax certificate of the District related to the Bonds (the “Tax Certificate”); certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; the provisions of the Internal Revenue Code of 1986, as amended and the regulations, rulings, and judicial decisions relevant to the opinions set forth in paragraph (3) below; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call

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attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Finally, our role in connection with the District's Official Statement, if any, prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect. The Bonds constitute valid and legally binding obligations of the District, and the Bonds have been authorized and delivered in accordance with law.
- (2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.
- (3) Under existing laws, regulations, rulings, and judicial decisions, interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax imposed on individuals. We observe that, for tax years beginning after December 31, 2022, interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Respectfully submitted,

Leon | Alcala, PLLC

APPENDIX D

**AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2023**

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CAYUGA INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2023**

CAYUGA INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2023

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CERTIFICATE OF BOARD

Cayuga Independent School District
Name of School District

Anderson
County

001-902
Co.Dist.Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved _____ disapproved for the year ended August 31, 2023, at a meeting of the Board of Trustees of such school district on the 22th day of January, 2024.

David Link

Signature of Board Secretary

Tim West

Signature of Board President

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

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Cayuga Independent School District
Tennessee Colony, Texas

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The combining statements, required TEA schedules, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), 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 statements, required TEA schedules, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill L.L.P.

Waco, Texas
January 22, 2024

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Cayuga Independent School District's annual financial report represents the management's discussion and analysis of the district's financial standing as of August 31, 2023, the end of the 2023 fiscal year. Please read it in conjunction with the district's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

The district's total net position on August 31, 2023 was \$6,656,313. The total net position increased from August 31, 2022 by \$3,079,935. However, since the end of the 2017 fiscal year, the district's total net position has decreased from \$6,680,375 to the amount mentioned above, \$6,656,313. So, over the past five fiscal years, the district's total net position has decreased by \$24,062. Most of this significant decrease in total net position was experienced when the district's share of Teacher Retirement System pension liability was deducted and, more recently, inclusion of the district's share of the liability for other post-employment benefits (OPEB).

Even so, the resources available for the district's expenditures during the 2023 fiscal year were not significantly different than those originally budgeted for the general fund. More specifically, as indicated in Exhibit G-1 of this annual financial review, the district's actual revenue, \$8,481,236, was within six percent of the amount that was originally budgeted, \$7,870,687.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report of the Cayuga Independent School District consists of a series of Financial Statements as described below.

Government-Wide Financial Statements include the Statement of Net Position (Exhibit A-1) and the Statement of Activities (Exhibit B-1). These exhibits provide information about the activities of the district as a whole and present a longer-term view of the district's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund Financial Statements focus on individual parts of the government, reporting the district's operations in more detail than the government-wide statements.

Governmental Funds Statements tell how general government services were financed in the short-term as well as what remains for future spending.

Fiduciary Fund Statements provide information about the financial relationships in which the district acts solely as a trustee or agent for the benefit of others to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the 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 statements.

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 (Table 1) 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. The district's net position, or 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 are an indicator of whether its financial health is improving or deteriorating. To access the overall health of the district, consider additional nonfinancial factors such as changes in the district's tax base.

The government-wide financial statements of the district include the governmental activities (Table 2). Most of the district's basic services are included there, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Local property taxes and state funding finance most of these activities.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the district's most significant funds, not the district as a whole. Funds are accounting devices that the district uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by state law and by bond covenants. The Board of Trustees establishes other funds to control and manage money for specific purposes or to show that it is properly using certain taxes and grants.

The district has two types of funds: government funds and fiduciary funds.

Government Funds - Most of the district's basic services are reported in governmental funds. These use modified accrual accounting and reporting balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the district's general operations and the basic services it provides. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information following the governmental funds statement that explains the relationship between them.

Fiduciary Funds - The district is the trustee or fiduciary for certain funds such as student activity and scholarship accounts. All of the district's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district's government-wide financial statements because the district cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position - As Table 1 indicates, the district's total net position was \$6,656,313 on August 31, 2023, an increase of \$3,079,935 from the previous year.

PLEASE NOTE: The contents of this table and the contents of the tables to follow are influenced by the district's designation as fiscal agent for the Anderson County Special Education Cooperative.

**TABLE 1
NET POSITION**

	<u>2023</u>	<u>2022</u>
Current and other assets	\$ 7,192,390	\$ 6,705,400
Capital assets	<u>5,747,199</u>	<u>4,656,095</u>
Total assets	<u>12,939,589</u>	<u>11,361,495</u>
Deferred outflows related to pensions	2,214,258	774,705
Deferred outflows related to OPEB	<u>2,411,041</u>	<u>520,737</u>
Total deferred outflows of resources	<u>4,625,299</u>	<u>1,295,442</u>
Current liabilities	1,413,645	1,304,586
Long-term liabilities	<u>5,512,829</u>	<u>3,925,696</u>
Total liabilities	<u>6,926,474</u>	<u>5,230,282</u>
Deferred inflows related to pensions	269,283	1,327,224
Deferred inflows related to OPEB	<u>3,712,818</u>	<u>2,523,053</u>
Total deferred inflows of resources	<u>3,982,101</u>	<u>3,850,277</u>
Net position:		
Investment in capital assets	5,747,199	4,656,095
Restricted	414,537	338,947
Unrestricted	<u>494,577</u>	<u>(1,418,664)</u>
Total net position	<u>\$ 6,656,313</u>	<u>\$ 3,576,378</u>

CHANGES IN NET POSITION

As shown in Table 2, in 2022-2023, revenues from governmental fund types totaled \$12,802,869, up from revenues of \$11,606,627 in 2021-2022. Total revenues increased by \$1,196,242. Since the district continues to serve as the fiscal agent for the county special education cooperative, SSA program revenues accounted for a portion of the funding variation from the previous fiscal year.

During the 2022-2023 school year, the cost of all governmental activities was \$9,722,934, down by \$220,904 from costs of \$9,988,036 in 2021-2022. The content of Table 2, entitled "Changes in Net Position," documents the \$265,102 decrease in expenditures. Just as with revenue, the district's expenses for the 2023 fiscal year varied from those in 2022 partially due to differences in the costs experienced by the SSA.

**TABLE 2
CHANGES IN NET POSITION**

	2023	2022
REVENUES		
Program revenues:		
Charges for services	\$ 1,780,539	\$ 1,617,570
Operating grants and contributions	2,966,375	2,583,256
General revenues:		
Property taxes	3,303,458	3,049,659
State aid - formula grants	4,325,658	4,197,261
Investment earnings	206,666	24,591
Miscellaneous	220,173	134,290
Total revenues	<u>12,802,869</u>	<u>11,606,627</u>
EXPENSES		
Instruction	3,839,271	4,302,330
Instructional resources and media services	17,903	54,424
Curriculum and instructional staff development	7,675	13,548
Instructional leadership	292,181	345,225
School leadership	237,392	340,055
Guidance, counseling and evaluation services	1,130,060	998,546
Health services	8,222	54,613
Student (pupil) transportation	428,264	413,680
Food services	393,092	414,627
Co-curricular/extra curricular activities	587,300	578,674
General administration	513,264	431,034
Facilities maintenance and operations	1,143,503	1,084,852
Security and monitoring services	46,438	-
Data processing services	185,958	161,621
Payments to fiscal agent/member districts of SSA	833,426	737,485
Other intergovernmental changes	58,985	57,322
Total expenses	<u>9,722,934</u>	<u>9,988,036</u>
CHANGE IN NET POSITION	<u>3,079,935</u>	<u>1,618,591</u>
NET POSITION, BEGINNING	<u>3,576,378</u>	<u>1,957,787</u>
NET POSITION, ENDING	<u>\$ 6,656,313</u>	<u>\$ 3,576,378</u>

The contents of Table 2 indicate that as previously mentioned, the District's net position increased by \$3,079,935 during the 2023 fiscal year. The positive change in net position was due primarily to decreases in the District's pension and OPEB liabilities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The General Fund is the chief operating fund of the District. Fund balance as of August 31, 2023, was \$5,248,912, an increase of \$302,033, Due primarily to the increase of revenue from last year by \$552,069 from increased local revenues

The SSA IDEA-B Fund is a major special revenue fund that accounts for a portion of the special education cooperative the district is fiscal agent for. Because the fund reimburses actual program costs, fund balance is expected to be zero. For 2023, the fund reported equal revenues and expenditures of \$1,234,071, and ended with no fund balance as expected.

The SSA Special Education account for state and local funds under the same cooperative discussed above. Fund balance as of August 31, 2023, was \$380,513, an increase of \$95,590 from previous year. Due primarily to the increase of revenue from last year by \$129,960, and an increase in expenses of \$82,438.

The Other State Special Revenue fund accounts for certain miscellaneous state grants, most notable the JET grant received from the Texas Workforce Commission for the Jobs and Education for Texas (JET) program. Because these grants reimburse actual program costs, fund balance is expected to be zero. For 2023, the fund reported equal revenues and expenditures of \$505,373, and ended with no fund balance as expected.

GENERAL FUND BUDGETARY HIGHLIGHTS

A significant portion of this annual review’s content is impacted by inclusion of the Anderson County Special Education Co-op’s financial status. However, Exhibit G-1 of this review excludes the Co-op’s revenue and expenditures. Importantly, that exhibit provides information regarding Cayuga ISD’s financial status aside from the assets, liabilities, revenues and expenditures of the Co-op.

Revenues – As indicated in Exhibit G-1, Cayuga ISD’s revenues, excluding those of the Anderson County Special Education Co-op, were \$8,481,236. Local, state and federal revenues of \$192,014 more than the district originally budgeted for the 2023 fiscal year accounted for approximately half of the \$302,033 increase in the districts fund balance.

Expenditures – Excluding the Co-op’s expenses, in four of Cayuga ISD’s fifteen budgetary functions, the district’s expenses were higher than the amounts originally budgeted for the 2023 fiscal year. So, as Exhibit G-1 indicates, the budget amounts of those functions were amended with the Board of Trustees’ approval. Even though such amendments were needed in four of the budget’s functions, the district’s total expenditures of \$8,148,052, in all fifteen functions combined, were \$307,793 less than the originally budgeted amount of \$7,693,530. Having lower expenditures than were originally budgeted accounted for about 45% of the \$302,033 increase in the district’s fund balance.

Transfers – The remainder of the increase in the district’s fund balance was related to the transfer amounts originally budgeted for the district’s Worker’s Comp and Food Service programs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital assets owned by Cayuga ISD at the beginning of the 2023 fiscal year had historical costs of \$12,777,475. When the 2023 fiscal year ended, the district’s total historical costs had increased to \$14,148,332. Several significant capital additions included construction on District facilities amounting to \$208,798 and furniture and equipment purchases of approximately \$685,000.

**Table 3
Capital Assets**

	Governmental Activities	
	2023	2022
Land	\$ 466,794	\$ 466,794
Buildings and improvements	9,165,206	8,679,168
Furniture and equipment	4,308,110	3,631,513
Construction in progress	208,798	-
Total historical cost	<u>14,148,908</u>	<u>12,777,475</u>
Less depreciation	<u>(8,401,709)</u>	<u>(8,121,380)</u>
Totals	<u>\$ 5,747,199</u>	<u>\$ 4,656,095</u>

Additional information about capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

Cayuga ISD has no long-term debt. In fact, the district has been debt-free since the close of the 2005-2006 budget cycle.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS AND RATES

Factors that may influence next year's (2023-2024) budget and tax rates include:

- the influence of student enrollment and attendance on state financial aid,
- the impact of local property values on the district's tax levy,
- decisions made by our state and national legislators related to school funding,
- changes in interest rates that impact earnings on the district's investments, and
- fuel and utility costs.

Other factors that will impact Cayuga ISD's 2023-2024 budget are the cost of replacing the district's current wastewater treatment system and the planned construction of a solar farm within the district's boundaries.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our residents, taxpayers, and creditors with 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 information, please contact the Cayuga ISD Business Office.

BASIC FINANCIAL STATEMENTS

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CAYUGA INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

AUGUST 31, 2023

Data Control Codes		1 Governmental Activities
ASSETS		
1110	Cash and cash equivalents	\$ 529,174
1120	Current investments	4,122,690
1220	Property taxes - delinquent	87,777
1230	Allowance for uncollectible taxes	(26,333)
1240	Due from other governments	2,353,740
1290	Other receivables	105,342
1410	Deferred expenditures/expenses	20,000
	Capital assets:	
1510	Land	466,794
1520	Buildings and improvements, net	3,797,617
1530	Furniture and equipment, net	1,273,990
1580	Construction in progress	208,798
1000	Total assets	12,939,589
DEFERRED OUTFLOWS OF RESOURCES		
1705	Related to pensions	2,214,258
1706	Related to OPEB	2,411,041
1700	Total deferred outflows of resources	4,625,299
LIABILITIES		
2110	Accounts payable	366,367
2160	Accrued wages payable	382,911
2180	Due to other governments	642,709
2200	Accrued expenses	11,889
2300	Unearned revenue	9,769
	Noncurrent liabilities:	
2540	Net pension liability	3,313,547
2545	Net OPEB liability	2,199,282
2000	Total liabilities	6,926,474
DEFERRED INFLOWS OF RESOURCES		
2605	Related to pensions	269,283
2606	Related to OPEB	3,712,818
2600	Total deferred inflows of resources	3,982,101
NET POSITION		
3200	Investment in capital assets	5,747,199
	Restricted for:	
3820	Federal and state programs	54,024
3890	Other - special education	360,513
3900	Unrestricted	494,577
3000	Total net position	\$ 6,656,313

The accompanying notes are an integral part of this financial statement.

CAYUGA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes	Functions/Programs	1	Program Revenues <u>3</u>
		Expenses	Charges for Services
	Primary government:		
	Governmental activities:		
11	Instruction	\$ 3,839,271	\$ 1,244,779
12	Instructional resources and media services	17,903	-
13	Curriculum and staff development	7,675	-
21	Instructional leadership	292,181	353,975
23	School leadership	237,392	-
31	Guidance, counseling, and evaluation services	1,130,060	-
33	Health services	8,222	-
34	Student transportation	428,264	-
35	Food service	393,092	106,096
36	Extracurricular activities	587,300	75,689
41	General administration	513,264	-
51	Facilities maintenance and operations	1,143,503	-
52	Security and monitoring services	46,438	-
53	Data processing services	185,958	-
93	Payments to fiscal agent/member districts of SSA	833,426	-
99	Other intergovernmental charges	58,985	-
	[TG] Total governmental activities	<u>\$ 9,722,934</u>	<u>\$ 1,780,539</u>
	General revenues:		
	Taxes:		
MT	Property taxes, levied for general purposes		
GC	Grants and contributions not restricted to specific programs		
IE	Investment earnings		
MI	Miscellaneous local and intermediate revenue		
TR	Total general revenues		
CN	Change in net position		
NB	Net position, beginning		
NE	Net position, ending		

Program Revenues	Net (Expenses) Revenue and Changes in in Net Position
4	6
Operating Grants and Contributions	Primary Gov. Governmental Activities
\$ 953,368	\$ (1,641,124)
4	(17,899)
728	(6,947)
3,488	65,282
5,302	(232,090)
668,913	(461,147)
3,396	(4,826)
16,525	(411,739)
331,784	44,788
46,818	(464,793)
12,796	(500,468)
137,141	(1,006,362)
8,513	(37,925)
163,179	(22,779)
614,420	(219,006)
-	(58,985)
<u>\$ 2,966,375</u>	<u>\$ (4,976,020)</u>

3,303,458
4,325,658
206,666
<u>220,173</u>
<u>8,055,955</u>
<u>3,079,935</u>
<u>3,576,378</u>
<u>\$ 6,656,313</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

AUGUST 31, 2023

Data Control Codes		10	313	437
		General Fund	SSA IDEA B Formula	SSA Special Education
ASSETS				
1110	Cash and cash equivalents	\$ 109,525	\$ -	\$ 309,610
1120	Investments	4,122,690	-	-
1220	Property tax receivable	87,777	-	-
1230	Allowance for uncollectible taxes	(26,333)	-	-
1240	Due from other governments	650,883	719,346	-
1260	Due from other funds	849,365	-	732,711
1290	Other receivables	96,122	-	-
1410	Prepaid expenditures	-	-	20,000
1000	Total assets	<u>5,890,029</u>	<u>719,346</u>	<u>1,062,321</u>
LIABILITIES				
2110	Accounts payable	283,904	9,219	-
2160	Accrued wages payable	302,995	5,930	38,308
2170	Due to other funds	-	703,530	-
2180	Due to other governments	-	-	642,709
2200	Accrued expenditures	6,301	667	791
2300	Unearned revenues	9,769	-	-
2000	Total liabilities	<u>602,969</u>	<u>719,346</u>	<u>681,808</u>
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable revenue - property taxes	38,148	-	-
2600	Total deferred inflows of resources	<u>38,148</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
3410	Nonspendable - prepaid expenditures	-	-	20,000
Restricted:				
3450	Federal or state grant restriction	-	-	-
3490	Other - special education	-	-	360,513
Committed:				
3510	Construction	449,000	-	-
Assigned:				
3570	Capital expenditures	300,000	-	-
3590	Other - campus activity	-	-	-
3600	Unassigned	4,499,912	-	-
3000	Total fund balances	<u>5,248,912</u>	<u>-</u>	<u>380,513</u>
4000	Total liabilities, deferred inflows and fund balances	<u>\$ 5,890,029</u>	<u>\$ 719,346</u>	<u>\$ 1,062,321</u>

The accompanying notes are an integral part of this financial statement.

429		98
Other State Special Revenue	Other Funds	Total Governmental Funds
\$ -	\$ 110,039	\$ 529,174
-	-	4,122,690
-	-	87,777
-	-	(26,333)
499,172	484,339	2,353,740
-	-	1,582,076
-	9,220	105,342
-	-	20,000
<u>499,172</u>	<u>603,598</u>	<u>8,774,466</u>
68,845	4,399	366,367
-	35,678	382,911
430,327	448,219	1,582,076
-	-	642,709
-	4,130	11,889
-	-	9,769
<u>499,172</u>	<u>492,426</u>	<u>2,995,721</u>
-	-	38,148
<u>-</u>	<u>-</u>	<u>38,148</u>
-	-	20,000
-	54,024	54,024
-	-	360,513
-	-	449,000
-	-	300,000
-	57,148	57,148
-	-	4,499,912
<u>-</u>	<u>111,172</u>	<u>5,740,597</u>
<u>\$ 499,172</u>	<u>\$ 603,598</u>	<u>\$ 8,774,466</u>

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CAYUGA INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-2

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

AUGUST 31, 2023

Total fund balances - governmental funds	\$ 5,740,597
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	5,747,199
2 Some receivables are reported as deferred inflows of resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities. Property taxes	38,148
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. Deferred outflows of resources related to pensions Deferred inflows of resources related to pensions Net pension liability	2,214,258 (269,283) (3,313,547)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net other post-employment benefit (OPEB) liability required by GASB 75. Deferred outflows of resources related to OPEB Deferred inflows of resources related to OPEB Net OPEB liability	2,411,041 (3,712,818) (2,199,282)
19 Net position of governmental activities	<u>\$ 6,656,313</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes	10	313	437
<u> </u>	<u>General Fund</u>	<u>SSA IDEA B FORMULA</u>	<u>SSA Special Education</u>
REVENUES			
5700 Local and intermediate sources	\$ 3,803,896	\$ -	\$ 1,564,866
5800 State programs	4,676,849	-	58,214
5900 Federal programs	<u>491</u>	<u>1,234,071</u>	<u>-</u>
5020 Total revenues	<u>8,481,236</u>	<u>1,234,071</u>	<u>1,623,080</u>
EXPENDITURES			
Current:			
0011 Instruction	3,791,506	39,581	716,952
0012 Instructional resources and media services	27,330	-	-
0013 Curriculum and instructional staff development	9,357	-	2,505
0021 Instructional leadership	-	-	342,778
0023 School leadership	390,749	-	-
0031 Guidance, counseling and evaluation services	185,595	619,148	400,396
0033 Health services	21,178	-	-
0034 Student (pupil) transportation	622,384	-	-
0035 Food services	-	-	-
0036 Extracurricular activities	493,207	-	-
0041 General administration	580,844	-	-
0051 Facilities maintenance and operations	893,195	-	64,859
0052 Security and monitoring services	56,657	-	-
0053 Data processing services	184,579	-	-
Capital outlay:			
0081 Facilities acquisition and construction	613,480	-	-
Intergovernmental:			
0093 Payments to fiscal agent/member districts of SSA	219,006	575,342	-
0099 Other intergovernmental charges	<u>58,985</u>	<u>-</u>	<u>-</u>
6030 Total expenditures	<u>8,148,052</u>	<u>1,234,071</u>	<u>1,527,490</u>
1100 Excess (deficiency) of revenues over (under) expenditures	<u>333,184</u>	<u>-</u>	<u>95,590</u>
OTHER FINANCING SOURCES (USES)			
7915 Transfers in	-	-	-
8911 Transfers out	<u>(31,151)</u>	<u>-</u>	<u>-</u>
7080 Total other financing sources (uses)	<u>(31,151)</u>	<u>-</u>	<u>-</u>
1200 Net change in fund balances	302,033	-	95,590
0100 Fund balance - Beginning	<u>4,946,879</u>	<u>-</u>	<u>284,923</u>
3000 Fund balance - Ending	<u>\$ 5,248,912</u>	<u>\$ -</u>	<u>\$ 380,513</u>

The accompanying notes are an integral part of this financial statement.

429		98
Other State Special Revenue	Other Funds	Total Governmental Funds
\$ -	\$ 160,575	\$ 5,529,337
505,373	27,339	5,267,775
-	<u>1,196,556</u>	<u>2,431,118</u>
<u>505,373</u>	<u>1,384,470</u>	<u>13,228,230</u>
335,379	589,993	5,473,411
-	2,521	29,851
-	-	11,862
-	-	342,778
-	13,197	403,946
-	39,388	1,244,527
-	2,322	23,500
-	3,145	625,529
-	470,807	470,807
-	100,283	593,490
-	12,279	593,123
-	130,676	1,088,730
14,199	8,800	79,656
-	4,323	188,902
155,795	-	769,275
-	39,078	833,426
-	-	<u>58,985</u>
<u>505,373</u>	<u>1,416,812</u>	<u>12,831,798</u>
-	<u>(32,342)</u>	<u>396,432</u>
-	31,151	31,151
-	-	<u>(31,151)</u>
-	<u>31,151</u>	<u>-</u>
-	(1,191)	396,432
-	<u>112,363</u>	<u>5,344,165</u>
\$ -	\$ <u>111,172</u>	\$ <u>5,740,597</u>

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

FOR THE YEAR ENDED AUGUST 31, 2023

Net change in fund balances - total governmental funds	\$ 396,432
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	1,091,104
Some receivables are not considered available revenues and are reported as deferred inflows in the governmental funds.	
Property taxes	(18,501)
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 \$270,320. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$260,750. Finally, the proportionate share of pension expense on the plans as a whole had to be recorded. The net pension expense decreased the change in net position by \$236,747. The net result is an decrease in net position.	289,391
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 \$74,137. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$75,448. Finally, the proportionate share of OPEB expense on the plans as a whole had to be recorded. The net OPEB expense increased the change in net position by \$979,109. The net result is an increase in net position.	<u>1,321,509</u>
Change in net position of governmental activities	<u>\$ 3,079,935</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

EXHIBIT E-1

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND

AUGUST 31, 2023

	<u>Custodial Fund</u>
ASSETS	
Cash and cash equivalents	\$ 105,336
Total assets	<u>105,336</u>
NET POSITION	
Restricted for student groups	<u>105,336</u>
Total net position	<u>\$ 105,336</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

EXHIBIT E-2

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND

FOR THE YEAR ENDED AUGUST 31, 2023

	<u>Custodial Fund</u>
ADDITIONS	
Collections on behalf of student groups	\$ 223,861
Total additions	<u>223,861</u>
DEDUCTIONS	
Payments on behalf of student groups	<u>214,738</u>
Total deductions	<u>214,738</u>
NET CHANGE IN FIDUCIARY NET POSITION	9,123
NET POSITION, BEGINNING	<u>96,213</u>
NET POSITION, ENDING	<u>\$ 105,336</u>

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CAYUGA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2023

I. **Summary of Significant Accounting Policies**

A. **Reporting Entity**

Cayuga Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its financial statements in conformity with generally accepted accounting principles, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide").

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

B. **Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are supported by taxes, state foundation funds and intergovernmental revenue.

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary and fiduciary. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. 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.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, similar to accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions, including entering into contracts giving the District the right to use leased assets, are reported as expenditures in governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

Property taxes, state foundation funds, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major funds:

General Fund – The General Fund is the District’s primary operating fund. It is used to account for all financial transactions except for those required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the District except for costs accounted for in another fund.

SSA IDEA B Formula Fund– To account for federal funds expended as fiscal agent of the special education shared service arrangement under IDEA – Part B, Formula.

SSA Special Education Fund– To account for the state and local funds expended as fiscal agent of the special education shared service arrangement on behalf of member districts.

JET Grant Fund – To account for the state funds expended for the Jobs and Education for Texans Grant program provided by the Texas Workforce Commission.

Additionally, the District reports the following fund types:

The **Special Revenue Funds** account for resources restricted to or designated for specific purposes by the District or a grantor. 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.

Custodial Fund – The District accounts for resources held for others in a custodial capacity in Custodial funds. The District’s Custodial Fund is the Student Activity Fund.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

Furthermore, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position/Fund Balance, Revenues and Expenditures/Expenses

Deposits and Investments

The District's cash and cash equivalents are considered as cash on hand, demand deposits, and short-term investments with original maturities of three months or less from date of acquisition.

Investments for the District are reported at fair value, except for the position in investment pools. The District's investments in Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. Interest earned on pooled cash and investments is allocated to the participating funds on a pro rata basis according to the fund's percentage of the total pooled cash or investments. Funds with discrete bank accounts retain all investment earnings.

The Lone Star investment pool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

Property Taxes

Delinquent property tax receivables are recorded in the General Fund. Allowances for uncollectible tax receivables are based on historical experience in collecting property taxes. Management periodically reviews outstanding property taxes and establishes an allowance adequate to reflect the anticipated net collectible balance. The District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Property taxes are levied by October 1 and are due and payable at that time. The Board establishes the District's property tax rates annually. The authorized tax rates for property taxes assessed on January 1, 2022, was \$0.9429 per \$100 for the General Fund based on a net assessed valuation of \$350,290,699.

The legally authorized tax rate limit for the District is \$1.17 per \$100 assessed valuation for maintenance and operations. On January 1 of each year, a tax lien attaches to property to secure the payment of penalties imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period and those expected to be collected during the 60-day period after the close of the District's fiscal year.

Capital Assets

Capital assets are tangible and intangible assets, which include land, buildings and improvements, furniture and equipment and construction in progress, are reported in the governmental-activities column in the government-wide financial statements. The cost of the infrastructure (e.g., roads, bridges, sidewalks, and similar items) was initially capitalized with the building cost and is being depreciated over the same useful life as the building. 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 or estimated historical cost if purchased or constructed, except for intangible right-to-use lease assets, the measurement of which is discussed in the Leases note disclosure. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

Capital assets of the District are depreciated using the straight-line method over the following estimated lives:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and improvements	40
Vehicles	10
Furniture and equipment	10

Unearned Revenues

Unearned revenues represent revenues received by the District but not yet earned and are not available for use by the District to liquidate current year liabilities.

Defined-Benefit Pension Plan

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

Other Post-Employment Benefits

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

Deferred Outflows/Inflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has one item that qualifies for reporting in this category. It is deferred outflows related to TRS reported in the government-wide statement of net position. The item related to TRS represents the District’s share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability and the net OPEB liability.

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

Net Position

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

Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered applied. It is the District's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance

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

- **Non-spendable:** This classification includes amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements. Examples include inventories, long-term receivables, endowment principal, and/or prepaid/deferred items.
- **Restricted:** This classification includes the component of the spendable fund balance constrained to a specific purpose by a provider, such as a creditor. Grantor, contributor, or law or regulation of other governments. Restricted fund balance includes funds for federal/state grants, construction programs, debt service, and other restrictions.
- **Committed:** This classification includes the component of spendable fund balance constrained to a specific purpose by the Board. A Board resolution is required to establish, modify, or rescind fund balance commitment. Only the action that constitutes the most binding constraint of the Board can be considered a commitment for fund balance classification purposes. Committed fund balance includes campus activity funds.
- **Assigned:** This classification includes the component of the spendable fund balance that is spendable or available for appropriation but has been tentatively earmarked for some specific purpose by the Board of Trustees or by an official or body to which the Board of Trustees delegates. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type of the fund's primary purpose. Assignments within the General Fund convey that the intended use of those amounts is a specific purpose that is narrower than the general purposes of the District itself.
- **Unassigned:** This classification includes the residual classification of the General Fund and includes all amounts not contained in other classifications. This portion of the total fund balance in the General Fund is available to finance operating expenditures. Only the General Fund will have unassigned amounts. By accounting for amounts in other funds, the District has implicitly assigned the funds for purposes of those particular funds.

Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in the accounting system in order to reserve a portion of the applicable appropriation, is employed in the governmental fund types on the governmental fund financial statements. Encumbrances are liquidated at year end.

Use of Estimates

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

The amount of state foundation revenue a district earns for a year can, and does, vary until the time when final values for each of the factors in the formula become available. Availability can be as late as into the next fiscal year. It is at least reasonably possible that the foundation revenue for the fiscal year will ultimately change from the amount calculated as of August 31, 2022 because of the factors that TEA uses in its calculations.

Data Control Codes

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

II. Detailed Notes on Activities and Funds

A. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash and deposits of the District include all amounts deposited at the District's depository bank, including demand deposits and certificates of deposit. As of year-end the District's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The District's investments at August 31, 2023 are shown below.

<u>Investments</u>	<u>Reported Value</u>
First Public/Lone Star Investment Pool	\$ 3,919,519

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires 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 returns, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposits issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivision of any state having been rated as to investment quality no less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or on nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the 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.

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

Credit Risk – This is the risk that a security issuer may default on an interest or principal payment. State law limits investment in local government pools to those that are rated AAA or equivalent by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by agencies such as Standard and Poor’s (S&P) or Moody’s Investors Service, or by investing in public fund investment pools rated no lower than AAA or AAAM.

Custodial Credit Risk – Investments: For an investment this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District’s investment in Lone Star is not exposed to custodial risk. External investment pools are not subject to custodial risk because investments are not evidenced by securities that exist in physical or book entry form. State law limits investments in public funds investment pools to those rated no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service. As of August 31, 2023, the District’s investments in Lone Star is rated AAAM.

Concentration of Credit Risk – To limit the risk of loss attributed to the magnitude of a government’s investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investments risks to be significantly greater in the governmental activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government.

Interest Rate Risk – The risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District limits the weighted average maturity of its portfolio. Management considers interest rate risk to be minimal due to the diversity and liquidity requirements imposed on the external investment pools.

B. Due to/from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2023 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Receivables from Other Governments.

Of the amounts reported as due from other governments, \$650,883 reported in the General Fund is due from TEA for state foundation revenue, \$719,346 in the SSA IDEA B Fund is due from the member governments for special education, and all other amounts are for state and federal grants. No allowance for uncollectable accounts has been recorded based on prior experience.

Amounts reported as due to other governments in the SSA Special Education Fund, in the amount of \$642,709 as of August 31, 2023, are for SHARS reimbursements due to the member governments of the special education cooperative.

C. Interfund Receivables and Payables

Interfund receivables and payables generally arise from short-term cash advances between different funds with balances being repaid within one year. The following is a summary of amounts due to and due from other funds as of August 31, 2023:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	JET Grant Fund	\$ 256,789
General Fund	Nonmajor Governmental	592,576
SSA Special Education Fund	SSA IDEA B Fund	703,530
SSA Special Education Fund	Nonmajor Governmental	<u>29,181</u>
	Totals	<u>\$ 1,582,076</u>

D. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases /Reclass</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 466,794	\$ -	\$ -	\$ 466,794
Construction in Progress	<u>-</u>	<u>208,798</u>	<u>-</u>	<u>208,798</u>
Total capital assets, not being depreciated	<u>466,794</u>	<u>208,798</u>	<u>-</u>	<u>675,592</u>
Capital assets, being depreciated:				
Buildings and improvements	\$ 8,679,168	\$ 486,038	\$ -	\$ 9,165,206
Furniture and equipment	<u>3,631,513</u>	<u>685,309</u>	<u>(8,712)</u>	<u>4,308,110</u>
Total capital assets, being depreciated	<u>12,310,681</u>	<u>1,171,347</u>	<u>(8,712)</u>	<u>13,473,316</u>
Less accumulated depreciation for:				
Buildings and improvements	\$ (5,191,368)	\$ (176,221)	\$ -	\$ (5,367,589)
Furniture and equipment	<u>(2,930,012)</u>	<u>(112,820)</u>	<u>8,712</u>	<u>(3,034,120)</u>
Total accumulated depreciation	<u>(8,121,380)</u>	<u>(289,041)</u>	<u>8,712</u>	<u>(8,401,709)</u>
Total governmental activities capital assets, net	<u>\$ 4,656,095</u>	<u>\$ 1,091,104</u>	<u>\$ -</u>	<u>\$ 5,747,199</u>

Depreciation was charged to functions as follows:

Governmental activities:	
Instruction	\$ 74,924
Curriculum & Staff Development	1,019
School Leadership	1,311
Guidance, Counseling & Evaluation Services	872
Health Services	572
Student (Pupil) Transportation	71,107
Food Services	1,588
Extracurricular Activities	56,871
Plant Maintenance & Operations	79,435
Data Processing Services	<u>1,342</u>
Total depreciation expense	<u>\$ 289,041</u>

E. Long-term Liabilities

The District’s long-term liabilities are typically liquidated by the General Fund. Changes in the District’s long-term liabilities during the current fiscal year are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Governmental activities:					
Net pension liability	\$ 810,656	\$ 2,763,337	\$ 260,446	\$ 3,313,547	\$ -
Net OPEB liability	<u>2,179,342</u>	<u>95,381</u>	<u>75,441</u>	<u>2,199,282</u>	<u>-</u>
Total long-term liabilities	<u>\$ 2,989,998</u>	<u>\$ 2,858,718</u>	<u>\$ 335,887</u>	<u>\$ 5,512,829</u>	<u>\$ -</u>

F. Defined Benefit Pension Plan

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard 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>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

Benefits Provided - TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above. Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2021 thru 2025.

	Contribution Rates	
	2022	2023
Member	8.00%	8.00%
Non-employer contributing entity (State)	7.75%	8.00%
Employers	7.75%	8.00%
Current fiscal year employer contributions		\$ 270,320
Current fiscal year member contributions		472,741
2022 measurement year NECE on-behalf contributions		293,259

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

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

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

- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

- All public schools, charter schools, and regional educational service centers must contribute 1.7 percent of the member’s salary beginning in fiscal year 2022, gradually increasing to 2 percent in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

Actuarial Cost Method	Individual Entry Age Normal
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2022	3.91%
Inflation	2.3%
Salary increases including inflation	2.95% to 8.95%
Ad hoc post-employment benefit changes	None

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

Discount Rate - A single discount rate of 7.00 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 7.00 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 retirees.

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

The long-term rate of return on pension plan investments is 7.00 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2022 are summarized below:

Asset Class ¹	Target Allocation ²	Long-Term Expected Geometric Real Rate of Return ³	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	4.60%	1.12%
Non-U.S. Developed	13.00%	4.90%	0.90%
Emerging Markets	9.00%	5.40%	0.75%
Private Equity	14.00%	7.70%	1.55%
Stable Value			
Government Bonds	16.00%	1.00%	0.22%
Absolute Return	0.00%	3.70%	0.00%
Stable Value Hedge Funds	5.00%	3.40%	0.18%
Real Return			
Real Estate	15.00%	4.10%	0.94%
Energy, Natural Resources and Infrastructure	6.00%	5.10%	0.37%
Commodities	0.00%	3.60%	0.00%
Risk Parity			
Risk Parity	8.00%	4.60%	0.43%
Leverage			
Cash	2.00%	3.00%	0.01%
Asset Allocation Leverage	-6.00%	3.60%	-0.05%
Inflation Expectation			2.70%
Volatility Drag ⁴			-0.91%
Expected Return	100.00%		8.19%

¹ Absolute Return includes Credit Sensitive Investments.

² Target allocations are based on the FY2022 policy model.

³ Capital Market Assumptions come from Aon Hewitt (as of 08/31/2022).

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

Discount Rate Sensitivity Analysis. The following table presents the Net Pension Liability of the plan using the discount rate of 7.00 percent, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
District's proportionate share of net pension liability	\$ 5,154,623	\$ 3,313,547	\$ 1,821,269

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions. At August 31, 2022, the District reported a liability of \$3,313,547 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	\$	3,313,547
State's proportionate share that is associated with the District		<u>3,731,013</u>
Total	\$	<u>7,044,560</u>

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

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

At August 31, 2022, the District's proportion of the collective net pension liability was 0.0055814227% which was an increase of 0.0023981913% from its proportion measured as of August 31, 2021.

For the year ended August 31, 2023, the District recognized pension expense of \$854,140 and revenue of \$356,643 for support provided by the State.

As of August 31, 2023, the District reported its proportionate share of the TRS' deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 48,046	\$ 72,242
Changes in actuarial assumptions	617,422	153,879
Difference between projected and actual investment earnings	327,368	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	951,102	43,162
Contributions paid to TRS subsequent to the measurement date	<u>270,320</u>	<u>-</u>
Total as of fiscal year-end	<u>\$ 2,214,258</u>	<u>\$ 269,283</u>

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:

For the Year Ended August 31,	Pension Expense
2024	\$ 388,750
2025	298,284
2026	223,565
2027	578,347
2028	185,711
Thereafter	(2)

G. Defined Other Post-Employment Benefit Plans

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

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

OPEB Plan Fiduciary Net Position. Detailed information about the TRS-Care’s fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at 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 schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

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

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

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

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

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

	Contribution Rates	
	2022	2023
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 74,137
Current fiscal year member contributions		38,479
2022 measurement year NECE on-behalf contributions		92,026

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

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

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

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

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

- | | |
|----------------------|---------------------|
| Rates of Mortality | Rates of Disability |
| Rates of Retirement | General Inflation |
| Rates of Termination | Wage Inflation |

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 projections scale MP-2018.

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	3.91% as of August 31, 2022
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% to 9.05%
Healthcare Trend Rates	4.25% to 8.25%
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65. 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

Discount Rate. A single discount rate of 3.91 percent was used to measure the Total OPEB Liability. There was an increase of 1.96 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” as of August 31, 2022 using the Fixed Income Market Data/Yield Curve/ Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

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

	1% Decrease in Discount Rate (2.91%)	Discount Rate (3.91%)	1% Increase in Discount Rate (4.91%)
	_____	_____	_____
Proportionate share of net OPEB liability	\$ 2,593,127	\$ 2,199,282	\$ 1,880,216

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB. At August 31, 2023, the District reported a liability of \$2,199,282 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	\$	2,199,282
State's proportionate share that is associated with the District		<u>2,682,778</u>
Total	\$	<u>4,882,060</u>

The Net OPEB Liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The 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, 2021 through August 31, 2022.

On August 31, 2022, the employer's proportion of the collective Net OPEB liability was 0.0091851029% which was an increase of 0.0035354014% from its proportion measured as of August 31, 2021.

Healthcare Cost Trend Rates Sensitivity Analysis. The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than and 1% greater than the assumed healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
Proportionate share of net OPEB liability	\$ 1,812,218	\$ 2,199,282	\$ 2,701,060

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

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

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

For the year ended August 31, 2023, the District recognized OPEB expense of (\$1,284,369) and revenue of (\$380,708) for support provided by the State.

At August 31, 2023, the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 122,272	\$ 1,832,199
Changes in actuarial assumptions	334,994	1,527,930
Differences between projected and actual investment earnings	6,551	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	1,873,087	352,689
Contributions paid to OPEB subsequent to the measurement date	<u>74,137</u>	<u>-</u>
Total as of fiscal year-end	<u>\$ 2,411,041</u>	<u>\$ 3,712,818</u>

The net amounts of the employer’s balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended August 31,	OPEB Expense
2024	\$ (380,402)
2025	(380,378)
2026	(287,115)
2027	(160,850)
2028	(163,627)
Thereafter	(3,542)

H. Health Care

During the year ended August 31, 2023 employees of the Cayuga Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Blue Cross Blue Shield. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

The latest financial statements for Blue Cross Blue Shield are available for the most recent year and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

I. Medicare Part D – On-behalf Payments

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of those provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$30,431, \$22,760, and \$18,221 were recognized for the years ended August 31, 2023, 2022 and 2021, respectively, as equal revenues and expenditures.

J. Self-Insured Workers' Compensation

During the year ended August 31, 2023, the Cayuga Independent School District was a participant in the Texas Educational Insurance Association's Workers' Compensation Self-Insurance Joint Fund pursuant to Texas Labor Code Annotated Chapter 504 and Texas Government Code Ch. 791 (the Interlocal Cooperation Act).

The Board of Trustees of the plan and plan supervisor, Claims Administrative Services, Inc., shall establish the proportionate contribution of each participant annually upon the actual loss experience and claims of the District, the experience rating modification of the District, the pro rata costs or savings to the plan from the loss experience of all participants, and all reasonable and necessary administrative expenses of the plan. The proportionate contributions of all participants shall be combined into a self-insurance joint fund.

The District paid a fixed cost of \$12,839 to the plan supervisor for administration of claims, loss control, record keeping, and the cost of excess insurance. The loss fund maximum for claims not covered by excess insurance was established to be \$67,907 for the fiscal year. The self-insurance retention maximum was \$1,000,000.

During the fiscal year, the District paid net claims of \$34,556 for plan periods ending August 31, 2023.

K. Joint Venture Shared Service Arrangement

The District participates in, and is the fiscal agent of, a Shared Service Arrangement ("SSA") known as the Anderson County Special Education CO-OP. The SSA provides special education services to member districts. In addition to the District, five other member districts are participants. All services are generally provided by the fiscal agent, and the member districts provide funding to the fiscal agent for services rendered. As fiscal agent, the District is responsible for all activities and management of the SSA.

According to guidance provided in TEA's *Financial Accountability System Resource Guide*, the District has accounted for the fiscal agent's state and locally funded activities of the SSA in Special Revenue Fund No. 437, SSA - Special Education. Expenditures of the SSA for these funds on behalf of each member district are summarized below:

	<u>Fund 437</u>
Cayuga ISD	\$ 213,948
Elkhart ISD	345,800
Frankston ISD	263,704
Neches ISD	92,048
Slocum ISD	131,852
Westwood ISD	<u>480,138</u>
Totals	\$ <u>1,527,490</u>

Also, the SSA receives Federal funding for special education programs through the Special Education (IDEA) Cluster. This funding and the related expenditures are accounted for in Special Revenue Funds No. 313, IDEA - Part B, Formula and No. 314 IDEA - Part B, Preschool. Expenditures of these funds on behalf of each member district are summarized below:

	<u>Fund 313</u>	<u>Fund 314</u>
Cayuga ISD	\$ 172,851	\$ 5,591
Elkhart ISD	279,374	9,036
Frankston ISD	213,048	6,891
Neches ISD	74,366	2,405
Slocum ISD	106,524	3,446
Westwood ISD	<u>387,908</u>	<u>12,547</u>
Totals	<u>\$ 1,234,071</u>	<u>\$ 39,916</u>

L. Commitments and Contingencies

State and Federal Grants

The minimum foundation funding received from TEA is based primarily upon information concerning average daily attendance at the District’s schools which is compiled by the District and supplied to TEA. Federal funding for the child nutrition programs is based primarily upon the number and type of meals served and on user charges as reported TEA. Federal and state funding received under various grant programs are based upon reimbursable expenditures made under program guidelines.

These programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, that the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of funding monies may be required. In the opinion of the District’s administration, there are no significant contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the accompanying financial statements for such contingencies.

M. 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 the current fiscal year, 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.

N. Related Party Transactions

In 2023, the District made payments to a vendor owned by a board member. The board member abstained from voting when the disbursements were made to this vendor. The amounts paid during 2023 were \$27,043.

O. New Forthcoming Standards

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the District include the following:

GASB Statement No. 99, Omnibus 2022 – The objective of this Statement is to correct practice issues identified during implementation and application of certain GASB Statements and financial reporting for financial guarantees. There are various effective dates 1.) upon issuance 2.) fiscal years beginning after June 15, 2022 and 3.) fiscal years beginning after June 15, 2023.

GASB Statement No. 100, Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62 – The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2023, and the impact has not yet been determined.

GASB Statement No. 101, Compensated Absences – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

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REQUIRED SUPPLEMENTARY INFORMATION

CAYUGA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND

FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 3,435,882	\$ 3,611,882	\$ 3,803,896	\$ 192,014
5800	State programs	4,434,805	4,446,608	4,676,849	230,241
5900	Federal programs	-	-	491	491
5020	Total revenues	<u>7,870,687</u>	<u>8,058,490</u>	<u>8,481,236</u>	<u>422,746</u>
EXPENDITURES					
Current:					
0011	Instruction	3,604,626	3,807,929	3,791,506	16,423
0012	Instructional resources and media services	48,350	48,350	27,330	21,020
0013	Curriculum and instructional staff development	9,282	11,782	9,357	2,425
0023	School leadership	375,029	396,129	390,749	5,380
0031	Guidance, counseling and evaluation services	185,967	191,967	185,595	6,372
0033	Health services	17,685	21,685	21,178	507
0034	Student (pupil) transportation	556,109	660,809	622,384	38,425
0036	Extracurricular activities	459,452	521,364	493,207	28,157
0041	General administration	495,830	585,030	580,844	4,186
0051	Facilities maintenance and operations	696,697	893,697	893,195	502
0052	Security and monitoring services	50,000	70,500	56,657	13,843
0053	Data processing services	165,471	189,471	184,579	4,892
Capital Outlay:					
0081	Facilities acquisition and construction	773,039	773,039	613,480	159,559
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	190,993	219,093	219,006	87
0099	Other intergovernmental charges	<u>65,000</u>	<u>65,000</u>	<u>58,985</u>	<u>6,015</u>
6030	Total expenditures	<u>7,693,530</u>	<u>8,455,845</u>	<u>8,148,052</u>	<u>307,793</u>
1100	Excess/(deficiency) of revenues over/(under) expenditures	177,157	(397,355)	333,184	730,539
OTHER FINANCING SOURCES (USES)					
8911	Transfers out	(167,157)	(69,157)	(31,151)	38,006
8949	Other uses	<u>(10,000)</u>	<u>(10,000)</u>	<u>-</u>	<u>10,000</u>
	Total other financing sources (uses)	<u>(177,157)</u>	<u>(79,157)</u>	<u>(31,151)</u>	<u>48,006</u>
1200	Net change in fund balance	-	(476,512)	302,033	778,545
0100	Fund balance - Beginning	<u>4,946,879</u>	<u>4,946,879</u>	<u>4,946,879</u>	<u>-</u>
3000	Fund balance - Ending	<u>\$ 4,946,879</u>	<u>\$ 4,470,367</u>	<u>\$ 5,248,912</u>	<u>\$ 778,545</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED BUDGETARY SCHEDULE

AUGUST 31, 2023

The Board of Trustees adopts an "appropriated budget" for the General Fund and the National Breakfast and Lunch Program Fund (which is included in the Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the National Breakfast and Lunch Program Fund report is in Exhibit J-2.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.
4. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended as necessary during the year.
5. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function / object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Excess of Expenditures over Appropriations

Expenditures exceeded appropriations in the National Breakfast and Lunch Program Fund by \$5,068. This overage was absorbed by greater than anticipated revenues.

CAYUGA INDEPENDENT SCHOOL DISTRICT

SCHEDULE TO THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2023

Measurement Year Ended August 31,	<u>2022</u>	<u>2021</u>	<u>2020</u>
District's proportion of the net pension liability (asset)	0.0055814%	0.0043408%	0.0041051%
District's proportionate share of net pension liability (asset)	\$ 3,313,547	\$ 1,105,444	\$ 2,198,588
States proportionate share of the net pension liability (asset) associated with the District	<u>3,731,013</u>	<u>1,935,579</u>	<u>4,286,687</u>
Total	<u>\$ 7,044,560</u>	<u>\$ 3,041,023</u>	<u>\$ 6,485,275</u>
District's covered payroll	\$ 5,330,071	\$ 5,448,347	\$ 5,355,567
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	62.17%	20.29%	41.05%
Plan fiduciary net position as a percentage of the total pension liability	75.62%	88.79%	75.54%

Note: 10 years of information is required, but information prior to 2014 is not available.

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
0.0042720%	0.0043731%	0.0043504%	0.0046095%	0.0056827%	0.0040515%
\$ 2,220,702	\$ 2,407,066	\$ 1,391,016	\$ 1,741,868	\$ 2,008,758	\$ 1,082,211
<u>3,773,132</u>	<u>4,068,728</u>	<u>2,623,059</u>	<u>3,208,058</u>	<u>3,141,477</u>	<u>2,704,479</u>
<u>\$ 5,993,834</u>	<u>\$ 6,475,794</u>	<u>\$ 4,014,075</u>	<u>\$ 4,949,926</u>	<u>\$ 5,150,235</u>	<u>\$ 3,786,690</u>
\$ 4,784,204	\$ 4,671,999	\$ 4,830,504	\$ 4,857,281	\$ 5,051,385	\$ 5,093,254
46.42%	51.52%	28.80%	35.86%	39.77%	21.25%
75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

CAYUGA INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S PENSION CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM**

FOR THE YEAR ENDED AUGUST 31, 2023

Fiscal Year Ended August 31,	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution	\$ 270,320	\$ 260,750	\$ 183,643
Contribution in relation to the contractually required contribution	<u>(270,320)</u>	<u>(260,750)</u>	<u>(183,643)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 5,919,408	\$ 5,330,071	\$ 5,448,347
Contributions as a percentage of covered payroll	4.57%	4.89%	3.37%

Note: 10 years of information is required, but information prior to 2015 is not available.

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 170,338	\$ 129,332	\$ 147,317	\$ 143,774	\$ 145,360	\$ 167,766
<u>(170,338)</u>	<u>(129,332)</u>	<u>(147,317)</u>	<u>(143,774)</u>	<u>(145,360)</u>	<u>(167,766)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,355,567	\$ 4,784,204	\$ 4,671,999	\$ 4,830,504	\$ 4,857,281	\$ 5,051,385
3.18%	2.70%	3.15%	2.98%	2.99%	3.32%

CAYUGA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2023

Measurement Year Ended August 31,	<u>2022</u>	<u>2021</u>	<u>2020</u>
District's proportion of the net OPEB liability (asset)	0.0091851%	0.0073112%	0.0077130%
District's proportionate share of net OPEB liability (asset)	\$ 2,199,282	\$ 2,820,252	\$ 2,932,051
States proportionate share of the net OPEB liability (asset) associated with the District	<u>2,682,778</u>	<u>3,778,510</u>	<u>3,939,973</u>
Total	<u>\$ 4,882,060</u>	<u>\$ 6,598,762</u>	<u>\$ 6,872,024</u>
District's covered employee payroll	\$ 5,330,111	\$ 5,448,347	\$ 5,355,567
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	41.26%	51.76%	54.75%
Plan fiduciary net position as a percentage of the total OPEB liability	11.52%	4.99%	4.99%

Note: 10 years of information is required, but information prior to 2017 is not available.

<u>2019</u>	<u>2018</u>	<u>2017</u>
0.0079107%	0.0080309%	0.0085714%
\$ 3,741,062	\$ 4,009,922	\$ 3,727,397
<u>4,971,035</u>	<u>3,728,635</u>	<u>3,569,900</u>
<u>\$ 8,712,097</u>	<u>\$ 7,738,557</u>	<u>\$ 7,297,297</u>
\$ 4,784,204	\$ 4,671,999	\$ 4,830,504
78.20%	85.83%	77.16%
2.66%	1.57%	0.91%

CAYUGA INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF THE DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM**

FOR THE YEAR ENDED AUGUST 31, 2023

Fiscal Year Ended August 31,	<u>2023</u>	<u>2022</u>	<u>2021</u>
Contractually required contribution	\$ 74,137	\$ 75,448	\$ 55,833
Contribution in relation to the contractually required contribution	<u>(74,137)</u>	<u>(75,448)</u>	<u>(55,833)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 5,919,408	\$ 5,330,071	\$ 5,448,347
Contributions as a percentage of covered employee payroll	1.25%	1.42%	1.02%

Note: 10 years of information is required, but information prior to 2018 is not available.

<u>2020</u>	<u>2019</u>	<u>2018</u>
\$ 60,223	\$ 42,673	\$ 55,402
<u>(60,223)</u>	<u>(42,673)</u>	<u>(55,402)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 5,355,567	\$ 4,784,204	\$ 4,671,999
1.12%	0.89%	1.19%

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COMBINING STATEMENTS

CAYUGA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

AUGUST 31, 2023

Data Control Codes		Special Revenue Funds		
		211 ESEA I, A Improving Basic Program	224 IDEA Part B Formula	240 National Breakfast and Lunch Program
ASSETS				
1110	Cash and cash equivalents	\$ -	\$ -	\$ 52,891
1240	Due from other governments	106,417	-	15,659
1290	Other receivables	-	9,220	-
1000	Total assets	<u>106,417</u>	<u>9,220</u>	<u>68,550</u>
LIABILITIES				
2110	Accounts payable	-	-	390
2160	Accrued wages payable	16,069	5,700	13,909
2170	Due to other funds	88,507	2,853	-
2200	Accrued expenditures	1,841	667	1,622
2000	Total liabilities	<u>106,417</u>	<u>9,220</u>	<u>15,921</u>
FUND BALANCES				
	Restricted for:			
3450	Federal or state funds grants restriction	-	-	52,629
	Assigned:			
3590	Other - campus activity	-	-	-
3000	Total fund balances	<u>-</u>	<u>-</u>	<u>52,629</u>
4000	Total liabilities and fund balances	<u>\$ 106,417</u>	<u>\$ 9,220</u>	<u>\$ 68,550</u>

Special Revenue Funds					
255 ESEA II, A Training and Recruiting	269 ESEA, Title V Part B, Subpart 1	279 TCLAS ESSER III	281 ESSER II CRRSA Act	282 ESSER III ARPA	289 Other Federal Special Revenue
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	26,870	2,227	45,764	240,501	-
-	-	-	-	-	-
-	26,870	2,227	45,764	240,501	-
-	-	-	-	-	-
-	26,870	2,227	45,764	240,501	-
-	-	-	-	-	-
-	26,870	2,227	45,764	240,501	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ 26,870	\$ 2,227	\$ 45,764	\$ 240,501	\$ -

CAYUGA INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

AUGUST 31, 2023

Data Control Codes		Special Revenue Funds	
		314 SSA IDEA, Part B Preschool	410 State Instructional Materials
ASSETS			
1110	Cash and cash equivalents	\$ -	\$ -
1240	Due from other governments	29,180	17,721
1290	Other receivables	-	-
1000	Total assets	<u>29,180</u>	<u>17,721</u>
LIABILITIES			
2110	Accounts payable	-	4,009
2160	Accrued wages payable	-	-
2170	Due to other funds	29,180	12,317
2200	Accrued expenditures	-	-
2000	Total liabilities	<u>29,180</u>	<u>16,326</u>
FUND BALANCES			
	Restricted for:		
3450	Federal or state funds grants restriction	-	1,395
	Assigned:		
3590	Other - campus activity	-	-
3000	Total fund balances	<u>-</u>	<u>1,395</u>
4000	Total liabilities and fund balances	<u>\$ 29,180</u>	<u>\$ 17,721</u>

Special Revenue Funds		Total Nonmajor Governmental Funds
461 Campus Activity Funds		
\$ 57,148		\$ 110,039
-		484,339
-		9,220
<u>57,148</u>		<u>603,598</u>
-		4,399
-		35,678
-		448,219
<u>-</u>		<u>4,130</u>
<u>-</u>		<u>492,426</u>
-		54,024
<u>57,148</u>		<u>57,148</u>
<u>57,148</u>		<u>111,172</u>
<u>\$ 57,148</u>		<u>\$ 603,598</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		Special Revenue Funds		
		211 ESEA I, A Improving Basic Program	224 IDEA Part B Formula	240 National Breakfast and Lunch Program
REVENUES				
5700	Local and intermediate sources	\$ -	\$ -	\$ 106,096
5800	State programs	-	-	1,598
5900	Federal programs	<u>188,871</u>	<u>45,818</u>	<u>317,160</u>
5020	Total revenues	<u>188,871</u>	<u>45,818</u>	<u>424,854</u>
EXPENDITURES				
Current:				
0011	Instruction	188,871	45,818	-
0012	Instructional resources and media services	-	-	-
0023	Curriculum and staff development	-	-	-
0031	Guidance, counseling and evaluation services	-	-	-
0033	Health services	-	-	-
0034	Student (pupil) transportation	-	-	-
0035	Food services	-	-	456,005
0036	Extracurricular activities	-	-	-
0041	General administration	-	-	-
0051	Facilities maintenance and operations	-	-	-
0052	Security and monitoring services	-	-	-
0053	Data processing	-	-	-
0081	Capital outlay	-	-	-
Intergovernmental				
0093	Payments to fiscal agent/member districts of SSA	-	-	-
6030	Total expenditures	<u>188,871</u>	<u>45,818</u>	<u>456,005</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(31,151)</u>
OTHER FINANCING SOURCES (USES)				
7915	Transfers in	-	-	31,151
7080	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>31,151</u>
1200	Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>
0100	Fund balance - September 1 (beginning)	<u>-</u>	<u>-</u>	<u>52,629</u>
3000	Fund balance - August 31 (ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 52,629</u>

Special Revenue Funds					
255 ESEA II, A Training and Recruiting	269 ESEA, Title V Part B, Subpart 1	279 TCLAS ESSER III	281 ESSER II CRRSA Act	282 ESSER III ARPA	289 Other Federal Special Revenue
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
<u>42,115</u>	<u>53,469</u>	<u>63,102</u>	<u>109,858</u>	<u>325,187</u>	<u>11,060</u>
<u>42,115</u>	<u>53,469</u>	<u>63,102</u>	<u>109,858</u>	<u>325,187</u>	<u>11,060</u>
35,465	53,469	60,602	-	170,279	8,910
-	-	-	-	2,521	-
-	-	-	-	13,197	-
-	-	-	-	39,388	-
-	-	-	-	2,322	-
-	-	-	-	3,145	-
-	-	-	-	14,802	-
-	-	-	-	44,613	-
-	-	2,500	-	9,779	-
-	-	-	109,858	20,818	-
6,650	-	-	-	-	2,150
-	-	-	-	4,323	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>42,115</u>	<u>53,469</u>	<u>63,102</u>	<u>109,858</u>	<u>325,187</u>	<u>11,060</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		Special Revenue Funds	
		314 SSA IDEA, Part B Preschool	410 State Instructional Materials
REVENUES			
5700	Local and intermediate sources	\$ -	\$ -
5800	State programs	-	25,741
5900	Federal programs	39,916	-
5020	Total revenues	<u>39,916</u>	<u>25,741</u>
EXPENDITURES			
Current:			
0011	Instruction	838	25,741
0012	Instructional resources and media services	-	-
0023	Curriculum and staff development	-	-
0031	Guidance, counseling and evaluation services	-	-
0033	Health services	-	-
0034	Health services	-	-
0035	Food services	-	-
0036	Extracurricular activities	-	-
0041	General administration	-	-
0051	Facilities maintenance and operations	-	-
0052	Security and monitoring services	-	-
0053	Data processing	-	-
0081	Capital outlay	-	-
Intergovernmental:			
0093	Payments to fiscal agent/member districts of SSA	39,078	-
6030	Total expenditures	<u>39,916</u>	<u>25,741</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES			
7915	Transfers in	-	-
7080	Total other financing sources	<u>-</u>	<u>-</u>
1200	Net change in fund balances	<u>-</u>	<u>-</u>
0100	Fund balance - September 1 (beginning)	<u>-</u>	<u>1,395</u>
3000	Fund balance - August 31 (ending)	<u>\$ -</u>	<u>\$ 1,395</u>

Special Revenue Funds		Total Nonmajor Governmental Funds
461 Campus Activity Funds		
\$ 54,479	\$	160,575
-		27,339
-		<u>1,196,556</u>
<u>54,479</u>		<u>1,384,470</u>
-		589,993
-		2,521
-		13,197
-		39,388
-		2,322
-		3,145
-		470,807
55,670		100,283
-		12,279
-		130,676
-		8,800
-		4,323
-		-
-		<u>39,078</u>
<u>55,670</u>		<u>1,416,812</u>
<u>(1,191)</u>		<u>(32,342)</u>
-		<u>31,151</u>
-		<u>31,151</u>
<u>(1,191)</u>		<u>(1,191)</u>
<u>58,339</u>		<u>112,363</u>
<u>\$ 57,148</u>	<u>\$</u>	<u>111,172</u>

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REQUIRED TEA SCHEDULES

CAYUGA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2023

Last Ten Years Ended August 31,	Tax Rates		3 Net Assessed/ Appraised Value for School Tax Purpose	10 Beginning Balance 9/1/2022
	1 Maintenance	2 Debt Service		
2014 and prior years	various	various	various	\$ (6,622)
2015	1.040000	-	275,448,738	5,928
2016	1.040000	-	273,699,033	6,783
2017	1.040000	-	264,790,549	6,767
2018	1.040000	-	248,488,407	6,216
2019	1.170000	-	274,307,715	11,418
2020	1.068400	-	277,062,030	14,237
2021	1.054700	-	305,254,550	18,906
2022	1.037600	-	292,282,340	50,574
2023	0.942900	-	350,290,699	-
1000 Totals				<u>\$ 114,207</u>

8000 Taxes Refunded under Texas Tax Code 26.1115(c)

20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 8/31/2023</u>
\$ -	\$ 2,099	\$ -	\$ (11,624)	\$ (20,345)
-	2,112	-	(955)	2,861
-	3,090	-	(491)	3,202
-	3,534	-	(183)	3,050
-	2,689	-	(183)	3,344
-	5,681	-	(206)	5,531
-	6,141	-	(193)	7,903
-	8,391	-	(1,670)	8,845
-	27,307	-	(6,543)	16,724
<u>3,302,891</u>	<u>3,220,198</u>	<u>-</u>	<u>(26,031)</u>	<u>56,662</u>
<u>\$ 3,302,891</u>	<u>\$ 3,281,242</u>	<u>\$ -</u>	<u>\$ (48,079)</u>	<u>\$ 87,777</u>
	<u>\$ -</u>			

CAYUGA INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-4

SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL- NATIONAL BREAKFAST AND LUNCH PROGRAM FUND

FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 30,500	\$ 96,500	\$ 106,096	\$ 9,596
5800	State program	1,600	1,600	1,598	(2)
5900	Federal program	221,735	268,680	317,160	48,480
5020	Total revenues	<u>253,835</u>	<u>366,780</u>	<u>424,854</u>	<u>58,074</u>
EXPENDITURES					
Current:					
0035	Food service	420,992	450,937	456,005	(5,068)
6030	Total expenditures	<u>420,992</u>	<u>450,937</u>	<u>456,005</u>	<u>(5,068)</u>
1100	Excess/(deficiency) of revenues over/(under) expenditures	<u>(167,157)</u>	<u>(84,157)</u>	<u>(31,151)</u>	<u>53,006</u>
OTHER FINANCING SOURCES (USES)					
7915	Transfers in	167,157	69,157	31,151	(38,006)
	Total other financing sources (uses)	<u>167,157</u>	<u>69,157</u>	<u>31,151</u>	<u>(38,006)</u>
1200	Net change in fund balances	-	(15,000)	-	15,000
0100	Fund balance - Beginning	<u>52,629</u>	<u>52,629</u>	<u>52,629</u>	-
3000	Fund balance - Ending	<u>\$ 52,629</u>	<u>\$ 37,629</u>	<u>\$ 52,629</u>	<u>\$ 15,000</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS

FOR THE YEAR ENDED AUGUST 31, 2023

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$ 433,587
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$ 289,458

Section B: Bilingual Education Programs

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 4,674
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$ 7,352

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FEDERAL AWARDS SECTION

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**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
Cayuga Independent School District
Tennessee Colony, Texas

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, each major fund, and the aggregate remaining fund information of Cayuga Independent School District, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise Cayuga Independent School District’s basic financial statements, and have issued our report thereon dated January 22, 2024.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cayuga Independent School 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 Cayuga Independent School District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Cayuga Independent School 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.

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 or significant deficiencies may exist that were not identified.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cayuga Independent School 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 of the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Pattillo, Brown & Hill L.L.P.

Waco, Texas
January 22, 2024

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

Board of Trustees
Cayuga Independent School District
Tennessee Colony, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Cayuga Independent School District’s (the “District”) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended August 31, 2023. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2023.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District’s compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

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

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

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of 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.

Pattillo, Brown & Hill L.L.P.

Waco, Texas
January 22, 2024

CAYUGA INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2023

Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(1) Assistance Listing Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the Texas Education Agency:</u>			
School Breakfast Program	10.553	71402201	\$ 9,279
School Breakfast Program	10.553	71402301	60,670
Total Assistance Listing Number 10.553			<u>69,949</u>
National School Lunch Program	10.555	71302201	22,811
National School Lunch Program	10.555	71302301	157,384
Total Passed Through the Texas Education Agency			<u>250,144</u>
<u>Passed Through the Texas Department of Agriculture:</u>			
COVID-19 - Commodity Delivery Fee Reimbursement	10.555	NT4XL1YGLGC5	810
NSLP Commodities - non-cash assistance	10.555	NT4XL1YGLGC5	34,645
COVID-19 - Supply Chain Assistance Grant	10.555	NT4XL1YGLGC5	26,933
Total Assistance Listing Number 10.555			<u>242,583</u>
Total Child Nutrition Cluster			<u>312,532</u>
Child Nutrition Equipment Grant	10.579	NT4XL1YGLGC5	4,000
COVID-19 - Pandemic EBT Admin Expense Reimbursement	10.649	NT4XL1YGLGC5	628
Total Passed Through the Texas Department of Agriculture			<u>67,016</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>317,160</u>
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through the Texas Education Agency:</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	22-610101001902	10,704
ESEA, Title I, Part A - Improving Basic Programs	84.010A	23-610101001902	178,167
Total Assistance Listing Number 84.010A			<u>188,871</u>
SSA - IDEA - Part B, Formula	84.027A	23-6600010019026000	1,234,071
SSA - IDEA - Part B, Preschool	84.173A	21-6610010019026000	39,916
Total Special Education Cluster (IDEA)			<u>1,273,987</u>
ESEA Title II, Part A - Teacher & Principal Training & Recruiting	84.367A	23-694501001902	42,115
COVID-19 ESSER II	84.425D	21-521001001902	109,858
COVID-19 ESSER II	84.425U	21-528042001902	63,593
COVID-19 ESSER III, ARP ESSER	84.425U	21-528001001902	325,187
Total Assistance Listing Number 84.425			<u>498,638</u>
Total Passed Through the Texas Education Agency			<u>2,003,611</u>
<u>Direct Program:</u>			
Small, Rural School Achievement Program	84.358A	N/A	53,469
Total Direct Program			<u>53,469</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,057,080</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through the Texas Education Agency:</u>			
COVID-19 - School Health Support Grant	93.323	39352201	11,060
Total Passed Through the Texas Education Agency			<u>11,060</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>11,060</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 2,385,300</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AUGUST 31, 2023

GENERAL

The Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all applicable federal award programs of Cayuga Independent School District. The District’s reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

BASIS OF ACCOUNTING

The SEFA is presented using the modified accrual basis of accounting. The District’s significant accounting policies, including the modified accrual basis of accounting, are presented in Note 1 of the basic financial statements. The SEFA is presented in accordance with the 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). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

PASS-THROUGH EXPENDITURES

None of the federal programs expended by the District were provided to subrecipients.

INDIRECT COSTS

The District did not elect to use a de minimis cost rate of 10% as described at 2 CFR §200.414(f)—Indirect (F&A) costs.

RECONCILIATION OF FEDERAL REVENUES AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following is the reconciliation of federal revenues and the SEFA for the current fiscal year:

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 2,431,118
IDEA-B funds expended for shared service arrangement	<u>(45,818)</u>
Federal expenditures per the SEFA (Exhibit K-1)	<u>\$ 2,385,300</u>

CAYUGA INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2023

Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified,

that were not considered a material weakness None reported

Material noncompliance to the

financial statements noted? None

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified,

that were not considered a material weakness None reported

Type of auditor's report on compliance

for major programs Unmodified

Any audit findings disclosed that are required

to be reported in accordance with 2 CFR 200.516(a)? None

Identification of major programs:

Assistance Listing Numbers:

84.027, 84.173

Name of Federal Program or Cluster:
Special Education Cluster (IDEA)

Dollar threshold used to distinguish between type A

and type B programs \$750,000

Auditee qualified as low-risk auditee?

Yes

Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

CAYUGA INDEPENDENT SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2023

None.

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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") was enacted and became effective on September 1, 2021. SB 1232 provided 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 required 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.

The regular session of the 88th Texas Legislature (the "Legislature") was held from January 10, 2023, to May 29, 2023. As of the date of this disclosure, there have been four special sessions held, with the fourth special session ending December 5, 2023. 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 has taken or may take, but the TEA, SBOE, and PSF Corporation monitor and analyze 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 was 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 Corporation's Annual Comprehensive Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). Due to the establishment of the PSF Corporation, the most recent financial statements include several restatements related thereto. 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 annual comprehensive report of the State of Texas. The Annual Report includes the Message of the Chief Executive Officer of the PSF Corporation (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2023, 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, 2023, 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, 2023, and for a description of the financial results of the PSF for the year ended August 31, 2023, the most recent year for which audited financial information regarding the Fund is available. The 2023 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2023 Annual Report or any other Annual Report. The PSF Corporation 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 PSF Corporation's web site at <https://texaspsf.org/bond-guarantee-program/> and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, are available from the SEC at www.sec.gov/edgar. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation's 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.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the SBOE and the PSF Corporation the authority and responsibility for investment of the PSF's financial assets. The SBOE consists of 15 members who are elected by territorial districts in the State to four-year terms of office. The PSF Corporation is a special-purpose governmental corporation and instrumentality of the State entitled to sovereign immunity, and 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 member being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate.

The PSF's non-financial real assets, including land, mineral and royalty interests, and individual real estate holdings, are held by the GLO and managed by the SLB. The SLB is required to send PSF mineral and royalty revenues to the PSF Corporation for investment, less amounts specified by appropriation to be retained by the SLB.

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. For a detailed description of the PSFC Board's investment objectives, as well as a description of the PSFC's roles and responsibilities in managing and administering the fund, see the IPS (available on the PSF Corporation's website).

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. Additionally, 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 State laws.

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 requires that PSF distributions to the ASF be determined using a “total-return-based” that 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) 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.

The Texas Constitution also provides authority to the GLO or another entity (described in statute as the SLB or the PSF Corporation) 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. The Texas Constitution limits the maximum transfer to the ASF to \$600 million in 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)”), the PSF Corporation (the “PSF(CORP)”), and the SLB (the “PSF(SLB)”).

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</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>	<u>2023²</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,076
PSF(SBOE) Distribution	839	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-
PSF(SLB) Distribution	0	0	0	0	0	300	600	600 ³	415	115
Per Student Distribution	175	173	215	212	247	306	347	341	432	440

¹ In millions of dollars. Source: Annual Report for year ended August 31, 2023.

² Reflects the first fiscal year in which distributions were made by the PSF Corporation.

³ In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year

2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

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

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

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

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

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

PSF Corporation Strategic Asset Allocation

The PSFC Board sets the asset allocation policy for the Fund, including determining the available asset classes for investment and approving target percentages and ranges for allocation to each asset class, with the goal of delivering a long-term risk adjusted return through all economic and market environments. 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 and the SLB). 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 current asset allocation of the Fund that was adopted February 2024 (which is subject to change from time to time):

Asset Class	Strategic Asset Allocation	Range	
		Min	Max
Cash	2.0%	0.0%	7.0%
Core Bonds	10.0%	5.0%	15.0%
High Yield	2.0%	0.0%	7.0%
Bank Loans	4.0%	0.0%	9.0%
Treasury Inflation Protected Securities	2.0%	0.0%	7.0%
Large Cap Equity	14.0%	9.0%	19.0%
Small/Mid-Cap Equity	6.0%	1.0%	11.0%
Non-US Developed Equity	7.0%	2.0%	12.0%
Absolute Return	3.0%	0.0%	8.0%
Real Estate	12.0%	7.0%	17.0%
Private Equity	20.0%	10.0%	30.0%
Private Credit	8.0%	3.0%	13.0%
Natural Resources	5.0%	0.0%	10.0%
Infrastructure	5.0%	0.0%	10.0%

The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2022 and 2023, as set forth in the Annual Report for the 2023 fiscal year. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined (referred to herein as the PSF(CORP)) for investment management and accounting purposes.

Comparative Investment Schedule – PSF(CORP)

Fair Value (in millions) August 31, 2023 and 2022

	August 31, 2023	August 31, 2022	Amount of Increase (Decrease)	Percent Change
ASSET CLASS				
EQUITY				
Domestic Small Cap	\$ 2,975.1	\$ 2,858.4	\$ 116.7	4.1%
Domestic Large Cap	<u>7,896.5</u>	<u>6,402.1</u>	<u>1,494.4</u>	<u>23.3%</u>
Total Domestic Equity	10,871.6	9,260.5	1,611.1	17.4%
International Equity	<u>7,945.5</u>	<u>7,197.9</u>	<u>747.6</u>	<u>10.4%</u>
TOTAL EQUITY	18,817.1	16,458.4	2,358.7	14.3%
FIXED INCOME				
Domestic Fixed Income	5,563.7	5,867.5	(303.8)	-5.2%
U.S. Treasuries	937.5	1,140.2	(202.7)	-17.8%
High Yield Bonds	1,231.6	1,142.5	89.1	7.8%
Emerging Market Debt	<u>869.7</u>	<u>1,190.9</u>	<u>(321.2)</u>	<u>-27.0%</u>
TOTAL FIXED INCOME	8,602.5	9,341.1	(738.6)	-7.9%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,175.8	2,932.3	243.5	8.3%
Real Estate	6,525.2	6,286.9	238.3	3.8%
Private Equity	8,400.7	7,933.1	467.6	5.9%
Emerging Manager Program	134.5	29.9	104.6	349.8%
Real Return	1,663.7	1,620.3	43.4	2.7%
Real Assets	<u>4,712.1</u>	<u>4,341.3</u>	<u>370.8</u>	<u>8.5%</u>
TOT ALT INVESTMENTS	24,612.0	23,143.8	1,468.2	6.3%
UNALLOCATED CASH	<u>348.2</u>	<u>231.7</u>	<u>116.5</u>	<u>50.3%</u>
TOTAL PSF(CORP) INVESTMENTS	\$ 52,379.8	\$ 49,175.0	\$ 3,204.8	6.5%

Source: Annual Report for year ended August 31, 2023.

The table below sets forth the investments of the PSF(SLB) for the year ended August 31, 2023.

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2023

	As of <u>8-31-23</u>
Investment Type Investments in Real Assets	
Sovereign Lands	\$ 276.14
Discretionary Internal Investments	264.32
Other Lands	167.97
Minerals ^{(2), (3)}	<u>5,435.62</u> ⁽⁶⁾
Total Investments ⁽⁴⁾	6,144.05
Cash in State Treasury ⁽⁵⁾	508.38
Total Investments & Cash in State Treasury	\$ 6,652.44

¹Unaudited figures from Table 5 in the FY 2023 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

² Historical Cost of investments at August 31, 2023 was: Sovereign Lands \$838,776.71; Discretionary Internal Investments \$129,728,504.04; Other Lands \$38,241,863.70; and Minerals \$13,437,063.73.

³ Includes an estimated 1,000,000.00 acres in freshwater rivers.

⁴ Includes an estimated 1,747,600.00 in excess acreage.

⁵ Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the State of Texas.

⁶ Future Net Revenues discounted at 10% and then adjusted for risk factors. A mineral reserve report is prepared annually by external third-party petroleum engineers.

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. The SDBGP 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/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

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/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

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.

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2024 fiscal year, the ratio is 7.69%. At February 26, 2024, there were 186 active open-enrollment charter schools in the State and there were 1,128 charter school campuses authorized under such charters, though as of such date, 212 of such campuses are not currently serving students for various reasons; therefore, there are 916 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. The Charter District Bond Guarantee Program 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.” Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 (“SB 389”) was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit to an amount equal to three times the cost value of the PSF.

Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

Changes in SBOE-determined multiplier for State Capacity Limit

<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, effective as of May 10, 2023.

The IRS Notice changed 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 December 31, 2023 the cost value of the Guarantee Program was \$44,034,322,531 (unaudited), thereby producing an IRS Limit of \$220,171,612,655 in principal amount of guaranteed bonds outstanding.

As of December 31, 2023, the estimated State Capacity Limit is \$154,120,128,859, 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 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 PSF Corporation's web site at <https://texaspsf.org/monthly-disclosures/>, 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.

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 7.69% in February 2024. 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 January 31, 2024, the Charter District Reserve Fund contained \$97,636,048, which represented approximately 2.32% 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 January 2024, 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 offering document to which this is attached for information regarding a district’s underlying rating and the enhanced rating applied to a given series of bonds.

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
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	42,511,350,050	56,754,515,757
2023 ⁽²⁾	43,915,792,841	59,020,536,667

⁽¹⁾ SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the

PSF Corporation by the SLB. The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

(2) At August 31, 2023, mineral assets, sovereign and other lands and discretionary internal investments, and cash managed by the SLB had book values of approximately \$13.4 million, \$168.8 million, and \$708.4 million, respectively, and market values of approximately \$5,435.6 million, \$678.4 million, and \$508.4 million, respectively.

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2019	\$84,397,900,203
2020	90,336,680,245
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682 ⁽²⁾

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

(2) At August 31, 2023 (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 \$178,520,723,868, of which \$62,789,897,186 represents interest to be paid. As shown in the table above, at August 31, 2023, there were \$115,730,826,682 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$154,120,128,859 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2023, the amount of outstanding bond guarantees represented 76.36% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾						
<u>School District Bonds</u>		<u>Charter District Bonds</u>			<u>Totals</u>	
Fiscal Year	No. of	Principal	No. of	Principal	No. of	Principal
Ended <u>8/31</u>	<u>Issues</u>	<u>Amount (\$)</u>	<u>Issues</u>	<u>Amount (\$)</u>	<u>Issues</u>	<u>Amount (\$)</u>
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	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023 ⁽²⁾	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682

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

(2) At December 31, 2023 (based on unaudited data, which is subject to adjustment), there were \$117,374,697,034 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,369 school district issues, aggregating \$113,174,765,034 in principal amount and 105 charter district issues, aggregating \$4,199,932,000 in principal amount. At December 31, 2023 the projected guarantee capacity available was \$26,935,589,587 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2023

The following discussion is derived from the Annual Report for the year ended August 31, 2023, including the Message from the Chief Executive Officer of the Fund, the Management's Discussion and Analysis, and other schedules 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 PSFC Board are referred to throughout this MD&A as the PSF(CORP). The Fund's non-financial real assets are managed by the SLB and these assets are referred to throughout as the PSF(SLB) assets.

At the end of fiscal year 2023, the PSF(CORP) net position was \$52.3 billion. During the year, the PSF(CORP) continued implementing the long-term strategic asset allocation, diversifying the investment mix 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(CORP) is invested in

global markets and liquid assets experience volatility commensurate with the related indices. The PSF(CORP) 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. The PSF(CORP) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2023, net of fees, were 6.14%, 6.19%, and 6.78%, respectively (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). See "Comparative Investment Schedule - PSF(CORP)" for the PSF(CORP) holdings as of August 31, 2023.

Beginning January 1, 2023, Texas PSF transitioned into the PSF Corporation combining all PSF financial investment assets under the singular management of the PSF Corporation. The new structure of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include absolute return, private equity, real estate, natural resources, infrastructure, and real return (TIPS and commodities). The inauguration of the PSF Corporation as a discretely presented component unit of the State of Texas for fiscal year 2023 required a change in the basis of accounting to full accrual. For a description of the full accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2023 Annual Report which is included by reference herein.

PSF Returns Fiscal Year Ended 8-31-2023¹

<u>Portfolio</u>	Benchmark	<u>Return</u>	<u>Return²</u>
Total PSF(CORP) Portfolio		6.14	4.38
Domestic Large Cap Equities		16.09	15.94
Domestic Small/Mid Cap Equities		9.31	9.14
International Equities		12.38	11.89
Emerging Market Equity		2.48	1.25
Fixed Income		(1.30)	(1.19)
U.S. Treasuries		(9.21)	(9.69)
Absolute Return		7.59	3.58
Real Estate		(1.96)	(3.13)
Private Equity		4.55	0.20
Real Return		(5.51)	(5.88)
Emerging Market Debt		12.68	11.34
High Yield		7.80	7.19
Emerging Manager Program		33.35	0.97
Natural Resources		5.70	3.67
Infrastructure		14.22	3.67

¹ Time weighted rates of return adjusted for cash flows for the PSF(CORP) investment assets. Does not include SLB managed real estate or real assets. Returns are net of fees. Source: Annual Report for year ended August 31, 2023.

² Benchmarks are as set forth in the Annual Report for year ended August 31, 2023.

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, interest in real estate, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2023 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. In fiscal year 2023, \$2.1 billion was distributed to the ASF, \$345 million of which was distributed by the PSF(CORP) on behalf of the SLB.

Other Events and Disclosures

State ethics laws govern 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. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

As of August 31, 2023, 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 is obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

The PSF Corporation, on behalf of the TEA, and 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 PSF Corporation will update and provide this information within six months after the end of each fiscal year.

The TEA and the PSF Corporation 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. In the event audits are not available by the filing deadline, unaudited financial statements will be provided by such deadline, and audited financial statements will be provided when 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 composed of two primary segments: the financial assets (PSF(CORP)) managed by PSF Corporation, and the non-financial assets (PSF(SLB)) managed by the SLB. Each of these segments is reported separately und different bases of accounting.

The PSF Corporation classified as a proprietary endowment fund and reported by the State of Texas as a discretely presented component unit and accounted for on an economic resources measurement focus and the full accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the full accrual basis of accounting, all revenues reported are recognized in the period they are earned or when the PSF Corporation has a right to receive them. Expenses are recognized in the period they are incurred, and the subsequent amortization of any deferred outflows. Additionally, costs related to capital assets are capitalized and subsequently depreciated over the useful life of the assets. Both current and long-term assets and liabilities are presented in the statement of net position.

The SLB manages the Fund's non-financial assets (PSF(SLB)), is classified as a governmental permanent fund and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, amounts are recognized as revenues in the period in which they are available to finance expenditures of the current period and are measurable. Amounts are considered measurable if they can be estimated or otherwise determined. Expenditures are recognized in the period in which the related liability is incurred, if measurable.

The State's current fiscal year end is August 31. Accordingly, the TEA and the PSF Corporation 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 and the PSF Corporation 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 or the PSF Corporation 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 or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

The TEA and the PSF Corporation have agreed to update information and to provide notices of material events only as described above. The TEA and the PSF Corporation have 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 and the PSF Corporation make 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 and the PSF Corporation disclaim 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 and the PSF Corporation to comply with its agreement.

The continuing disclosure agreement 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 or the PSF Corporation 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 or the PSF Corporation, 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 or the PSF Corporation (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 or the PSF Corporation 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 and the PSF Corporation have not failed to substantially comply with their 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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