

OFFICIAL STATEMENT
Dated: August 20, 2024

NEW ISSUE: BOOK-ENTRY-ONLY

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

\$126,515,000
MELISSA INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Collin County, Texas)
Unlimited Tax School Building Bonds, Series 2024

Dated Date: September 1, 2024

Due: February 1, as shown on the inside cover page

The Melissa 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, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the Melissa Independent School District (the "District") on May 1, 2021 and the order adopted by the Board of Trustees of the District (the "Board") on May 13, 2024 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms for the Bonds (the Pricing Certificate, together with the Bond Order, are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Pricing Officer of the District on August 20, 2024, which completed the sale of the Bonds. 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 shown above and will be payable on February 1, 2025 and each August 1 and February 1 thereafter, until stated maturity or prior redemption. The Bonds will be issued in fully registered form in principal denominations of \$5,000 or any integral multiple thereof. Principal of the Bonds will be payable by the Paying Agent/Registrar, which initially is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar"), upon presentation and surrender of the Bonds for payment. Interest on the Bonds is payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to the registered owners as shown on the records of the Paying Agent/Registrar on the Record Date, as defined herein.

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

Proceeds from the sale of the Bonds will be used for the purpose of (i) constructing, acquiring and equipping school buildings in the District including the purchase of new school buses and the purchase of necessary sites for school buildings, and (ii) paying the costs of issuing the Bonds. (See "THE BONDS - Authorization and Purpose").

The Bonds maturing on and after February 1, 2035 are subject to redemption at the option of the District in whole or in part on August 1, 2034 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. In addition, the Term Bonds (hereafter defined) are subject to mandatory sinking fund redemption as described herein. (see "THE BONDS - Optional Redemption" and "THE BONDS – Mandatory Sinking Fund Redemption").

MATURITY SCHEDULE
(On Inside Cover)

The Bonds are offered for delivery when, as and if issued, and received by the initial purchasers (the "Underwriters") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through the facilities of DTC on or about September 17, 2024 (the "Date of Delivery").

JEFFERIES

PIPER SANDLER & CO.

BAIRD

\$126,515,000
MELISSA INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Collin County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

MATURITY SCHEDULE
Base CUSIP No.: 585488 ⁽¹⁾

\$58,085,000 Serial Bonds

Maturity Date 2/1	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix⁽¹⁾
2027	\$2,040,000	5.00%	2.77%	YV5
2028	2,145,000	5.00	2.77	YW3
2029	2,255,000	5.00	2.78	YX1
2030	2,370,000	5.00	2.84	YY9
2031	2,490,000	5.00	2.92	YZ6
2032	2,620,000	5.00	2.99	ZA0
2033	2,755,000	5.00	3.02	ZB8
2034	2,900,000	5.00	3.06	ZC6
2035	3,045,000	5.00	3.17 ⁽²⁾	ZD4
2036	3,200,000	5.00	3.23 ⁽²⁾	ZE2
2037	3,365,000	5.00	3.29 ⁽²⁾	ZF9
2038	3,535,000	5.00	3.34 ⁽²⁾	ZG7
2039	3,715,000	5.00	3.38 ⁽²⁾	ZH5
2040	3,905,000	5.00	3.48 ⁽²⁾	ZJ1
2041	4,110,000	5.00	3.57 ⁽²⁾	ZK8
2042	4,320,000	5.00	3.63 ⁽²⁾	ZL6
2043	4,540,000	5.00	3.69 ⁽²⁾	ZM4
2044	4,775,000	5.00	3.74 ⁽²⁾	ZN2

(Interest to accrue from the Dated Date)

\$68,430,000 Term Bonds

\$27,090,000	4.00%	Term Bond due February 1, 2049 – Price \$96.963 (yield 4.20%) CUSIP Suffix No.ZP7 ⁽¹⁾
\$41,340,000	4.00%	Term Bond due February 1, 2054 – Price \$95.824 (yield 4.25%) CUSIP Suffix No.ZQ5 ⁽¹⁾

(Interest to accrue from the Dated Date)

⁽¹⁾ CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2024 CGS. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the District, the Financial Advisor, the Underwriters or their agents or counsel assume responsibility for the accuracy of such numbers.

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 1, 2034, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

MELISSA INDEPENDENT SCHOOL DISTRICT

BOARD OF TRUSTEES

<u>Name</u>	<u>Date Initially Elected</u>	<u>Current Term Expires</u>	<u>Occupation</u>
Paul Anderson, President	2010	2025	Construction Manager
Omar Landrum, Vice President	2017	2027	Law Enforcement
Amy Feagin, Secretary	2021	2025	Bank Executive
Dr. Bill Gray, Member	2014	2026	Dentist
George James, Member	2002	2026	Realtor
Quentin Thomason, Member	2023	2027	Boeing Executive
Darren Thompson, Member	2023	2027	Toyota Executive

APPOINTED OFFICIALS

<u>Name</u>	<u>Position</u>	<u>Length of Education Service</u>	<u>Length of Service with District</u>
Keith Murphy	Superintendent	31 Years	9 Years
Dr. Robert Rich	Deputy Superintendent	29 Years	18 Years
Kim Boedeker	Deputy Superintendent	18 Years	18 Years
Dr. Brian Walton	Chief Financial Officer	5 Years	2 Years
Dalton Holly	Business Manager	2 Years	2 Years

CONSULTANTS AND ADVISORS

McCall, Parkhurst & Horton L.L.P., Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc., Plano, Texas	Financial Advisor
Hankins Eastup Deaton Tonn Seay & Scarborough, LLC, Denton, Texas	Certified Public Accountants

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(214) 279-8683 (Fax)

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the District, the Financial Advisor or the Underwriters. 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 (the "TEA") 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.

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS 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 UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE 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. SEE "FORWARD LOOKING STATEMENTS" HEREIN.

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 Melissa Independent School District (the "District") is a political subdivision of the State of Texas located in Collin 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 \$126,515,000 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, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 1, 2021 and the order adopted by the Board on May 13, 2024 (the "Bond Order"). As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms of the Bonds (the Pricing Certificate, and the Bond Order, are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Pricing Officer of the District on August 20, 2024, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used for the purpose of (i) constructing, acquiring and equipping school buildings in the District including the purchase of new school buses and the purchase of necessary sites for school buildings, and (ii) 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, New York, New York. (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").
Redemption	The Bonds maturing on and after February 1, 2035 are subject to redemption at the option of the District in whole or in part on August 1, 2034 or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. In addition, the Term Bonds (hereinafter defined) are subject to mandatory sinking fund redemption as described herein. (See "THE BONDS - Optional Redemption" and "THE BONDS - Mandatory Sinking Fund 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 of the TEA. The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P. (See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "RATING" herein.)
Tax Matters	In the opinion of Bond Counsel for the District, interest on the Bonds is excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations. (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 McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel.
Delivery	When issued, anticipated to be on or about September 17, 2024.

INTRODUCTORY STATEMENT

This Official Statement (the "Official Statement"), which includes the cover page and the Appendices attached hereto, has been prepared by the Melissa Independent School District (the "District"), a political subdivision of the State of Texas (the "State") located in Collin County, Texas, in connection with the offering by the District of its Unlimited Tax School Building Bonds, Series 2024 (the "Bonds") identified on page ii 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 adopted by the Board of Trustees of the District (the "Board") on May 13, 2024 authorizing the issuance of the Bonds ("Bond 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 Melissa Independent School District, 1904 Cooper Street, Melissa, Texas 75454 and, during the offering period, from the Financial Advisor, SAMCO Capital Markets, Inc., 5800 Granite Parkway, Suite 210, Plano, Texas 75024, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of this Official Statement relating to the Bonds will be submitted by the Underwriters of the Bonds to the Municipal Securities Rulemaking Board, and will be available through its Electronic Municipal Market Access 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 \$126,515,000 pursuant to the Constitution and general laws of the State, including particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held in the District on May 1, 2021 (the "Election") and the Bond Order. As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (the "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the pricing terms of the Bonds (the Pricing Certificate, and the Bond Order, are collectively referred to herein as the "Order"). The Pricing Certificate was executed by the Pricing Officer of the District on August 20, 2024, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used for the purpose of (i) constructing, acquiring and equipping school buildings in the District including the purchase of new school buses and the purchase of necessary sites for school buildings, and (ii) paying the costs of issuing the Bonds.

General Description

The Bonds are dated September 1, 2024 (the "Dated Date") and interest will accrue from the Dated Date. The Bonds will mature on the dates and in the principal amounts set forth on page ii of this Official Statement. Interest on the Bonds will be computed on the basis of a 360-day year of twelve 30-day months and is payable on February 1, 2025 and on each August 1 and February 1 thereafter until stated maturity or prior redemption.

The Bonds will be issued only as fully registered bonds. The Bonds will be issued in the denominations of \$5,000 of principal 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 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 and after February 1, 2035, 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 1, 2034, or any date thereafter, at a price equal to the principal amount thereof, plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed. Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

Mandatory Sinking Fund Redemption

In addition to the optional redemption provision described above, the Bonds maturing on February 1 in each of the years 2049 and 2054 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity, and will be redeemed by the District, at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates and in the principal amounts shown in the following schedule:

Term Bonds February 1, 2049		Term Bonds February 1, 2054	
Date (2/1)	Amount	Date (2/1)	Amount
2045	\$4,995,000	2050	\$6,100,000
2046	5,195,000	2051	6,345,000
2047	5,410,000	2052	6,610,000
2048	5,630,000	2053	6,495,000
2049*	5,860,000	2054*	15,790,000

***Stated Maturity**

Approximately forty-five (45) days prior to each mandatory redemption date for any Term Bond, the Paying Agent/Registrar shall randomly select by lot or other customary method the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following February 1 from moneys set aside for that purpose in the Interest and Sinking Fund (as defined in the Bond Order). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of such Stated Maturity which, at least forty-five (45) days prior to the mandatory redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, thereof, and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase, or (iii) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Notice of Redemption

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

DTC Notices

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond 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 Bond 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 TEA for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). Subject to meeting certain conditions discussed in "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of a payment default by the District, registered owners will receive all payments due from the corpus of the Permanent School Fund.

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

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. (See "LEGAL MATTERS" and "APPENDIX C – FORM OF LEGAL OPINION OF BOND COUNSEL").

Payment Record

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

Amendments

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

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

Defeasance

The Bond Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Bond Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

Sources and Uses of Funds

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

Sources	
Par Amount of Bonds	\$ 126,515,000.00
Accrued Interest	250,731.11
Net Reoffering Premium	4,529,250.15
Total Sources of Funds	\$ 131,294,981.26
Uses	
Deposit to Construction Fund	\$ 130,000,000.00
Costs of Issuance	398,689.80
Underwriters' Discount	645,560.35
Deposit to Interest and Sinking Fund	250,731.11
Total Uses of Funds	\$ 131,294,981.26

REGISTERED OWNERS' REMEDIES

The Bond Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Bond Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond 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 Bond 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.3rd 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers school districts and relates to contracts entered into by school districts for providing goods or services to school districts. The District is not aware of any State court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by State courts. In general, State courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. State courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, including the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, as permitted by Chapter 1371. As a result, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond 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 Bond 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 Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

The District and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to Direct Participants, (2) Direct 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 Direct 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 stated maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Underwriters 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 Bond Order will be given only to DTC.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas. In the Bond 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 Bond 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 15th 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 as it is currently structured. 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. 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 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 2024-2025 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" herein. 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 2023 Legislative Sessions.

During the second called special session, legislation was passed to (i) reduce the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increase the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and to hold districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjust the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibit school districts, cities and counties from repealing or reducing an optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) establish a three year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) except certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii)

expand the size of the governing body of an appraisal district in a county with a population of 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.

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 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 any actions the Legislature has taken or may take concerning the substance or the effect of any legislation passed in a previous session or a future session of the Legislature.

Local Funding for School Districts

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

State Compression Percentage

The State Compression Percentage is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For 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 two alternative calculations: (1) the school district's prior year MCR; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the 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 Sessions, the Legislature took action to reduce the MCR for the 2023-2024 school year. It established \$0.6880 as the maximum rate and \$0.6192 as the floor. The MCR for the 2024-2025 school year is \$0.6855 and the floor is \$0.6169.

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" herein; 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" herein.)

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" herein), 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 and \$320 million for the 2024-2025 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 revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

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

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 not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026 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.

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 an optional homestead exemption that was granted in tax year 2022 through December 31, 2027. See "Appendix A – Financial Information of the District – Assessed Valuation" herein 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" hereto for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

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

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not

subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or outside the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See "Appendix A – Financial Information of the District – Assessed Valuation" hereto 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. The Texas Legislature amended Section 11.35, Tax Code to clarify that "damage" for purposes of such statute is limited to "physical damage." For more information on the exemption, reference is made to Section 11.35 of the 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" herein)

Tax Limitation Agreements

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

During the regular session of the 88th Texas Legislature, House Bill 5 ("HB 5") was enacted into law. HB 5 is intended as a replacement of former Chapter 313, Texas Tax Code ("Chapter 313"), but it contains significantly different provisions than the prior program under Chapter 313. The effective date of HB 5 was January 1, 2024. Under HB 5, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. HB 5 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under HB 5. Eligible projects must relate to manufacturing, provision of utility services, dispatchable electric generation (such as non-renewable energy), development of natural resources, critical infrastructure, or research and development for high-tech equipment or technology, and projects must create and maintain jobs and meet certain minimum investment requirements. The District is still in the process of reviewing HB 5 and cannot make any representations as to what impact, if any, HB 5 will have on its finances or operations.

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

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" herein). 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" herein 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

A school district is authorized to levy maintenance and operation ("M&O") taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the next succeeding paragraph. The maximum voted M&O tax rate for the District is \$1.50 per \$100 of assessed valuation as approved by the voters at an election held on June 30, 1984 under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code).

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

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as "new money bonds" and are subject to the \$0.50 threshold tax rate test. The District has not used state financial assistance other than EDA or IFA allotment funding to pass the 50-cent Test. In connection with prior bond issues, the District has used State financial assistance other than EDA or IFA allotment funding but has not used projected property values to satisfy this threshold test. In connection with the Bonds, the District will use approximately \$2.5 million 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", as described below.

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

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Collin County, Texas. The Appraisal District is governed by a board of directors, members of which are both appointed by the governing bodies of various political subdivisions that participate in the Appraisal District and elected by voters within Collin County, Texas.

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

The District does not grant a local option, additional exemption for persons 65 years of age or older or disabled persons 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 collects 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 Collin County Tax Office.

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

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

The District does not grant any portion of the additional local option exemption of up to 20% of the market value of residence homesteads.

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

EMPLOYEE BENEFIT PLANS AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. 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. The District generally does not offer any post-employment retirement benefits and has no liabilities for "Other Post Employment Retirement Benefits" as defined in GASB Statement No. 45. For a discussion of the TRS retirement plan, see "Note 8. – Defined Benefit Pension Plan" in 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 "Note 9. – Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District that are attached hereto as Appendix D (the "Financial Statements").

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

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 \$350 per month per employee to the Health Care Plan. Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note 10. – Health Care Coverage" of the Financial Statements.

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

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 of the TEA. (See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's unenhanced, underlying rating, including the Bonds, is "A+" by S&P.

An explanation of the significance of such rating may be obtained from S&P. The rating on the Bonds by S&P reflects only the view of said company at the time the ratings are given, and the District makes no representations as to the appropriateness of the ratings. There is no assurance that the ratings will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant.

The above ratings are not a recommendation to buy, sell or hold the Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of the ratings may have an adverse effect on the market price or marketability of the Bonds.

LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the District ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached hereto as Appendix C. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The legal fee to be paid to the Underwriters' counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under the federal securities

laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions or subcaptions "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee", "Payment Record", and "Sources and Uses of Funds," as to which no opinion will be expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", (except under the subcaption "Possible Effects of Wealth Transfer Provisions on the District's Financial Condition," as to which no opinion will be expressed) "TAX RATE LIMITATIONS" (except for the last sentence of the second paragraph under the subcaption "I&S Tax Rate Limitations"), "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereunder), "TAX MATTERS", "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS", "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings," as to which no opinion will be expressed) and such firm is of the opinion that the information relating to the Bonds and the Bond Order contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law.

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

TAX MATTERS

Opinion

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

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

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

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

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

Federal Income Tax Accounting Treatment of Original Issue Discount

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

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

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

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

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

As a school district that qualifies as an "issuer" under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. Texas law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof).

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA^m" 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.

Effective September 1, 2019, the investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFI Act and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government's investment policy regarding the debt issuance or the agreement.

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 \$71,433,359 (unaudited) invested in an interest bearing account at the local depository bank. 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 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.

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 may be 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, as amended) 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 MSRB's Electronic Municipal Market Access 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 Rule 15c2-12.

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 notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with 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 Bond 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, any event described in clause (12) of 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 described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12.

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.

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 an underwriter to purchase or sell Bonds in the initial primary offering in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment 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. 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

The District is of the view that during the past five years it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule 15c2-12.

LITIGATION

In the opinion of District officials, except as may be described in this Official Statement, 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.

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

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.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an Underwriters' discount of \$645,560.35 plus accrued interest from the Dated Date to the date of delivery of the Bonds to the Underwriters. The Underwriters' obligations are subject to certain conditions precedent, and the Underwriters will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

Jefferies and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, Jefferies and its affiliates may have certain creditor and/or other rights against the District and its affiliates in connection with such activities. In the course of their various business activities, Jefferies and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District. Jefferies and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to the clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal

investment, hedging, financing and brokerage activities. The Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

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

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 Bond Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Bond 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.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in Rule 15c2-12.

The Bond Order authorized the Pricing Officer to approve 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 Underwriters. This Official Statement has been approved by the Pricing Officer of the District for distribution in accordance with the provisions of Rule 15c2-12.

/s/ Dr. Robert Rich

Pricing Officer

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APPENDIX A
FINANCIAL INFORMATION OF THE DISTRICT

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MELISSA INDEPENDENT SCHOOL DISTRICT

Financial Information

ASSESSED VALUATION ⁽¹⁾

2024/25 Total Valuation.....		\$ 6,155,948,462
Less Exemptions & Deductions ⁽²⁾ :		
State Homestead Exemption	\$ 670,687,021	
State Over-65 Exemption	10,411,377	
Disabled Exemption	77,994,523	
Veterans Exemption	2,069,000	
Surviving Spouse Disabled Veteran Exemption	1,709,588	
Surviving Spouse Killed in Action Exemption	514,020	
Pollution Control Exemption Loss	19,436,004	
Solar Exemption Loss	80,597	
Charity to Veteran Exemption	390,992	
Productivity Loss	488,014,710	
Homestead Cap Loss	234,855,248	
Non-Homestead (23.231) Cap Loss	20,255,767	
	<u>\$ 1,526,418,847</u>	
2024/25 Certified Net Taxable Valuation.....		\$ 4,629,529,615

(1) Source: Certified Values from the Collin Central 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 \$12,192,366 for 2023/24.

VOTED GENERAL OBLIGATION DEBT

Unlimited Tax Bonds Outstanding ⁽¹⁾		\$ 376,525,000
Plus: The Bonds		126,515,000
Total Unlimited Tax Bonds ⁽¹⁾		<u>503,040,000</u>
Less: Interest & Sinking Fund Balance (As of August 31, 2023) ⁽²⁾		<u>(4,220,569)</u>
Net General Obligation Debt		\$ 498,819,431
Ratio of Net G.O. Debt to Net Taxable Valuation ⁽³⁾	10.77%	
2024 Population Estimate ⁽⁴⁾	26,649	
Per Capita Net Taxable Valuation	\$173,722	
Per Capita Net G.O. Debt	\$18,718	

(1) Excludes interest accrued on outstanding capital appreciation bonds.
 (2) Source: Melissa ISD Audited Financial Statements.
 (3) The ratio of Net G.O. Debt to Net Taxable Valuation above does not include the portion of the District's outstanding debt service that is payable from any debt subsidies that may be provided by the State of Texas. The District does not expect to receive state funding assistance for voted bond debt service for its unlimited tax debt service for the 2024/25 fiscal year. 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.
 (4) Source: City of Melissa.

PROPERTY TAX RATES AND COLLECTIONS

Fiscal Year	Net Taxable		% Collections ⁽⁶⁾	
	Valuation	Tax Rate	Current ⁽⁷⁾ Total ⁽⁷⁾	
			Current ⁽⁷⁾	Total ⁽⁷⁾
2006/07	\$ 321,650,757 ⁽¹⁾	\$ 1.7800 ⁽⁸⁾	96.97%	100.06%
2007/08	393,556,023 ⁽¹⁾	1.5350 ⁽⁸⁾	98.40%	101.19%
2008/09	430,452,359 ⁽¹⁾	1.5400	96.90%	98.81%
2009/10	432,348,192 ⁽¹⁾	1.5400	98.36%	101.09%
2010/11	425,280,812 ⁽¹⁾	1.5400	98.26%	99.57%
2011/12	433,869,930 ⁽¹⁾	1.5400	98.48%	99.82%
2012/13	443,276,208 ⁽¹⁾	1.5400	98.81%	100.11%
2013/14	489,201,127 ⁽¹⁾	1.5400	99.40%	101.04%
2014/15	576,573,795 ⁽¹⁾	1.5400	99.38%	99.88%
2015/16	682,563,834 ⁽¹⁾⁽²⁾	1.6700	99.46%	99.09%
2016/17	822,423,146 ⁽¹⁾⁽²⁾	1.6700	99.39%	99.98%
2017/18	1,009,971,680 ⁽¹⁾⁽²⁾	1.6700	99.38%	100.31%
2018/19	1,248,163,336 ⁽¹⁾⁽²⁾	1.6700	99.50%	99.58%
2019/20	1,518,696,120 ⁽¹⁾⁽²⁾	1.5684 ⁽⁹⁾	99.54%	100.55%
2020/21	1,787,123,899 ⁽¹⁾⁽²⁾	1.4630	99.69%	99.94%
2021/22	2,191,378,975 ⁽¹⁾⁽²⁾	1.4603	99.75%	99.96%
2022/23	3,028,298,170 ⁽¹⁾⁽³⁾	1.4429	99.70%	98.93%
2023/24	3,674,672,345 ⁽¹⁾⁽⁴⁾	1.2575	(In Process of Collection)	
2024/25	4,629,529,615 ⁽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 Collin Central Appraisal District as of July 22, 2024.
 (6) Source: Melissa ISD Audited Financial Statements.
 (7) Excludes penalties and interest.
 (8) The decline in the District's Maintenance & Operation Tax from the 2006/07 fiscal year to the 2007/08 fiscal year is 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 "CURRENT PUBLIC SCHOOL FINANCE SYSTEM- Local Funding for School Districts" in this Official Statement.

TAX RATE DISTRIBUTION ⁽¹⁾

	2019/20	2020/21	2021/22	2022/23	2023/24
Maintenance & Operations ⁽²⁾	\$1.0684	\$0.9630	\$0.9603	\$0.9429	\$0.7575
Debt Service	\$0.5000	\$0.5000	\$0.5000	\$0.5000	\$0.5000
Total Tax Rate	\$1.5684	\$1.4630	\$1.4603	\$1.4429	\$1.2575

(1) On October 1, 2013 the District successfully held a tax ratification election.

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

VALUATION AND FUNDED DEBT HISTORY

Fiscal Year	Net Taxable Valuation	Bond Debt Outstanding ⁽¹⁾	Ratio Debt to A.V. ⁽²⁾
2006/07	\$ 321,650,757	\$ 35,770,000	11.12%
2007/08	393,556,023	38,335,000	9.74%
2008/09	430,452,359	40,208,467	9.34%
2009/10	432,348,192	39,538,467	9.15%
2010/11	425,280,812	38,793,467	9.12%
2011/12	433,869,930	37,908,467	8.74%
2012/13	443,276,208	55,498,467	12.52%
2013/14	489,201,127	54,383,710	11.12%
2014/15	576,573,795	56,963,684	9.88%
2015/16	682,563,834	88,783,319	13.01%
2016/17	822,423,146	110,855,437	13.48%
2017/18	1,009,971,680	109,455,000	10.84%
2018/19	1,248,163,336	142,150,000	11.39%
2019/20	1,518,696,120	180,130,000	11.86%
2020/21	1,787,123,899	273,345,000	15.30%
2021/22	2,191,378,975	318,855,000	14.55%
2022/23	3,028,298,170	315,230,000	10.41%
2023/24	3,674,672,345	376,525,000	10.25%
2024/25	4,629,529,615 ⁽³⁾	498,425,000 ⁽⁴⁾	10.77%

(1) At fiscal year end. Excludes interest accreted on outstanding capital appreciation bonds.

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

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

(4) Includes the Bonds.

ESTIMATED OVERLAPPING DEBT STATEMENT

Taxing Body	Amount	Percent Overlapping	Amount Overlapping
Collin County	\$ 841,715,000	1.76%	\$ 14,814,184
Collin County CCD	480,350,000	1.76%	8,454,160
Collin County MUD CR 412	2,935,000	100.00%	2,935,000
City of McKinney	496,045,000	1.05%	5,208,473
City of Melissa	68,981,929	99.73%	68,795,677
Total Overlapping Debt ⁽¹⁾			\$ 100,207,494
Melissa Independent School District ⁽²⁾			498,819,431
Total Direct & Overlapping Debt ^{(1) (2)}			\$ 599,026,925
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation		12.94%	
Per Capita Direct & Overlapping Debt		\$22,478	

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

(2) Includes the Bonds. Excludes the interest accreted on outstanding capital appreciation bonds.

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

PRINCIPAL TAXPAYERS

2024/25 Top Ten Taxpayers ⁽¹⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Prose Melissa LLC	Apartments	\$ 52,054,080	1.12%
Nexmetro Springs LP	Apartments	44,753,440	0.97%
The Landing at Willow Grove LLC	Apartments	44,657,319	0.96%
Nexmetro Stoneridge LP	Apartments	44,652,355	0.96%
Melissa Farmhouse LLC	Apartments	41,133,586	0.89%
CH-AFH I/Dallas Melissa LP	Apartments	35,671,497	0.77%
TC/F Melissa LP	Apartments	31,181,485	0.67%
Bloomfield Homes LP	Home Builder	20,944,705	0.45%
Oncor Electric Delivery Company	Electric Utility	20,720,000	0.45%
Buc-ees Ltd	Gas Station/Food	19,890,024	0.43%
		<u>\$ 355,658,491</u>	<u>7.68%</u>

2023/24 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Nexmetro Springs LP	Apartments	\$ 29,755,890	0.81%
Nexmetro Stoneridge LP	Apartments	22,268,645	0.61%
Buc-ees Ltd	Gas Station/Food	19,821,202	0.54%
Oncor Electric Delivery Company	Electric Utility	17,159,625	0.47%
Melissa Farmhouse LLC	Apartments	16,646,818	0.45%
Bloomfield Homes LP	Home Builder	13,901,980	0.38%
Bryant Farms LLC	Residential Real Estate	12,578,000	0.34%
Alysha Marlin Betty	Residential	11,942,696	0.33%
Meritage Homes of Texas LLC	Residential Real Estate	10,565,145	0.29%
Ballout 3 LLC	Strip Mall/Plaza	10,421,417	0.28%
		<u>\$ 165,061,418</u>	<u>4.49%</u>

2022/23 Top Ten Taxpayers ⁽²⁾

Name of Taxpayer	Type of Business	Taxable Value	% of Net Valuation
Cemex Construction Materials South LLC	Industrial Manufacturing	\$ 36,696,062	1.21%
Bloomfield Homes LP	Home Builder	19,031,201	0.63%
Buc-ees Ltd	Gas Station/Food	18,170,800	0.60%
Oncor Electric Delivery Company	Electric Utility	14,265,046	0.47%
Pacesetter Homes LLC	Home Builder	13,275,543	0.44%
Meritage Homes of Texas LLC	Residential Real Estate	12,619,254	0.42%
Melissa Village LLC	Retail	9,114,949	0.30%
DR Horton - Texas Ltd.	Home Builder	8,267,900	0.27%
McKinney Partners 306 LP	Residential Land	7,517,997	0.25%
Grayson Collin Electric Co-Op	Electric Utility	6,617,540	0.22%
		<u>\$ 145,576,292</u>	<u>4.81%</u>

(1) Source: Collin Central Appraisal District.

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

CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY

Category	2024/25 ⁽¹⁾		2023/24 ⁽²⁾		2022/23 ⁽²⁾	
		% of Total		% of Total		% of Total
Real, Residential, Single-Family	\$ 4,466,790,663	72.56%	\$ 3,784,613,320	73.19%	\$ 2,907,619,406	73.07%
Real, Residential, Multi-Family	305,790,046	4.97%	83,311,934	1.61%	12,086,579	0.30%
Real, Vacant Lots/Tracts	100,079,618	1.63%	110,014,062	2.13%	118,688,678	2.98%
Real, Qualified Land & Improvements	491,032,165	7.98%	429,411,778	8.30%	357,034,684	8.97%
Real, Non-Qualified Land & Improvements	152,589,612	2.48%	178,162,540	3.45%	148,766,568	3.74%
Real, Commercial & Industrial	270,560,287	4.40%	169,130,122	3.27%	131,287,315	3.30%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	37,372,315	0.61%	31,302,141	0.61%	26,592,514	0.67%
Tangible Personal, Commercial	93,275,094	1.52%	69,056,609	1.34%	90,782,851	2.28%
Tangible Personal, Industrial	23,389,863	0.38%	22,751,134	0.44%	19,577,469	0.50%
Tangible Personal, Mobile Homes & Other	2,618,634	0.04%	4,794,217	0.09%	5,037,269	0.13%
Tangible Personal, Residential Inventory	209,857,572	3.41%	286,288,241	5.54%	160,035,653	4.02%
Tangible Personal, Special Inventory	2,592,593	0.04%	1,971,679	0.04%	1,773,399	0.04%
Total Appraised Value	\$ 6,155,948,462	100.00%	\$ 5,170,807,777	100.00%	\$ 3,979,462,385	100.00%
Less:						
Homestead Cap Adjustment	\$ 234,855,248		\$ 430,719,867		\$ 338,849,907	
Non-Homestead (23.231) Cap Adjustment	20,255,767		-		-	
Productivity Loss	488,014,710		426,097,364		353,738,205	
Exemptions	783,293,122 ⁽³⁾		639,318,201 ⁽³⁾		258,576,103 ⁽⁴⁾	
Total Exemptions/Deductions ⁽⁶⁾	<u>\$ 1,526,418,847</u>		<u>\$ 1,496,135,432</u>		<u>\$ 951,164,215</u>	
Net Taxable Assessed Valuation	\$ 4,629,529,615		\$ 3,674,672,345		\$ 3,028,298,170	

Category	2021/22 ⁽²⁾		2020/21 ⁽²⁾		2019/20 ⁽²⁾	
		% of Total		% of Total		% of Total
Real, Residential, Single-Family	\$ 1,892,568,070	70.72%	\$ 1,493,992,794	66.58%	\$ 1,253,036,727	64.55%
Real, Residential, Multi-Family	10,713,480	0.40%	9,999,807	0.45%	9,784,634	0.50%
Real, Vacant Lots/Tracts	68,809,704	2.57%	38,772,872	1.73%	17,833,318	0.92%
Real, Qualified Land & Improvements	313,804,091	11.73%	315,026,886	14.04%	299,811,755	15.44%
Real, Non-Qualified Land & Improvements	96,733,126	3.61%	120,823,828	5.38%	113,634,665	5.85%
Real, Commercial & Industrial	101,303,779	3.79%	83,397,427	3.72%	71,495,356	3.68%
Oil & Gas	-	0.00%	-	0.00%	-	0.00%
Utilities	34,048,963	1.27%	30,038,074	1.34%	28,002,212	1.44%
Tangible Personal, Commercial	44,184,860	1.65%	42,324,199	1.89%	40,280,497	2.08%
Tangible Personal, Industrial	-	0.00%	88,415	0.00%	100,013	0.01%
Tangible Personal, Mobile Homes & Other	3,174,769	0.12%	2,222,807	0.10%	2,107,862	0.11%
Tangible Personal, Residential Inventory	109,127,693	4.08%	105,749,191	4.71%	103,959,022	5.36%
Tangible Personal, Special Inventory	1,531,159	0.06%	1,554,076	0.07%	1,140,063	0.06%
Total Appraised Value	\$ 2,675,999,694	100.00%	\$ 2,243,990,376	100.00%	\$ 1,941,186,124	100.00%
Less:						
Homestead Cap Adjustment	\$ 15,199,491		\$ 9,791,669		\$ 11,170,449	
Non-Homestead (23.231) Cap Adjustment	-		-		-	
Productivity Loss	310,592,255		311,579,448		296,602,701	
Exemptions	158,828,973 ⁽⁵⁾		135,495,360 ⁽⁵⁾		114,716,854 ⁽⁵⁾	
Total Exemptions/Deductions ⁽⁶⁾	<u>\$ 484,620,719</u>		<u>\$ 456,866,477</u>		<u>\$ 422,490,004</u>	
Net Taxable Assessed Valuation	\$ 2,191,378,975		\$ 1,787,123,899		\$ 1,518,696,120	

(1) Source: Certified Values from the Collin Central 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 Ending 8/31	Outstanding Bonds ⁽¹⁾	Plus: The Bonds	Total ⁽¹⁾	Bonds Unpaid At Year End ⁽¹⁾	Percent of Principal Retired
2025	\$ 4,615,000.00	\$ -	\$ 4,615,000.00	\$ 498,425,000.00	0.92%
2026	6,420,000.00	-	6,420,000.00	492,005,000.00	2.19%
2027	6,900,000.00	2,040,000.00	8,940,000.00	483,065,000.00	3.97%
2028	8,160,000.00	2,145,000.00	10,305,000.00	472,760,000.00	6.02%
2029	8,555,000.00	2,255,000.00	10,810,000.00	461,950,000.00	8.17%
2030	8,955,000.00	2,370,000.00	11,325,000.00	450,625,000.00	10.42%
2031	9,345,000.00	2,490,000.00	11,835,000.00	438,790,000.00	12.77%
2032	9,755,000.00	2,620,000.00	12,375,000.00	426,415,000.00	15.23%
2033	10,145,000.00	2,755,000.00	12,900,000.00	413,515,000.00	17.80%
2034	10,570,000.00	2,900,000.00	13,470,000.00	400,045,000.00	20.47%
2035	11,015,000.00	3,045,000.00	14,060,000.00	385,985,000.00	23.27%
2036	11,525,000.00	3,200,000.00	14,725,000.00	371,260,000.00	26.20%
2037	12,015,000.00	3,365,000.00	15,380,000.00	355,880,000.00	29.25%
2038	12,530,000.00	3,535,000.00	16,065,000.00	339,815,000.00	32.45%
2039	13,035,000.00	3,715,000.00	16,750,000.00	323,065,000.00	35.78%
2040	13,555,000.00	3,905,000.00	17,460,000.00	305,605,000.00	39.25%
2041	14,090,000.00	4,110,000.00	18,200,000.00	287,405,000.00	42.87%
2042	14,645,000.00	4,320,000.00	18,965,000.00	268,440,000.00	46.64%
2043	15,200,000.00	4,540,000.00	19,740,000.00	248,700,000.00	50.56%
2044	15,780,000.00	4,775,000.00	20,555,000.00	228,145,000.00	54.65%
2045	16,405,000.00	4,995,000.00	21,400,000.00	206,745,000.00	58.90%
2046	17,070,000.00	5,195,000.00	22,265,000.00	184,480,000.00	63.33%
2047	17,830,000.00	5,410,000.00	23,240,000.00	161,240,000.00	67.95%
2048	18,525,000.00	5,630,000.00	24,155,000.00	137,085,000.00	72.75%
2049	19,280,000.00	5,860,000.00	25,140,000.00	111,945,000.00	77.75%
2050	19,925,000.00	6,100,000.00	26,025,000.00	85,920,000.00	82.92%
2051	20,585,000.00	6,345,000.00	26,930,000.00	58,990,000.00	88.27%
2052	21,430,000.00	6,610,000.00	28,040,000.00	30,950,000.00	93.85%
2053	8,665,000.00	6,495,000.00	15,160,000.00	15,790,000.00	96.86%
2054	-	15,790,000.00	15,790,000.00	-	100.00%
Total	<u>\$ 376,525,000.00</u>	<u>\$ 126,515,000.00</u>	<u>\$ 503,040,000.00</u>		

(1) Excludes the accreted value of outstanding capital appreciation bonds.

DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt Service ⁽¹⁾	Plus: The Bonds ⁽²⁾			Combined Total ⁽¹⁾⁽²⁾⁽³⁾
		Principal	Interest	Total	
2025	\$ 20,754,213.42	\$ -	\$ 5,171,329.17	\$ 5,171,329.17	\$ 25,925,542.59
2026	22,324,138.42	-	5,641,450.00	5,641,450.00	27,965,588.42
2027	22,324,163.42	2,040,000.00	5,590,450.00	7,630,450.00	29,954,613.42
2028	22,320,363.42	2,145,000.00	5,485,825.00	7,630,825.00	29,951,188.42
2029	22,320,938.42	2,255,000.00	5,375,825.00	7,630,825.00	29,951,763.42
2030	22,322,663.42	2,370,000.00	5,260,200.00	7,630,200.00	29,952,863.42
2031	22,323,739.02	2,490,000.00	5,138,700.00	7,628,700.00	29,952,439.02
2032	22,324,499.52	2,620,000.00	5,010,950.00	7,630,950.00	29,955,449.52
2033	22,319,964.22	2,755,000.00	4,876,575.00	7,631,575.00	29,951,539.22
2034	22,320,749.62	2,900,000.00	4,735,200.00	7,635,200.00	29,955,949.62
2035	22,324,031.42	3,045,000.00	4,586,575.00	7,631,575.00	29,955,606.42
2036	22,324,042.37	3,200,000.00	4,430,450.00	7,630,450.00	29,954,492.37
2037	22,322,207.21	3,365,000.00	4,266,325.00	7,631,325.00	29,953,532.21
2038	22,323,066.41	3,535,000.00	4,093,825.00	7,628,825.00	29,951,891.41
2039	22,323,937.41	3,715,000.00	3,912,575.00	7,627,575.00	29,951,512.41
2040	22,323,967.76	3,905,000.00	3,722,075.00	7,627,075.00	29,951,042.76
2041	22,320,216.21	4,110,000.00	3,521,700.00	7,631,700.00	29,951,916.21
2042	22,323,786.91	4,320,000.00	3,310,950.00	7,630,950.00	29,954,736.91
2043	22,322,408.18	4,540,000.00	3,089,450.00	7,629,450.00	29,951,858.18
2044	22,319,956.25	4,775,000.00	2,856,575.00	7,631,575.00	29,951,531.25
2045	22,321,125.00	4,995,000.00	2,637,300.00	7,632,300.00	29,953,425.00
2046	22,322,356.25	5,195,000.00	2,433,500.00	7,628,500.00	29,950,856.25
2047	22,324,287.50	5,410,000.00	2,221,400.00	7,631,400.00	29,955,687.50
2048	22,320,462.50	5,630,000.00	2,000,600.00	7,630,600.00	29,951,062.50
2049	22,323,368.75	5,860,000.00	1,770,800.00	7,630,800.00	29,954,168.75
2050	22,320,112.50	6,100,000.00	1,531,600.00	7,631,600.00	29,951,712.50
2051	22,323,837.50	6,345,000.00	1,282,700.00	7,627,700.00	29,951,537.50
2052	22,320,362.50	6,610,000.00	1,023,600.00	7,633,600.00	29,953,962.50
2053	8,849,131.25	6,495,000.00	761,500.00	7,256,500.00	16,105,631.25
2054	-	15,790,000.00	315,800.00	16,105,800.00	16,105,800.00
	<u>\$ 632,308,096.78</u>	<u>\$ 126,515,000.00</u>	<u>\$ 106,055,804.17</u>	<u>\$ 232,570,804.17</u>	<u>\$ 864,878,900.95</u>

(1) Includes the accreted value of outstanding capital appreciation bonds.

(2) Includes accrued interest in the amount of \$250,731.11.

(3) Based on its wealth per student, the District does not expect to receive Instructional Allotment nor Existing Debt Allotment state financial assistance for the payment of debt service for the fiscal year 2024/25. 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⁾	\$ 29,955,949.62
Projected State Financial Assistance for Hold Harmless of Increased Homestead Exemption ⁽²⁾	1,965,000.00
Projected Net Debt Service Requirement	\$ 27,990,949.62
\$0.61072 Tax Rate @ 99% Collections Produces ⁽³⁾	\$ 27,990,949.62
2024/25 Certified Net Taxable Valuation ⁽⁴⁾	\$ 4,629,529,615

(1) Includes the Bonds. Excludes the accreted value of outstanding capital appreciation 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."

(3) The District has utilized State tier one funds to pass the Attorney General's 50-cent Test with respect to the Bonds issued for new construction purposes that are subject to the test. Because the District uses State tier one funds to pass the test, under current law it must credit State assistance payments (including any tier one State funding used to demonstrate the District's ability to pass the \$0.50 bond issuance test) to the District's interest and sinking fund each year in an amount equal to the amount used by the District to demonstrate its ability to comply with the \$0.50 test, and the District may not adopt its annual interest and sinking fund tax rate until such amount of State funding has been credited to the District's interest and sinking fund. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for Local School Districts", "TAX RATE LIMITATIONS."

(4) Source: Certified Values from the Collin Central Appraisal District as of July 22, 2024.

AUTHORIZED BUT UNISSUED BONDS

Following the issuance of the Bonds, the District will have \$93,000,000 of authorized but unissued ad valorem tax bonds from the May 1, 2021 election. The District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES ⁽¹⁾

	Fiscal Year Ending August 31				
	2019	2020	2021	2022	2023
Beginning Fund Balance	\$ 10,008,514	\$ 12,350,264	\$ 15,217,054	\$ 18,476,402	\$ 22,733,629
Revenues:					
Local and Intermediate Sources	\$ 20,781,002	\$ 16,847,260	\$ 18,570,338	\$ 22,820,829	\$ 30,611,147
State Sources	14,750,311	18,312,795	22,661,964	27,724,269	27,581,494
Federal Sources & Other	553,248	312,627	301,210	323,090	323,741
Total Revenues	\$ 36,084,561	\$ 35,472,682	\$ 41,533,512	\$ 50,868,188	\$ 58,516,382
Expenditures:					
Instruction	\$ 17,239,578	\$ 20,500,381	\$ 23,970,250	\$ 28,897,615	\$ 36,945,766
Instructional Resources & Media Services	322,665	310,438	589,338	431,134	509,854
Curriculum & Instructional Staff Development	149,384	133,587	31,151	47,265	115,945
Instructional Leadership	224,867	618,514	720,648	733,059	805,732
School Leadership	1,148,278	1,310,166	1,578,287	1,972,501	2,035,932
Guidance, Counseling & Evaluation Services	512,484	568,259	689,692	870,636	912,327
Health Services	269,403	335,066	355,928	411,615	480,728
Student (Pupil) Transportation	1,047,990	1,196,863	1,406,817	1,896,011	2,582,096
Cocurricular/Extracurricular Activities	1,899,988	1,782,571	1,828,511	2,120,716	2,252,101
General Administration	825,841	901,729	992,798	1,196,456	1,632,940
Plant Maintenance and Operations	3,302,099	3,578,259	4,087,748	5,113,665	5,717,244
Security and Monitoring Services	318,719	298,694	351,901	479,084	529,578
Data Processing Services	791,679	881,843	877,904	1,360,563	1,365,063
Community Services	-	-	114,989	195,104	562,990
Facilities Acquisition and Construction	5,516,401	6,060	442,073	625,205	-
Payments to Fiscal Agent/Member Districts of SSA	41,230	26,135	-	-	-
Payments to Juvenile Alternative Ed. Prg.	-	-	-	774	774
Other Intergovernmental Charges	124,205	152,938	168,291	259,558	285,156
Total Expenditures	\$ 33,734,811	\$ 32,601,503	\$ 38,206,326	\$ 46,610,961	\$ 56,734,226
Excess (Deficiency) of Revenues over Expenditures	\$ 2,349,750	\$ 2,871,179	\$ 3,327,186	\$ 4,257,227	\$ 1,782,156
Other Resources and (Uses):					
Sale of Real and Personal Property	\$ 22,000	\$ -	\$ 8,650	\$ -	\$ -
Transfers In	-	-	-	-	9,233
Transfers Out	(30,000)	(4,389)	(76,488)	-	-
Total Other Resources (Uses)	\$ (8,000)	\$ (4,389)	\$ (67,838)	\$ -	\$ 9,233
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	\$ 2,341,750	\$ 2,866,790	\$ 3,259,348	\$ 4,257,227	\$ 1,791,389
Ending Fund Balance ⁽²⁾	\$ 12,350,264	\$ 15,217,054	\$ 18,476,402	\$ 22,733,629	\$ 24,525,018

(1) See "MANAGEMENT'S DISCUSSION AND ANALYSIS" in Appendix D hereto for a discussion of the 2023/24 budget and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Possible Effects of Wealth Transfer Provisions on the District's Financial Condition" in this Official Statement.

(2) The District anticipates the General Fund balance as of August 31, 2024 to be approximately \$26,500,000.

CHANGE IN NET ASSETS ⁽¹⁾

	Fiscal Year Ending August 31				
	2019	2020	2021	2022	2023
Revenues:					
Program Revenues:					
Charges for Services	\$ 1,815,580	\$ 1,573,111	\$ 1,775,927	\$ 2,765,260	\$ 4,083,488
Operating Grants and Contributions	2,739,699	3,726,036	3,232,361	3,600,923	7,241,624
General Revenues:					
Property Taxes Levied for General Purposes	14,103,695	15,713,907	16,741,305	20,393,879	27,755,392
Property Taxes, Levied for Debt Service	6,027,185	7,354,072	8,693,677	10,618,711	14,694,881
State Aid - Formula Grants	14,106,205	16,819,691	21,043,126	25,705,283	22,565,434
Grants & Contributions - Not Restricted	785,501	896,669	755,322	960,824	-
Investment Earnings	1,053,384	1,207,053	530,844	731,461	3,624,404
Miscellaneous	6,140,469	338,384	1,395,600	1,376,648	704,563
Special Item - Gain on Disposal of Capital Asset	4,838	-	8,295	-	-
Total Revenue	\$ 46,776,556	\$ 47,628,923	\$ 54,176,457	\$ 66,152,989	\$ 80,669,786
Expenses:					
Instruction	\$ 20,402,904	\$ 25,480,472	\$ 28,419,718	\$ 33,816,389	\$ 44,180,223
Instruction Resources & Media Services	321,639	382,359	345,175	476,848	526,942
Curriculum & Staff Development	181,663	165,242	41,364	47,265	115,945
Instructional Leadership	269,429	762,357	849,092	824,482	969,510
School Leadership	1,339,098	1,606,939	1,832,260	2,117,867	2,308,025
Guidance, Counseling & Evaluation Services	604,038	712,102	819,083	1,011,510	1,046,114
Social Work Services	-	-	-	29,982	-
Health Service	313,965	406,987	409,747	450,773	534,869
Student Transportation	961,021	1,369,427	1,566,323	2,017,705	3,085,528
Food Service	1,101,857	990,495	1,024,710	1,791,451	2,049,387
Cocurricular/Extracurricular Activities	2,525,331	2,391,813	2,262,825	2,693,715	3,512,023
General Administration	973,969	1,131,533	1,176,419	1,350,187	1,891,118
Plant Maintenance & Operations	3,623,041	4,107,182	4,309,330	5,591,183	6,406,389
Security & Monitoring Services	363,281	343,985	410,870	524,798	777,002
Data Processing Services	910,921	952,553	999,637	1,485,402	1,551,110
Community Services	-	-	114,989	178,511	540,346
Interest on Long-term Debt	5,304,888	7,151,959	10,432,134	10,329,475	12,230,621
Bond Issuance Costs and Fees	178,021	212,396	567,045	235,077	8,000
Payments Related to Shared Service Arrangements	41,230	26,135	-	-	-
Payments to Juvenile Justice Alternative Ed. Program	-	-	-	774	774
Other Intergovernmental Charges	124,205	152,938	168,291	259,558	285,156
Total Expenditures	\$ 39,540,501	\$ 48,346,874	\$ 55,749,012	\$ 65,232,952	\$ 82,019,082
Change in Net Assets	\$ 7,236,055	\$ (717,951)	\$ (1,572,555)	\$ 920,037	\$ (1,349,296)
Beginning Net Assets	\$ (7,958,447)	\$ (722,392)	\$ (1,440,343)	\$ (3,012,898)	\$ (2,092,861)
Prior Period Adjustment	\$ -	\$ -	\$ -	\$ -	\$ 3,679,992 ⁽²⁾
Ending Net Assets	\$ (722,392)	\$ (1,440,343)	\$ (3,012,898)	\$ (2,092,861)	\$ 237,835

(1) The foregoing information represents government-wide financial information provided in accordance with GASB 34.

(2) The prior period adjustment in 2023 is due to the District having expensed losses on bond refundings; these losses should have been recorded as a deferred outflow of resources and amortized over the lives of the refunded debt. Therefore, a prior period adjustment has been recorded as of August 31, 2022, to increase the beginning net position.

APPENDIX B

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

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General and Economic Information

Melissa Independent School District (the "District"), located in Collin County, Texas, is an agricultural area that includes the City of Melissa, a local retail center located approximately 45 miles north of Dallas. A small portion of the District extends into the City of McKinney. The District's current population is approximately 26,649.

Collin County (the "County") was created in 1846 from Fannin County. Many residents commute to jobs in Dallas, Garland, and Richardson. The county seat is McKinney.

Source: Melissa ISD, City of Melissa and Collin County Texas Municipal Report

Enrollment Statistics

<u>School Year</u>	<u>Enrollment</u>
2011/12	1,592
2012/13	1,895
2013/14	1,921
2014/15	2,159
2015/16	2,399
2016/17	2,643
2017/18	2,830
2018/19	3,242
2019/20	3,689
2020/21	4,264
2021/22	5,088
2022/23	5,852
2023/24	6,995

District Staff

Teachers	459
Auxiliary Personnel	120
Teachers' Aides & Secretaries	90
Administrators	53
Other	106
Total	828

Facilities

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>	<u>Capacity</u>	<u>Year Built</u>	<u>Year of Addition/ Renovation</u>
Melissa Ridge Education Center	EE-K	228	500	1985	N/A
Harry McKillop Elementary	1-5	1,040	780	2008	2014
North Creek Elementary	1-5	881	780	2018	N/A
Sumeer Elementary	1-5	893	800	2023	N/A
Willow Wood Elementary	1-5	758	780	2021	N/A
Sixth Grade Center	6	577	500	1999	N/A
Melissa Middle School	7-8	1,081	1,000	1997	2012
Melissa High School	9-12	1,951	1,250	2004	2018

Principal Employers within the District

<u>Name of Company</u>	<u>Type of Business</u>	<u>Number of Employees</u>
Melissa ISD	Education	828
Calhar	Utility Contractor	105
Bee Builders Supply	Wood Molding	60
Alpha Industries	Fabricated Structural Steel	43
McKinney Lumber	Lumber Company	40
Sonic	Restaurant	35
Stock Supply	Lumber Company	20

Unemployment Rates

	<u>July 2022</u>	<u>July 2023</u>	<u>July 2024</u>
Collin County	3.4%	3.7%	3.9%
State of Texas	4.1%	4.2%	4.4%

Source: Texas Workforce Commission

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

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

**MELISSA INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$126,515,000**

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

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that said Bonds have been authorized, issued and duly delivered in accordance with law; and that except as may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium liquidation and other similar laws now or hereafter enacted relating to creditor's rights generally or by principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, without legal limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not “specified private activity bonds” and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). In expressing the aforementioned opinions, we have relied on, and assume compliance by the Issuer with, certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed therewith and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund. We call your attention to the fact that if such representations are determined to be inaccurate or upon failure by the Issuer to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.



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

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

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

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

Respectfully,

APPENDIX D
AUDITED FINANCIAL REPORT
FISCAL YEAR ENDED AUGUST 31, 2023

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**MELISSA
INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2023**

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**MELISSA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2023**

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CERTIFICATE OF BOARD

Melissa Independent School District
Name of School District

Collin
County

043-908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2023, at a meeting of the Board of Trustees of such school district on the 8th day of January 2024.


Signature of Board Secretary


Signature of Board President

HankinsEastup

★
Deaton Tonn Seay & Scarborough | A Texas LLC

Independent Auditor's Report

Board of Trustees
Melissa Independent School District
Melissa, Texas

Report on the Audit of the Financial Statements

Opinions

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

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibility 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 auditors' 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 general accepted auditing standards and *Government*

Auditing Standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, 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.

Error Correction - Prior Period Adjustment to Beginning Net Position

As described in Note 17 to the basic financial statements, the District has recorded a \$3,679,992 prior period adjustment to beginning net position as of August 31, 2022, to defer losses on bond refundings that were expensed in previous years. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, and Teacher Retirement System schedules 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 Melissa Independent School District's basic financial statements. The accompanying combining and TEA schedules listed in the table of contents, and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and

are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and 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 November 30, 2023, on our consideration of Melissa Independent School 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 Melissa Independent School 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 Melissa Independent School District's internal control over financial reporting and compliance.

Hankins Eastup Deaton Tonn Seay & Scarborough, LLC

Denton, Texas
November 30, 2023

**MELISSA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2023**

In this section of the Annual Financial Report, we, the administrators of Melissa Independent School District (the "District"), discuss and analyze the District's financial performance for the year ended August 31, 2023. Please read this narrative in conjunction with the District's basic financial statements, which follow this discussion and analysis.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the end of the fiscal year by \$237,835 (net position).
- The District's net position decreased by \$1,349,296 during the fiscal year.
- At the end of the fiscal year, the District's governmental funds reported combined ending fund balances of \$52,996,231, of which \$18,525,018 is unassigned and available for general use.
- At the end of the fiscal year, the District's general fund reported an ending fund balance of \$24,525,018, of which \$6,000,000 is committed for construction. Last year, the general fund had an ending fund balance of \$22,733,629.
- The general fund's unassigned fund balance is 32.7% of current year general fund expenditures.

OVERVIEW OF THE ANNUAL FINANCIAL REPORT

The District's basic financial statements have three components: 1) *government-wide* financial statements, 2) *fund* financial statements, and 3) *notes* to the financial statements. This Annual Financial Report also contains supplementary information in addition to the basic financial statements.

The *government-wide* financial statements include the Statement of Net Position and the Statement of Activities. These financial statements provide information about the activities of the District *as a whole* and provide a more comprehensive view of the District's financial position and results of operations than the fund financial statements. The government-wide financial statements report the flow of total economic resources similar to the financial statements of a business enterprise.

The *fund* financial statements report the District's operations at the fund level—for both *major* funds individually and nonmajor funds collectively. For governmental activities, fund financial statements report the flows of measurable and available funds during the fiscal year and fund balances at the end of the fiscal year. Custodial fund financial statements provide information about funds held for other organizations.

The *notes* to the basic financial statements provide narrative explanations and additional information to better understanding amounts in the government-wide financial statements and the fund financial statements.

The combining statements for nonmajor funds, which are included as supplementary information, contain financial information about each of the District's nonmajor funds.

The information listed in the table of contents as required supplementary and other information and the Federal Awards Section contain information for monitoring agencies to determine whether the District is complying with federal and state requirements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis presents both current year and prior year summary financial information, and it discusses significant changes in line items. The analysis focuses on the District's net position (Table I) and changes in the District's net position (Table II) of the District's governmental activities.

The largest portion of the District's assets is its capital assets—land, buildings, furniture, vehicles, and equipment. The District uses these capital assets to provide services to students; capital assets, however, are *not* available for current or future spending.

The District's net position decreased \$1,349,296 during the fiscal year; unrestricted net position has a balance of \$237,835. This is primarily attributable to the District's share of Teacher Retirement System (TRS) unfunded benefit obligations, which is included in the District's government-wide financial statements.

Table I
NET POSITION

	Governmental Activities August 31 2023	Governmental Activities August 31 2022	Difference
Current and other assets	\$ 57,625,386	\$ 145,603,990	\$ (87,978,604)
Capital assets	305,792,412	223,916,093	81,876,319
Total assets	363,417,798	369,520,083	(6,102,285)
Deferred outflows of resources	22,140,531	12,719,066	9,421,465
Total assets and deferred outflows of resources	385,558,329	382,239,149	3,319,180
Long-term liabilities	345,658,949	349,837,022	(4,178,073)
Other liabilities	4,971,000	6,184,144	(1,213,144)
Net pension liability (District's share)	12,346,934	4,204,990	8,141,944
Net OPEB liability (District's share)	7,046,965	9,333,690	(2,286,725)
Total liabilities	370,023,848	369,559,846	(464,002)
Deferred inflows of resources	15,286,644	11,092,172	4,194,472
Total liabilities and deferred inflows of resources	385,310,492	380,652,018	4,658,474
Net position:			
Net investments in capital assets	(13,608,597)	(11,029,533)	(2,579,064)
Restricted	6,439,579	6,399,672	39,907
Unrestricted	7,406,853	6,216,992	1,189,861
Total net position	\$ 237,835	\$ 1,587,131	\$ (1,349,296)

The decrease in current assets and restricted net position and the increase in capital assets and net investments in capital assets is primarily attributable to the construction of new educational and extra-curricular facilities and the recording of annual depreciation expense.

The increase in deferred outflows, deferred inflows, and net pension and OPEB liabilities is primarily attributable to changes in the District's share of TRS benefit obligations for its employees.

Table II
CHANGES IN NET POSITION

	Governmental Activities Year Ended June 30, 2023	Governmental Activities Year Ended June 30, 2022	Difference
Revenues:			
Program revenues:			
Charges for services	\$ 4,083,488	\$ 2,765,260	\$ 1,318,228
Operating grants and contributions	7,241,624	4,561,747	2,679,877
General revenues:			
Maintenance and operations taxes	27,755,392	20,393,879	7,361,513
Debt service taxes	14,694,881	10,618,711	4,076,170
State aid	22,565,434	25,705,283	(3,139,849)
Investment earnings	3,624,404	731,461	2,892,943
Miscellaneous	704,563	1,376,648	(672,085)
Total revenue	<u>80,669,786</u>	<u>66,152,989</u>	<u>14,516,797</u>
Expenses:			
Instruction, curriculum and media services	44,823,110	34,340,502	10,482,608
Instructional and school leadership	3,277,535	2,942,349	335,186
Student support services	4,666,511	3,509,970	1,156,541
Child nutrition	2,049,387	1,791,451	257,936
Cocurricular activities	3,512,023	2,693,715	818,308
General administration	1,891,118	1,350,187	540,931
Plant maintenance, security and data	8,734,501	7,601,383	1,133,118
Community services	540,346	178,511	361,835
Debt service	12,238,621	10,564,552	1,674,069
Payments to fiscal agents	774	774	-
Intergovernmental charges	285,156	259,558	25,598
Total expenses	<u>82,019,082</u>	<u>65,232,952</u>	<u>16,786,130</u>
Increase in net position	(1,349,296)	920,037	(2,269,333)
Net position - beginning of period	1,587,131	(3,012,898)	4,600,029
Prior period adjustment	-	3,679,992	(3,679,992)
Net position - end of period	<u>\$ 237,835</u>	<u>\$ 1,587,131</u>	<u>\$ (1,349,296)</u>

Revenues from governmental activities during the fiscal year were \$80,669,786 compared to \$66,152,989 during the previous fiscal year, an increase of 21.9%. Average daily student attendance grew 15.8% during the fiscal year, and property values grew 40% as compared to the previous fiscal year. The related cost of all governmental programs and services during the fiscal year was \$82,019,082, an increase of 25.7%. Overall, governmental activities decreased the District's net position during the fiscal year by \$1,349,296.

Property taxes and state aid are the District's chief sources of operating revenues. Property taxes constitute 52.6% of total revenues and state aid constitutes another 30.0% of total revenues. Together, property taxes and state aid constitute 82.6% of total revenues.

The District continues to invest in facilities and human resources necessary to accommodate current and projected student growth within the District.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the District had \$305,782,412 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 10,070,166			\$ 10,070,166
Buildings and improvements	201,204,872	79,477,529		280,682,401
Equipment	17,883,771	3,214,584		21,098,355
Vehicles	4,253,913	2,234,286		6,488,199
Construction in progress	29,769,582	36,153,124	(29,769,582)	36,153,124
	263,182,304	121,079,523	(29,769,582)	354,492,245
Accumulated depreciation:				
Buildings and improvements	(30,457,295)	(7,230,587)		(37,687,882)
Equipment	(6,845,679)	(1,742,556)		(8,588,235)
Vehicles	(1,963,237)	(470,479)		(2,433,716)
	(39,266,211)	(9,443,622)		(48,709,833)
	<u>\$ 223,916,093</u>	<u>\$ 111,635,901</u>	<u>\$ (29,769,582)</u>	<u>\$ 305,782,412</u>

Debt Administration

At the end of the fiscal year, the District had \$345,658,949 of bonded indebtedness outstanding (including accumulated accretion on capital appreciation bonds and unamortized premiums) compared to \$349,837,022 at the beginning of the year. The District's underlying bond rating is A+ according to S&P Global Ratings, but it has a AAA rating due to guarantees provided by the Texas Permanent School Fund.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
General obligation bonds	\$ 318,855,000	\$ -	\$ (3,625,000)	\$ 315,230,000	\$ 4,015,000
Accumulated accretion on CAP bonds	75,765	45,701	-	121,466	
Unamortized premiums on CAP bonds	3,459,267	-	-	3,459,267	
Unamortized premiums on G.O. bonds	27,446,990	-	(598,774)	26,848,216	
	<u>\$ 349,837,022</u>	<u>\$ 45,701</u>	<u>\$ (4,223,774)</u>	<u>\$ 345,658,949</u>	<u>\$ 4,015,000</u>

S&P Global Ratings notes that it could lower its underlying bond rating if debt issuance outpaces assessed property values, or if the District were to materially draw down its operating reserves.

Conversely, S&P Global Ratings notes that it could raise the District's underlying bond rating if debt ratios were to decrease while the District maintains strong operating reserves.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials consider many factors when setting annual operating budgets and tax rates including population growth, projected student enrollments, labor markets, and the state of the overall economy.

On August 21, 2023, the Board of Trustees voted to approve the 2023-24 operating budget for its general fund; budgeted revenues are \$67,000,000 and budgeted expenses are \$67,000,000.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This annual financial report is designed to provide citizens, taxpayers, vendors, investors, and creditors an overview of the District's finances and to demonstrate fiscal accountability for the money the District receives to accomplish its educational mission. If you have questions about this report or need additional financial information, contact the District's business office, at Melissa Independent School District, 1904 Cooper Street, Melissa, Texas, 75454

BASIC FINANCIAL STATEMENTS

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2023

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 49,707,326
1120 Current Investments	20,931
1220 Property Taxes - Delinquent	708,969
1230 Allowance for Uncollectible Taxes	(35,449)
1240 Due from Other Governments	7,223,609
Capital Assets:	
1510 Land	10,070,166
1520 Buildings, Net	242,994,519
1530 Furniture and Equipment, Net	12,510,120
1540 Vehicles, Net	4,054,483
1580 Construction in Progress	36,153,124
1000 Total Assets	363,407,798
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Bond Refundings	3,452,257
1705 Deferred Outflow Related to TRS Pension	11,099,766
1706 Deferred Outflow Related to TRS OPEB	7,588,508
1700 Total Deferred Outflows of Resources	22,140,531
LIABILITIES	
2110 Accounts Payable	718,925
2140 Interest Payable	1,015,365
2150 Payroll Deductions and Withholdings	424,672
2160 Accrued Wages Payable	2,664,785
2180 Due to Other Governments	87,360
2200 Accrued Expenses	59,895
Noncurrent Liabilities:	
2501 Due Within One Year: Bonds Payable	4,015,000
Due in More than One Year:	
2502 Bonds Payable	341,643,949
2540 Net Pension Liability (District's Share)	12,346,934
2545 Net OPEB Liability (District's Share)	7,046,965
2000 Total Liabilities	370,023,850
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	4,520,001
2606 Deferred Inflow Related to TRS OPEB	10,766,643
2600 Total Deferred Inflows of Resources	15,286,644
NET POSITION	
3200 Net Investment in Capital Assets	(13,608,597)
Restricted:	
3820 Restricted for Federal and State Programs	980,794
3850 Restricted for Debt Service	5,458,785
3900 Unrestricted	7,406,853
3000 Total Net Position	\$ 237,835

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

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2023

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 44,180,223	\$ 983,395	\$ 4,004,430	\$ (39,192,398)
12	Instructional Resources and Media Services	526,942	-	61,537	(465,405)
13	Curriculum and Instructional Staff Development	115,945	-	-	(115,945)
21	Instructional Leadership	969,510	-	80,927	(888,583)
23	School Leadership	2,308,025	-	318,434	(1,989,591)
31	Guidance, Counseling, and Evaluation Services	1,046,114	-	141,953	(904,161)
33	Health Services	534,869	-	380,433	(154,436)
34	Student (Pupil) Transportation	3,085,528	-	295,117	(2,790,411)
35	Food Services	2,049,387	1,633,293	409,702	(6,392)
36	Extracurricular Activities	3,512,023	1,243,473	171,662	(2,096,888)
41	General Administration	1,891,118	-	111,097	(1,780,021)
51	Facilities Maintenance and Operations	6,406,389	223,327	456,929	(5,726,133)
52	Security and Monitoring Services	777,002	-	69,695	(707,307)
53	Data Processing Services	1,551,110	-	237,521	(1,313,589)
61	Community Services	540,346	-	185,446	(354,900)
72	Debt Service - Interest on Long-Term Debt	12,230,621	-	316,741	(11,913,880)
73	Debt Service - Bond Issuance Cost and Fees	8,000	-	-	(8,000)
95	Payments to Juvenile Justice Alternative Ed. Prg.	774	-	-	(774)
99	Other Intergovernmental Charges	285,156	-	-	(285,156)
	[TP] TOTAL PRIMARY GOVERNMENT:	\$ 82,019,082	\$ 4,083,488	\$ 7,241,624	(70,693,970)
Data Control Codes	General Revenues:				
	Taxes:				
MT	Property Taxes, Levied for General Purposes				27,755,392
DT	Property Taxes, Levied for Debt Service				14,694,881
SF	State Aid - Formula Grants				22,565,434
IE	Investment Earnings				3,624,404
MI	Miscellaneous Local and Intermediate Revenue				704,563
TR	Total General Revenues				69,344,674
CN	Change in Net Position				(1,349,296)
NB	Net Position - Beginning				(2,092,861)
PA	Prior Period Adjustment				3,679,992
NE	Net Position - Ending				\$ 237,835

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

MELISSA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2023

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 20,500,779	\$ 4,346,052	\$ 23,448,177
1120 Investments - Current	-	-	20,931
1220 Property Taxes - Delinquent	473,851	235,118	-
1230 Allowance for Uncollectible Taxes	(23,693)	(11,756)	-
1240 Due from Other Governments	5,458,697	-	-
1260 Due from Other Funds	1,736,721	-	-
1000 Total Assets	<u>\$ 28,146,355</u>	<u>\$ 4,569,414</u>	<u>\$ 23,469,108</u>
LIABILITIES			
2110 Accounts Payable	\$ 3,688	\$ -	\$ 653,418
2150 Payroll Deductions and Withholdings Payable	424,672	-	-
2160 Accrued Wages Payable	2,616,263	-	-
2170 Due to Other Funds	57,923	50,596	7
2180 Due to Other Governments	12,473	74,887	-
2200 Accrued Expenditures	56,160	-	-
2000 Total Liabilities	<u>3,171,179</u>	<u>125,483</u>	<u>653,425</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	450,158	223,362	-
2600 Total Deferred Inflows of Resources	<u>450,158</u>	<u>223,362</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	22,815,683
3480 Retirement of Long-Term Debt	-	4,220,569	-
Committed Fund Balance:			
3510 Construction	6,000,000	-	-
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	18,525,018	-	-
3000 Total Fund Balances	<u>24,525,018</u>	<u>4,220,569</u>	<u>22,815,683</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 28,146,355</u>	<u>\$ 4,569,414</u>	<u>\$ 23,469,108</u>

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

Other Funds	Total Governmental Funds
\$ 1,408,387	\$ 49,703,395
-	20,931
-	708,969
-	(35,449)
1,764,912	7,223,609
-	1,736,721
<u>\$ 3,173,299</u>	<u>\$ 59,358,176</u>
\$ -	\$ 657,106
-	424,672
48,520	2,664,783
1,686,083	1,794,609
-	87,360
3,735	59,895
<u>1,738,338</u>	<u>5,688,425</u>
-	673,520
-	673,520
980,794	980,794
-	22,815,683
-	4,220,569
-	6,000,000
454,167	454,167
-	18,525,018
<u>1,434,961</u>	<u>52,996,231</u>
<u>\$ 3,173,299</u>	<u>\$ 59,358,176</u>

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MELISSA INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 AUGUST 31, 2023

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 52,996,231
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$263,182,304, and the accumulated depreciation was \$39,266,211. In addition, beginning long-term liabilities, including bonds payable of \$349,837,022, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. Accrued interest payable on long term debt of \$1,078,111 is not reflected in the fund financial statements, but is shown in the government-wide financial statements. The net effect of including the beginning balances for capital assets (net of depreciation), and long-term debt in the governmental activities, is to increase (decrease) net position.	(126,999,040)
2 Current year capital outlays of \$91,309,941, and long-term debt principal payments of \$3,625,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$45,121, amortization of bond premiums of \$598,774, and a decrease in interest payable of \$62,746 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.	95,550,760
3 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes of \$673,518 as revenue and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	673,518
4 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(9,443,622)
5 The District is required by GASB 68 to recognize its proportionate share of the net pension liability in the amount of \$12,346,934, a deferred resource inflow in the amount of \$4,520,001, and a deferred resource outflow in the amount of \$11,099,766. The net effect of including the net pension liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.	(5,767,169)
6 The District is required by GASB 75 to recognize its proportionate share of the OPEB liability in the amount of \$7,046,965, a deferred resource inflow in the amount of \$10,766,643, and a deferred resource outflow in the amount of \$7,588,508. The net effect of including the net OPEB liability, deferred resource inflows, and deferred resource outflows, is to increase (decrease) net position.	(10,225,100)
7 The deferred charge on bond refundings is not recognized in the fund financial statements.	3,452,257
19 Net Position of Governmental Activities	\$ 237,835

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

MELISSA 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 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 30,611,147	\$ 14,982,856	\$ 2,160,339
5800 State Program Revenues	27,581,494	316,741	6,790
5900 Federal Program Revenues	323,741	-	-
5020 Total Revenues	<u>58,516,382</u>	<u>15,299,597</u>	<u>2,167,129</u>
EXPENDITURES:			
Current:			
0011 Instruction	36,945,766	-	-
0012 Instructional Resources and Media Services	509,854	-	-
0013 Curriculum and Instructional Staff Development	115,945	-	-
0021 Instructional Leadership	805,732	-	-
0023 School Leadership	2,035,932	-	-
0031 Guidance, Counseling, and Evaluation Services	912,327	-	-
0033 Health Services	480,728	-	-
0034 Student (Pupil) Transportation	2,582,096	-	2,160,460
0035 Food Services	-	-	-
0036 Extracurricular Activities	2,252,101	-	-
0041 General Administration	1,632,940	-	-
0051 Facilities Maintenance and Operations	5,717,244	-	143,971
0052 Security and Monitoring Services	529,578	-	-
0053 Data Processing Services	1,365,063	-	-
0061 Community Services	562,990	-	-
Debt Service:			
0071 Principal on Long-Term Liabilities	-	3,625,000	-
0072 Interest on Long-Term Liabilities	-	12,618,705	-
0073 Bond Issuance Cost and Fees	-	8,000	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	88,258,417
Intergovernmental:			
0095 Payments to Juvenile Justice Alternative Ed. Prg.	774	-	-
0099 Other Intergovernmental Charges	285,156	-	-
6030 Total Expenditures	<u>56,734,226</u>	<u>16,251,705</u>	<u>90,562,848</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,782,156</u>	<u>(952,108)</u>	<u>(88,395,719)</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	9,233	-	-
8911 Transfers Out (Use)	-	-	-
7080 Total Other Financing Sources (Uses)	<u>9,233</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	1,791,389	(952,108)	(88,395,719)
0100 Fund Balance - September 1 (Beginning)	22,733,629	5,172,677	111,211,402
3000 Fund Balance - August 31 (Ending)	<u>\$ 24,525,018</u>	<u>\$ 4,220,569</u>	<u>\$ 22,815,683</u>

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

	Other Funds	Total Governmental Funds
\$	2,569,411	\$ 50,323,753
	585,389	28,490,414
	3,053,179	3,376,920
	6,207,979	82,191,087
	3,042,798	39,988,564
	-	509,854
	-	115,945
	-	805,732
	-	2,035,932
	-	912,327
	-	480,728
	-	4,742,556
	1,838,194	1,838,194
	853,443	3,105,544
	-	1,632,940
	-	5,861,215
	178,557	708,135
	-	1,365,063
	-	562,990
	-	3,625,000
	-	12,618,705
	-	8,000
	-	88,258,417
	-	774
	-	285,156
	5,912,992	169,461,771
	294,987	(87,270,684)
	-	9,233
	(9,233)	(9,233)
	(9,233)	-
	285,754	(87,270,684)
	1,149,207	140,266,915
\$	1,434,961	\$ 52,996,231

MELISSA INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2023

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (87,270,682)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.	(3,855)
Current year capital outlays of \$91,309,941, and long-term debt principal payments of \$3,625,000 are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Accretion on capital appreciation bonds of \$45,701, amortization of bond premiums of \$598,774, and a change in interest payable of \$62,746 are recorded in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase (decrease) net position.	95,550,760
Current year amortization of the deferred charge on bond refundings is not recognized in the fund financial statements, but is shown as a reduction of the deferred charge in the government-wide financial statements.	(227,735)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue by \$446,329 and eliminating interfund transactions. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	446,329
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(9,443,622)
Current year changes due to GASB 68 decreased revenues in the amount of \$747,763, but also decreased expenses in the amount of \$10,746. The impact of these items is to increase (decrease) the change in net position.	(737,017)
Current year changes due to GASB 75 decreased revenues in the amount of \$1,219,869, but also decreased expenses in the amount of \$1,556,395. The impact of these items is to increase (decrease) the change in net position.	336,526
Change in Net Position of Governmental Activities	\$ (1,349,296)

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

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2023

EXHIBIT D-1

	Governmental Activities -	
	Internal Service Fund	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	3,931
Due from Other Funds		57,888
Total Assets		61,819
LIABILITIES		
Current Liabilities:		
Accounts Payable		61,819
Total Liabilities		61,819
NET POSITION		
Unrestricted Net Position		-
Total Net Position	\$	-

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

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2023

	Governmental Activities -
	Internal Service Fund
OPERATING EXPENSES:	
Other Operating Costs	\$ 3,855
Total Operating Expenses	3,855
Operating Income (Loss)	(3,855)
Total Net Position - September 1 (Beginning)	3,855
 Total Net Position - August 31 (Ending)	 \$ -

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

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2023

EXHIBIT D-3

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Payments for Insurance Claims	\$ 3,855
Net Decrease in Cash and Cash Equivalents	(4,100)
Cash and Cash Equivalents at Beginning of Year	8,031
Cash and Cash Equivalents at End of Year	\$ 3,931
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (3,855)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Due from Other Funds	(245)
Net Cash Used for Operating Activities	\$ (4,100)

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

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2023

	Custodial Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 75,368
Total Assets	<u>75,368</u>
NET POSITION	
Unrestricted Net Position	<u>75,368</u>
Total Net Position	<u><u>\$ 75,368</u></u>

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

MELISSA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2023

	Custodial Fund
ADDITIONS:	
Cocurricular Services or Activities	\$ 92,441
Total Additions	<u>92,441</u>
DEDUCTIONS:	
Supplies and Materials	<u>63,279</u>
Total Deductions	<u>63,279</u>
Change in Fiduciary Net Position	29,162
Total Net Position - September 1 (Beginning)	<u>46,206</u>
Total Net Position - August 31 (Ending)	<u><u>\$ 75,368</u></u>

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

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MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Melissa Independent School District (the "District") is a public educational agency operating under the applicable rules and regulations of the State of Texas. The District's financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's *Financial Accountability System Resource Guide* (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of Trustees, a seven-member group elected by registered voters of the District, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees are elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved to the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basis financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Melissa Independent School District has no component units.

B. BASIS OF PRESENTATION

Government-wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on the nonfiduciary activities of the District. The effect of interfund activity within the governmental activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

**MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023**

Fund Financial Statements

The District segregates transactions related to certain functions or activities into separate funds to facilitate financial management and demonstrate legal compliance. Fund financial statements present each major fund as a separate column; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to satisfy District responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after the related debt obligations have been met.
3. **Capital Projects Fund** – This fund accounts for bond-financed financial resources to be used for the acquisition, renovation, or construction of major capital projects.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds. In the State of Texas, funds committed for campus activities are also included in special revenue funds.
2. **Internal Service Funds** – These funds are established to account for services provided to parties inside the District on a cost reimbursement basis. The District discontinued its internal service fund operations during the year.
3. **Fiduciary Funds** - The District reports Custodial Funds as Fiduciary Funds. Custodial Funds are custodial in nature and account for activities of student organizations and employee groups. Custodial Funds use the accrual basis of accounting to recognize assets and liabilities. Custodial Funds exist with the explicit approval of and are subject to revocation by the Board.

C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position, and the operating statements present increases (revenues) and decreases (expenses) in net total position.

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

Fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting.

The District records its proportionate share of the net pension liability of the Teacher Retirement System of Texas (TRS). The fiduciary net position 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 disclosed about TRS assets, liabilities and additions to/deductions from TRS’s fiduciary net position. TRS benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. TRS pension investments are reported at fair value.

The District records its proportionate share of the net OPEB liability of the Teacher Retirement System of Texas (TRS) TRS-Care Plan. The fiduciary net position 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 disclosed about assets, liabilities and additions to/deductions from TRS-Care’s fiduciary net position. TRS benefit payments are recognized when due and payable in accordance with the benefit terms. There are no TRS-Care Plan investments as this is a pay-as-you-go plan and all cash is held in a cash account.

Governmental fund revenues are recognized when measurable and available. For property tax revenues in the governmental fund financial statements, revenue is recognized when collected. State revenues, however, are susceptible to accrual and recognized in the period to which they apply.

Revenues from state and federal grants are recognized when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

In accordance with the Texas Education Agency’s Financial Accountability System Resource Guide (FASRG), the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and has approved by the State Auditor. The District’s accounting system uses the chart of accounts and data control codes specified in the FASRG.

D. BUDGETARY CONTROL

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

**MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023**

The official school budget was prepared for adoption for required Governmental Fund Types prior to August 31 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of budget appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund, and the Child Nutrition Fund. The other special revenue funds and capital projects funds adopt project-length budgets that do not correspond to the District's fiscal period. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget is amended throughout the period by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2023 <u>Fund Balance</u>
Appropriated Budget Funds – Food Service	\$ 980,794
Non-appropriated Budget Funds	<u>454,167</u>
All Special Revenue Funds	<u>\$1,434,961</u>

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31, and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. The District had no material encumbrances outstanding at August 31, 2023.

F. INTERFUND RECEIVABLES AND PAYABLES

Short-term amounts owed between funds are classified as "Due to/from other funds." Interfund loans are classified as "Advances to/from other funds" and are offset by a fund balance reserve account. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances" and "internal advances."

G. CAPITAL ASSETS

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the governmental-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses as incurred. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

Capitalized assets have an original cost of \$5,000 or more and a useful life that exceeds one year. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and Improvements	15-50 Years
Furniture and Equipment	5-7 Years
Vehicles	5-7 Years

H. COMPENSATED ABSENCES

There is no liability for compensated absences because vacation leave does not carry-forward, and accumulated sick leave is unpaid when an employee terminates employment.

K. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

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

Deferred outflows of resources for pension - This deferred outflow of resources results from (1) pension plan contributions made after the measurement date of the reported net pension liability and (2) differences between expected and actual experiences of the pension plan. Contributions after the measurement date are recognized as a reduction of the net pension liability in the next fiscal year. Differences in expected and actual experiences of the pension plan are amortized over time.

Deferred outflows of resources for OPEB -- This deferred outflow of resources results from (1) OPEB plan contributions made after the measurement date of the reported net OPEB liability and (2) differences between expected and actual experiences of the OPEB plan. Deferred outflows of resources related to OPEB contributions after the measurement date are recognized as a reduction to the net OPEB liability in the next fiscal year. Other OPEB related deferred outflows are amortized over time.

Deferred inflows of resources for pension -- This deferred inflow of resources results primarily from differences between expected and actual experiences of the pension plan. These amounts are amortized over time.

Deferred inflows of resources for OPEB - This deferred inflow of resources results primarily from differences between expected and actual experiences of the OPEB plan. These amounts are amortized over time.

More information about pension- and OPEB-related deferred outflows and inflows of resources can be found in the related pension and OPEB footnotes (see Note 8 and Note 9).

In the fund financial statements, a deferred inflow of resources is reported for delinquent property tax receivable that are deemed to be collectible in the future.

L. NET POSITION

Net position represents the difference between assets, deferred outflows, deferred inflows and liabilities. Net position invested in capital assets, net of related debt 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 then adding back unspent debt proceeds for capital assets. Net position is reported as restricted when there are limitations imposed on its use either through enabling legislation adopted by the District or by external restrictions imposed by creditors, grantors or laws or regulations of other governments.

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

M. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Likewise, premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in the year they are incurred.

N. RISK MANAGEMENT

The District is exposed to various risks of loss related to theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District purchases insurance to manage these risks. There were no significant reductions in coverage during the fiscal year, and there were no settlements exceeding insurance coverage for the past three fiscal years.

O. ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates 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 expenses/expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

P. DATA CONTROL CODES

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

NOTE 2. FUND BALANCE AND NET POSITION

Net position in the government-wide *Statement of Net Position* includes the following:

Net Investment in Capital Assets reports the difference between capital assets, net of accumulated depreciation, and the outstanding balance of debt, excluding unspent bond proceeds that is directly attributable to the acquisition, construction or improvement of those capital assets.

Restricted for Federal and State Grant Programs is the component of net position restricted to be spent for specific purposes prescribed by federal and state granting agencies.

Restricted for Debt Service is the component of net position that is restricted for payment of debt service by constraints established by bond covenants.

Unrestricted Net Position is the residual difference between assets, deferred outflows, liabilities and deferred inflows that is not invested in capital assets or restricted for specific purposes.

It is the District's policy to spend funds available from restricted sources prior to unrestricted sources.

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
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Fund Balance Classifications: 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:

- Nonspendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items as being nonspendable as these items are not expected to be converted to cash.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Capital projects fund resources are to be used for future construction and renovation projects and are restricted through bond orders and constitutional law. Food service resources are restricted because their use is restricted pursuant to the mandates of the National School Lunch and Breakfast Program.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees have committed resources as of August 31, 2023 for campus activities and for future construction needs.
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund.
- Unassigned: This classification includes all amounts not included in other spendable classifications in the General Fund.

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

NOTE 3. CASH DEPOSITS

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank pledges securities or provides a letter of credit 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 Federal Deposit Insurance Corporation ("FDIC") insurance coverage.

The District's cash deposits as of August 31, 2023 and during all of fiscal year 2023 were entirely covered by FDIC insurance or pledged securities held by the District's agent bank in the District's name, or by letters of credit.

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The District had a small amount invested in TexPool as of August 31, 2023.

NOTE 4. CAPITAL ASSETS

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

	Beginning Balance	Additions	Retirements	Ending Balance
Land	\$ 10,070,166			\$ 10,070,166
Buildings and improvements	201,204,872	79,477,529		280,682,401
Equipment	17,883,771	3,214,584		21,098,355
Vehicles	4,253,913	2,234,286		6,488,199
Construction in progress	29,769,582	36,153,124	(29,769,582)	36,153,124
	<u>263,182,304</u>	<u>121,079,523</u>	<u>(29,769,582)</u>	<u>354,492,245</u>
Accumulated depreciation:				
Buildings and improvements	(30,457,295)	(7,230,587)		(37,687,882)
Equipment	(6,845,679)	(1,742,556)		(8,588,235)
Vehicles	(1,963,237)	(470,479)		(2,433,716)
	<u>(39,266,211)</u>	<u>(9,443,622)</u>		<u>(48,709,833)</u>
	<u>\$ 223,916,093</u>	<u>\$ 111,635,901</u>	<u>\$ (29,769,582)</u>	<u>\$ 305,782,412</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

11 Instruction	\$ (5,686,137)
12 Instructional resources and media services	(90,255)
21 Instructional leadership	(180,512)
23 School leadership	(361,025)
31 Guidance, counseling, and evaluation services	(180,512)
33 Health services	(90,255)
34 Student (pupil) transportation	(688,780)
35 Food services	(180,512)
36 Cocurricular/extracurricular activities	(451,280)
41 General administration	(270,768)
51 Plant maintenance and operations	(902,560)
52 Security and monitoring services	(90,255)
53 Data processing services	(270,768)
	<u>\$ (9,443,622)</u>

NOTE 5. LONG-TERM DEBT

Long-term debt includes general obligation bonds payable, related accumulated accretion on capital appreciation bonds, and unamortized bond premiums. Thus, all long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District on an ongoing basis.

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions as of August 31, 2023.

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The following is a summary of changes in the District's long-term debt for the year ended August 31, 2023:

	Interest Rate	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance
General obligation bonds:						
Series 2013 building bonds	3.00% - 5.00%	\$ 18,495,000	\$ 80,000	\$ -	\$ (80,000)	\$ -
Series 2014 refunding bonds	2.00% - 4.00%	8,720,000	515,000		(515,000)	-
Series 2015 building and refunding bonds	2.00% - 4.50%	8,940,000	6,565,000		(80,000)	6,485,000
Series 2016 building and refunding bonds	2.00% - 5.00%	45,525,000	41,795,000		(1,170,000)	40,625,000
Series 2016 building bonds	2.00% - 5.00%	23,360,000	21,350,000		(505,000)	20,845,000
Series 2017 refunding bonds	2.00% - 5.00%	4,790,000	4,085,000		(210,000)	3,875,000
Series 2018 building bonds	3.00% - 5.00%	34,555,000	34,280,000		(625,000)	33,655,000
Series 2019 building bonds	3.00% - 4.00%	40,000	40,000,000		(440,000)	39,560,000
Series 2020 refunding bonds	1.78% - 5.00%	26,065,000	25,485,000			25,485,000
Series 2020 capital appreciation bonds	0.98% - 1.50%	105,000	105,000			105,000
Series 2020 building bonds	3.00% - 5.00%	36,100,000	36,100,000			36,100,000
Series 2021 building bonds	3.00% - 5.00%	60,000,000	60,000,000			60,000,000
Series 2022 building bonds	2.51% - 5.00%	48,495,000	48,495,000			48,495,000
			318,855,000	-	(3,625,000)	315,230,000
Accumulated accretion - CABs			75,765	45,701		121,466
Unamortized premiums - CABs			3,459,267			3,459,267
Unamortized premiums - GOBs			27,446,990		(598,774)	26,848,216
			<u>\$ 349,837,022</u>	<u>\$ 45,701</u>	<u>\$ (4,223,774)</u>	<u>\$ 345,658,949</u>

The bonds mature variously through 2053. Interest accrues on the bonds each February 15 and August 15.

General obligation bonds are direct obligations issued on a pledge of the general taxing power of the District for the repayment of the debt obligations. General obligation bonds require the District to compute, at the time taxes are levied, the property tax rate required to provide for each bond series are outstanding a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

Presented below is a summary of long-term debt requirements to maturity:

	Principal	Interest	Total
2024	\$ 4,015,000	\$ 12,804,426	\$ 16,769,426
2025	4,615,000	13,043,875	17,658,875
2026	5,400,000	12,834,300	18,234,300
2027	5,825,000	12,406,700	18,231,700
2028	7,035,000	11,197,800	18,232,800
2029-2033	40,200,000	50,971,489	91,171,489
2034-2038	49,230,000	41,937,031	91,167,031
2039-2043	59,705,000	31,461,376	91,166,376
2044-2048	71,725,000	19,482,623	91,207,623
2049-maturity	67,480,000	5,410,496	72,890,496
	<u>\$ 315,230,000</u>	<u>\$ 211,550,116</u>	<u>\$ 526,730,116</u>

NOTE 6. DEFEASED BONDS

In prior years, the District issued refunding bonds to defease certain bonds outstanding to consolidate debt and achieve debt service savings. The District has placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payments of debt service on the refunded bonds when due and

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payable. Accordingly, the trust account assets and liabilities are not included in the District's financial statements.

NOTE 7. PROPERTY TAXES

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code which established an appraisal district and an appraisal review board in each county in the State of Texas. The Collin County Assessor-Collector is responsible for the appraisal of property for all taxing units in Collin County, including the District.

Property taxes are considered available when collected within the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest. Delinquent taxes are subject to both penalty and interest charges plus a 15% delinquent collection fees for attorney costs. The assessed value of the property tax roll upon which the levy for the 2022-23 fiscal year was based was \$2,971,817,818.

The tax rates assessed for the year ended August 31, 2023, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.9429 and \$0.5000 per \$100 valuation, respectively, for a total of \$1.4429 per \$100 valuation.

Current tax collections for the year ended August 31, 2023, were 102.49% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience of collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

NOTE 8. DEFINED BENEFIT PENSION PLAN

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard 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. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://trs.texas.gov/pages/aboutpublications.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

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retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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

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

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

Contribution Rates

	<u>2022</u>	<u>2023</u>
Member	8.0%	8.0%
Non-Employer Contributing Entity (State)	7.75%	8.00%
Employers	7.75%	8.00%
Melissa ISD FY2023 Employer Contributions	\$	1,388,673
Melissa ISD FY2023 Member Contributions	\$	3,018,045
Measurement Year NECE On-Behalf Contributions	\$	1,712,374

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity (NECE). The State is the employer for senior colleges, medical schools and state agencies including the 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, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source, from non-educational and general, or local funds.
- All public schools must contribute 1.7 percent of the member's salary beginning in fiscal year 2022, gradually increasing to 2 percent in fiscal year 2025.

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

- 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, 2022 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2021, rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2022	3.91%
Inflation	2.30%
Salary Increases Including Inflation	2.95% to 8.95%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are 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%.

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 Systems target asset allocation as of August 31, 2022, are summarized below:

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Asset Class	Target Allocation ¹	Long-Term Expected Arithmetic Real Rate of Return ²	Expected Contribution To Long-Term Portfolio Returns
Global Equity			
U.S.	18%	4.6%	1.12%
Non-U.S. Developed	13%	4.9%	0.90%
Emerging Markets	9%	5.4%	0.75%
Private Equity	14%	7.7%	1.55%
Stable Value			
Government Bonds	16%	1.0%	0.22%
Absolute Return ⁴	0%	3.7%	0.00%
Stable Value Hedge Funds	5%	3.4%	0.18%
Real Return			
Real Estate	15%	4.1%	0.94%
Energy, Natural Resources	6%	5.1%	0.37%
Commodities	0%	3.6%	0.00%
Risk Parity			
Risk Parity	8%	4.6%	0.43%
Leverage			
Cash	2%	3.0%	0.01%
Asset Allocation Leverage	-6%	3.6%	-0.05%
Inflation Expectation	-		2.70%
Volatility Drag ³	-		-0.93%
Total	<u>100%</u>		<u>8.19%</u>

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%)
Melissa ISD's proportionate share of the net pension liability:	\$19,207,226	\$12,346,934	\$6,786,415

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2023, Melissa Independent School District reported a liability of \$12,346,934 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Melissa Independent School District. The amount recognized by Melissa Independent School 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 Melissa Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$ 12,346,934
State's proportionate share that is associated with the District	<u>21,785,859</u>
Total	<u>\$34,132,793</u>

¹ Target allocations are based on the FY22 policy model.

² Capital Market Assumptions come from Aon Hewitt (as of 08/31/2022).

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

⁴ Absolute Return includes credit sensitive investments.

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

At August 31, 2022, the employer's proportion of the collective net pension liability was 0.000207974878%, an increase of 25.9% from its proportionate share of 0.000165118755% at August 31, 2021.

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

For the year ended August 31, 2023, Melissa Independent School District recognized pension expense of \$2,082,481 and revenue of \$2,082,481 for support provided by the State.

At August 31, 2023, Melissa Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (The amounts shown below will be the cumulative layers from the current and prior years combined.):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 179,030	\$ 269,187
Changes in actuarial assumptions	2,300,636	573,383
Difference between projected and actual investment earnings	4,797,279	3,577,442
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,434,148	99,989
Contributions paid to TRS subsequent to the measurement date	1,388,673	-
Total	\$11,099,766	\$4,520,001

The net amounts of the District's balances of deferred outflows and inflows of resources (not including the deferred contribution paid subsequent to the measurement date) related to pensions will be recognized in pension expense as follows:

Year ended August 31:	Pension Expense Amount
2024	\$ 1,370,047
2025	917,892
2026	570,462
2027	1,869,057
2028	463,634
Thereafter	-

NOTE 9. 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.

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The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care’s fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/pages/aboutpublications.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 for Retirees		
	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

* or surviving spouse

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 percent or not more than 0.75 percent of the salary of each active employee of the public school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	<u>Contribution Rates</u>	
	<u>2022</u>	<u>2023</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%

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Melissa ISD FY23 Employer Contributions	\$ 310,419
Melissa ISD FY23 Member Contributions	\$ 245,216
Measurement Year NECE On-behalf Contributions	\$ 294,871

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

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

Actuarial Assumptions. The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2022.

The actuarial valuation 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	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Rates of Disability

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

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%
Single Discount Rate	3.91%
Aging Factors	Based on specific plan experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs
Projected Salary Increases	3.05% to 9.05%, including inflation
Election Rates	Normal Retirement: 65% participation prior to age 65 and 40% participation after age 65
Ad hoc post-employment benefit changes	None

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

Discount Rate. A single discount rate of 3.91% 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, 2021, using the fixed-income market data/yield curve/data municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

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

	1% Decrease in Discount Rate (2.91%)	Current Single Discount Rate (3.91%)	1% Increase in Discount Rate (4.91%)
District’s proportionate share of the Net OPEB Liability:	\$8,308,931	\$7,046,965	\$6,024,611

Healthcare Cost Trend Rates Sensitivity Analysis - The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is one-percentage less than or one-percentage point greater than the health trend rates is assumed.

	1% Decrease in Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
District’s proportionate share of the Net OPEB Liability:	\$5,806,731	\$7,046,965	\$8,654,770

OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2023, the District reported a liability of \$7,046,965 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	\$ 7,046,965
State’s proportionate share that is associated with the District	<u>\$ 8,596,191</u>
Total	<u>\$15,643,156</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.

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

At August 31, 2022, the employer’s proportion of the collective Net OPEB Liability was 0.000294310221%, an increase of 21.6% compared to the August 31, 2021 proportionate share of 0.000241965488%.

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

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

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

The amount of OPEB expense recognized by the District in the reporting period was a negative \$1,245,976.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 391,786	\$ 5,870,755
Changes in actuarial assumptions	1,073,392	4,895,812
Difference between projected and actual investment earnings	21,067	76
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	5,791,844	
Contributions paid to TRS subsequent to the measurement date	310,419	
Total	\$ 7,588,508	\$ 10,766,643

The net amounts of the employer’s balances of deferred outflows and inflows of resources (not including the deferred contribution paid subsequent to the measurement date) related to OPEB will be recognized in OPEB expense as follows:

Year ended August 31:	OPEB Expense Amount
2024	\$ (828,903)
2025	(828,832)
2026	(529,991)
2027	(125,413)
2028	(407,539)
Thereafter	(767,875)

NOTE 10. HEALTH CARE

During the year ended August 31, 2023, employees of Melissa Independent School District were covered by the TRS-Active Care health insurance plan (the Plan). The District contributed \$350 per month per employee to the Plan and employees, at their option, authorized payroll withholdings to pay any additional premiums for themselves and dependents.

NOTE 11. MEDICARE PART D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023

revenues and expenditures/expenses by the District. For the year ended August 31, 2023, the contribution made on behalf of the District was \$193,175.

NOTE 12. INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables at August 31, 2023, represented short-term advances between funds because much activity of the District flows through a pooled bank account. These amounts are expected to be repaid in less than one year.

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Internal Service Fund	Total
Due from:						
General Fund	\$ 35				\$ 57,888	\$ 57,923
Special Revenue Funds	1,686,083					1,686,083
Debt Service Fund	50,596					50,596
Capital Projects Funds	7					7
	<u>\$ 1,736,721</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 57,888</u>	<u>\$ 1,794,609</u>
Due to:						
Internal Service Fund	\$ 57,888					\$ 57,888
General Fund	35	1,686,083	50,596	7		1,736,721
	<u>\$ 57,923</u>	<u>\$ 1,686,083</u>	<u>\$ 50,596</u>	<u>\$ 7</u>	<u>\$ -</u>	<u>\$ 1,794,609</u>
Transfers In:						
General Fund	\$ 9,223	\$ -	\$ -	\$ -	\$ -	\$ 9,223
Transfers Out:						
Special Revenue Funds	\$ -	\$ 9,223	\$ -	\$ -	\$ -	\$ 9,223

NOTE 13. DISTRICT INSURANCE PROGRAMS

Workers' Compensation

During fiscal 2023, the District met its statutory workers' compensation obligations through participation in the Texas Association of School Boards (TASB) Risk Management Fund. The fund provides statutory worker's compensation benefits to the District's injured employees. As of August 31, 2022, the fund carried a discounted reserve of \$50,647,775 for future developments on reported claims and claims that have been incurred but not yet reported. For the fiscal year ended August 31, 2023, the Fund anticipated no additional liability to its members beyond their contractual obligations for payment of contributions.

Unemployment Compensation

The District provides unemployment compensation coverage to its employees through the TASB Risk Management Fund. For the year ended August 31, 2023, the fund anticipated no additional District liability beyond its contractual obligation for payment of contributions.

Auto, Liability, and Property

The District participates in the following TASB risk management programs: auto liability, auto physical damage, privacy and information security, property, and school liability. TASB purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its audit, liability, and property programs. The terms and limits of the stop-loss program vary by line of coverage.

**MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023**

NOTE 14. SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangements with the Education Service Center for various educational services. Although a portion of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District has neither a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

NOTE 15. CONTINGENCIES AND COMMITMENTS

Minimum foundation funding received from the Texas Education Agency (TEA) is based primarily upon information concerning average daily attendance, which is compiled by the District and supplied to the TEA. Federal funding for Food Services under child nutrition programs is based primarily upon the number and type of meals served and on user charges as reported to the USDA. Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made in compliance with program guidelines to the grantor agencies. To the extent the District has supplied inaccurate information, refunds of monies received may be required. District administration is aware of no such reporting inaccuracies.

Federal and state grant 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, the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of grant monies may be required. In the opinion of the District's administration, there are no such contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the accompanying financial statements for such contingencies.

The District was obligated as of August 31, 2023, under contracts for construction of new educational facilities. The remaining outstanding construction commitments associated with these projects totaled approximately \$23 million as of August 31, 2023.

NOTE 16. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS

In May 2020, GASB issued Statement No. 96 – Subscription-Based Information Technology Arrangements (SBITA). This statement increases the usefulness of governments' financial statements by requiring recognition of certain right-to-use subscription assets and corresponding subscription liabilities for SBITAs that were previously recognized as outflows of resources based on the payment provisions of the contract. The statement is effective for fiscal years beginning after June 15, 2022. After reviewing the information technology arrangements identified by the District as potential SBITAs, the arrangements were determined to either not meet the definition of a SBITA or were immaterial to the financial statements.

NOTE 17. PRIOR PERIOD ADJUSTMENT

In prior years, the District expensed \$4,176,036 of losses on bond refundings; these losses should have been recorded as a deferred outflow of resources and amortized over the lives of the refunded debt. Therefore, a prior period adjustment has been recorded as of August 31, 2022, to increase beginning net position by \$3,679,992.

NOTE 18. SUBSEQUENT EVENT

On September 14, 2023, the District issued \$65,260,000 of estimated tax school building bonds.

REQUIRED SUPPLEMENTARY INFORMATION

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MELISSA INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
 FOR THE YEAR ENDED AUGUST 31, 2023

EXHIBIT G-1

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 24,765,500	\$ 27,057,000	\$ 30,611,147	\$ 3,554,147
5800 State Program Revenues	29,226,500	29,635,000	27,581,494	(2,053,506)
5900 Federal Program Revenues	-	300,000	323,741	23,741
5020 Total Revenues	53,992,000	56,992,000	58,516,382	1,524,382
EXPENDITURES:				
Current:				
0011 Instruction	35,636,123	36,517,771	36,945,766	(427,995)
0012 Instructional Resources and Media Services	521,663	512,963	509,854	3,109
0013 Curriculum and Instructional Staff Development	140,048	140,048	115,945	24,103
0021 Instructional Leadership	795,850	808,850	805,732	3,118
0023 School Leadership	2,008,875	2,026,875	2,035,932	(9,057)
0031 Guidance, Counseling, and Evaluation Services	905,527	913,527	912,327	1,200
0033 Health Services	430,838	560,838	480,728	80,110
0034 Student (Pupil) Transportation	2,540,713	2,838,213	2,582,096	256,117
0036 Extracurricular Activities	1,904,359	2,256,359	2,252,101	4,258
0041 General Administration	1,390,059	1,405,059	1,632,940	(227,881)
0051 Facilities Maintenance and Operations	5,601,334	5,867,834	5,717,244	150,590
0052 Security and Monitoring Services	518,731	528,731	529,578	(847)
0053 Data Processing Services	1,357,880	1,357,880	1,365,063	(7,183)
0061 Community Services	-	564,719	562,990	1,729
Debt Service:				
0071 Principal on Long-Term Liabilities	-	279,000	-	279,000
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	10,000	10,000	-	10,000
0095 Payments to Juvenile Justice Alternative Ed. Prg.	1,000	1,000	774	226
0099 Other Intergovernmental Charges	230,000	285,160	285,156	4
6030 Total Expenditures	53,993,000	56,874,827	56,734,226	140,601
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,000)	117,173	1,782,156	1,664,983
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	9,233	9,233
1200 Net Change in Fund Balances	(1,000)	117,173	1,791,389	1,674,216
0100 Fund Balance - September 1 (Beginning)	22,733,629	22,733,629	22,733,629	-
3000 Fund Balance - August 31 (Ending)	\$ 22,732,629	\$ 22,850,802	\$ 24,525,018	\$ 1,674,216

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2023

	FY 2023 Plan Year 2022	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020
District's Proportion of the Net Pension Liability (Asset)	0.000207975%	0.000165119%	0.00014524%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 12,346,934	\$ 4,204,990	\$ 7,778,781
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	21,785,859	8,112,153	15,266,151
Total	<u>\$ 34,132,793</u>	<u>\$ 12,317,143</u>	<u>\$ 23,044,932</u>
District's Covered Payroll	\$ 29,580,298	\$ 23,242,541	\$ 20,096,849
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	41.74%	18.09%	38.71%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.62%	88.79%	75.54%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2022 for year 2023, August 31, 2021 for year 2022, August 31, 2020 for year 2021, August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016 and August 31, 2014 for year 2015.

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

<u>FY 2020</u> <u>Plan Year 2019</u>	<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>	<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>	<u>FY 2015</u> <u>Plan Year 2014</u>
0.000149627%	0.000139996%	0.000133277%	0.000115843%	0.000100034%	0.000049488%
\$ 7,778,071	\$ 7,705,734	\$ 4,261,468	\$ 4,377,552	\$ 3,536,069	\$ 1,321,893
12,492,430	12,362,139	7,069,208	7,967,161	6,791,628	5,464,793
<u>\$ 20,270,501</u>	<u>\$ 20,067,873</u>	<u>\$ 11,330,676</u>	<u>\$ 12,344,713</u>	<u>\$ 10,327,697</u>	<u>\$ 6,786,686</u>
\$ 17,151,111	\$ 15,495,179	\$ 14,573,540	\$ 12,891,946	\$ 10,731,867	\$ 9,378,090
45.35%	49.73%	29.24%	33.96%	32.95%	14.10%
75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2023

	2023	2022	2021
Contractually Required Contribution	\$ 1,388,673	\$ 970,472	\$ 704,640
Contribution in Relation to the Contractually Required Contribution	1,388,673	970,472	704,640
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 37,725,557	\$ 29,580,298	\$ 23,242,541
Contributions as a Percentage of Covered Payroll	3.68%	3.28%	3.03%

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

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

	2020	2019	2018	2017	2016	2015
\$	599,372	\$ 523,712	\$ 471,612	\$ 520,142	\$ 442,127	\$ 357,731
	599,372	523,712	471,612	520,142	442,127	357,731
\$	-	\$ -	\$ -	\$ -	\$ -	\$ -
\$	20,096,849	\$ 17,151,111	\$ 15,495,179	\$ 14,573,540	\$ 12,891,946	\$ 10,731,867
	2.98%	3.05%	3.04%	3.57%	3.43%	3.33%

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2023

	FY 2023 Plan Year 2022	FY 2022 Plan Year 2021	FY 2021 Plan Year 2020
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.00029431%	0.000241965%	0.000224428%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 7,046,965	\$ 9,333,690	\$ 8,531,524
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	8,596,191	12,505,065	11,464,323
Total	<u>\$ 15,643,156</u>	<u>\$ 21,838,755</u>	<u>\$ 19,995,847</u>
District's Covered Payroll	\$ 29,580,298	\$ 23,242,541	\$ 20,096,849
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	23.82%	40.16%	42.45%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	11.52%	6.18%	4.99%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. The amounts for FY 2023 are for the measurement date of August 31, 2022. The amounts reported for FY 2022 are for measurement date August 31, 2021. The amounts reported for FY 2021 are for the measurement date of August 31, 2020. The amounts for FY 2020 are for the measurement date August 31, 2019. The amounts for FY 2019 are for the measurement date August 31, 2018. The amounts for FY 2018 are based on the August 31, 2017 measurement date.

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

<u>FY 2020</u> <u>Plan Year 2019</u>	<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>
0.000208044%	0.000184166%	0.000160296%
\$ 9,838,678	\$ 9,195,561	\$ 6,970,666
13,073,403	13,793,755	11,858,406
<u>\$ 22,912,081</u>	<u>\$ 22,989,316</u>	<u>\$ 18,829,072</u>
\$ 17,151,111	\$ 15,495,179	\$ 14,573,540
57.37%	59.34%	47.83%
2.66%	1.57%	0.91%

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2023

	2023	2022	2021
Contractually Required Contribution	\$ 310,419	\$ 241,729	\$ 189,030
Contribution in Relation to the Contractually Required Contribution	310,419	241,729	189,030
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 37,725,557	\$ 29,580,298	\$ 23,242,541
Contributions as a Percentage of Covered Payroll	0.82%	0.82%	0.81%

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

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

	2020	2019	2018
\$	170,596	\$ 147,743	\$ 127,048
	170,596	147,743	127,048
\$	-	\$ -	\$ -
\$	20,096,849	\$ 17,151,111	\$ 15,495,179
	0.85%	0.86%	0.82%

MELISSA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED AUGUST 31, 2023

PENSION LIABILITY:

Changes to benefit terms:

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

Changes to assumptions:

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

- The discount rate changed from 7.25% as of August 31, 2021, to 7.00% as of August 31, 2022. This change increased the total pension liability.

OPEB LIABILITY:

Changes to benefit terms:

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

Changes to assumptions:

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

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

COMBINING SCHEDULES

MELISSA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2023

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1240 Due from Other Governments	15,759	172,159	8,909	-
1000 Total Assets	<u>\$ 15,759</u>	<u>\$ 172,159</u>	<u>\$ 8,909</u>	<u>\$ -</u>
LIABILITIES				
2160 Accrued Wages Payable	\$ -	\$ 28,230	\$ -	\$ -
2170 Due to Other Funds	15,759	141,339	8,909	-
2200 Accrued Expenditures	-	2,590	-	-
2000 Total Liabilities	<u>15,759</u>	<u>172,159</u>	<u>8,909</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	-	-
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 15,759</u>	<u>\$ 172,159</u>	<u>\$ 8,909</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	280 ESSER III Homeless Children	281 ESSER II CRRSA Act Supplemental	282 ESSER III ARP Act	283 ESSER-SUPP	284 IDEA B Formula ARP Act
\$ 931,777	\$ -	\$ -	\$ -	\$ -	\$ 8,974	\$ -	\$ -
49,018	5,139	26,400	8,586	-	-	1,124,606	1,102
<u>\$ 980,795</u>	<u>\$ 5,139</u>	<u>\$ 26,400</u>	<u>\$ 8,586</u>	<u>\$ -</u>	<u>\$ 8,974</u>	<u>\$ 1,124,606</u>	<u>\$ 1,102</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1	5,139	26,400	8,586	-	8,974	1,124,606	1,102
-	-	-	-	-	-	-	-
<u>1</u>	<u>5,139</u>	<u>26,400</u>	<u>8,586</u>	<u>-</u>	<u>8,974</u>	<u>1,124,606</u>	<u>1,102</u>
980,794	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>980,794</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 980,795</u>	<u>\$ 5,139</u>	<u>\$ 26,400</u>	<u>\$ 8,586</u>	<u>\$ -</u>	<u>\$ 8,974</u>	<u>\$ 1,124,606</u>	<u>\$ 1,102</u>

MELISSA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2023

Data Control Codes	288 ESEA Title IV Part A	289 Other Federal Special Revenue Funds	385 Visually Impaired SSVI	410 State Instructional Materials
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ 13,143	\$ -	\$ -
1240 Due from Other Governments	5,024	-	-	7,424
1000 Total Assets	<u>\$ 5,024</u>	<u>\$ 13,143</u>	<u>\$ -</u>	<u>\$ 7,424</u>
LIABILITIES				
2160 Accrued Wages Payable	\$ -	\$ -	\$ -	\$ -
2170 Due to Other Funds	5,024	13,143	-	7,424
2200 Accrued Expenditures	-	-	-	-
2000 Total Liabilities	<u>5,024</u>	<u>13,143</u>	<u>-</u>	<u>7,424</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	-	-
Committed Fund Balance:				
3545 Other Committed Fund Balance	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 5,024</u>	<u>\$ 13,143</u>	<u>\$ -</u>	<u>\$ 7,424</u>

428 OOG Grants	429 Other State Special Revenue Funds	459 Other SSA Special Revenue Funds	461 Campus Activity Funds	491 Food Service (Secondary)	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 445,273	\$ 9,220	\$ 1,408,387
17,897	159,427	163,462	-	-	1,764,912
<u>\$ 17,897</u>	<u>\$ 159,427</u>	<u>\$ 163,462</u>	<u>\$ 445,273</u>	<u>\$ 9,220</u>	<u>\$ 3,173,299</u>
\$ 7,594	\$ 3,825	\$ 8,871	\$ -	\$ -	\$ 48,520
9,423	155,518	154,410	326	-	1,686,083
880	84	181	-	-	3,735
<u>17,897</u>	<u>159,427</u>	<u>163,462</u>	<u>326</u>	<u>-</u>	<u>1,738,338</u>
-	-	-	-	-	980,794
-	-	-	444,947	9,220	454,167
-	-	-	444,947	9,220	1,434,961
<u>\$ 17,897</u>	<u>\$ 159,427</u>	<u>\$ 163,462</u>	<u>\$ 445,273</u>	<u>\$ 9,220</u>	<u>\$ 3,173,299</u>

MELISSA INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	226 IDEA - Part B Discretionary
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	46,716	649,285	8,909	152,789
5020 Total Revenues	46,716	649,285	8,909	152,789
EXPENDITURES:				
Current:				
0011 Instruction	46,716	649,285	8,909	152,789
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
6030 Total Expenditures	46,716	649,285	8,909	152,789
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	280 ESSER III Homeless Children	281 ESSER II CRRSA Act Supplemental	282 ESSER III ARP Act	283 ESSER-SUPP	284 IDEA B Formula ARP Act
\$ 621,314	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
7,511	-	-	-	-	-	-	-
409,702	20,048	30,683	8,586	-	-	1,652,767	3,138
1,038,527	20,048	30,683	8,586	-	-	1,652,767	3,138
-	20,048	30,683	8,586	-	-	1,652,767	3,138
835,435	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
835,435	20,048	30,683	8,586	-	-	1,652,767	3,138
203,092	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
203,092	-	-	-	-	-	-	-
777,702	-	-	-	-	-	-	-
\$ 980,794	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

MELISSA INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes	288 ESEA Title IV Part A	289 Other Federal Special Revenue Funds	385 Visually Impaired SSVI	410 State Instructional Materials
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	750	78,260
5900 Federal Program Revenues	8,731	61,825	-	-
5020 Total Revenues	<u>8,731</u>	<u>61,825</u>	<u>750</u>	<u>78,260</u>
EXPENDITURES:				
Current:				
0011 Instruction	8,731	61,825	750	78,260
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
6030 Total Expenditures	<u>8,731</u>	<u>61,825</u>	<u>750</u>	<u>78,260</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

428 OOG Grants	429 Other State Special Revenue Funds	459 Other SSA Special Revenue Funds	461 Campus Activity Funds	491 Food Service (Secondary)	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	936,118	\$ 1,011,979	2,569,411
51,978	174,843	272,047	-	-	585,389
-	-	-	-	-	3,053,179
51,978	174,843	272,047	936,118	1,011,979	6,207,979
-	48,264	272,047	-	-	3,042,798
-	-	-	-	1,002,759	1,838,194
-	-	-	853,443	-	853,443
51,978	126,579	-	-	-	178,557
51,978	174,843	272,047	853,443	1,002,759	5,912,992
-	-	-	82,675	9,220	294,987
-	-	-	(9,233)	-	(9,233)
-	-	-	73,442	9,220	285,754
-	-	-	371,505	-	1,149,207
\$ -	\$ -	\$ -	444,947	\$ 9,220	1,434,961

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REQUIRED T.E.A. SCHEDULES

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2023

Last 10 Years Ended August 31	Tax Rates		(3) Assessed/Appraised Value for School Tax Purposes
	(1) Maintenance	(2) Debt Service	
2014 and prior years	Various	Various	\$ Various
2015	1.170000	0.370000	565,700,031
2016	1.170000	0.500000	659,376,119
2017	1.170000	0.500000	793,924,065
2018	1.170000	0.500000	974,074,754
2019	1.170000	0.500000	1,205,441,907
2020	1.068350	0.500000	1,470,843,817
2021	0.963000	0.500000	1,738,549,693
2022	0.960300	0.500000	2,123,713,599
2023 (School year under audit)	0.942900	0.500000	2,971,817,818
1000 TOTALS			
8000 Total Taxes Refunded Under Section 26.115, Tax Code			

(10) Beginning Balance 9/1/2022	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2023
\$ 50,931	\$ -	\$ -	\$ -	\$ 27,020	\$ 77,951
6,171	-	-	-	-	6,171
6,330	-	240	102	(1)	5,987
(19,706)	-	144	62	328	(19,584)
11,611	-	1,100	470	937	10,978
29,625	-	12,772	5,458	(3,950)	7,445
45,949	-	81,058	37,936	239,943	166,898
47,542	-	76,238	35,680	227,241	162,865
76,538	-	69,730	36,306	193,316	163,818
-	40,774,303	27,215,067	14,431,575	998,779	126,440
<u>\$ 254,991</u>	<u>\$ 40,774,303</u>	<u>\$ 27,456,349</u>	<u>\$ 14,547,589</u>	<u>\$ 1,683,613</u>	<u>\$ 708,969</u>
		<u>\$ 0.00</u>			

MELISSA INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
	REVENUES:			
5700 Total Local and Intermediate Sources	\$ 942,000	\$ 942,000	\$ 621,314	\$ (320,686)
5800 State Program Revenues	133,500	133,500	7,511	(125,989)
5900 Federal Program Revenues	300,000	300,000	409,702	109,702
5020 Total Revenues	<u>1,375,500</u>	<u>1,375,500</u>	<u>1,038,527</u>	<u>(336,973)</u>
EXPENDITURES:				
Current:				
0035 Food Services	<u>1,375,500</u>	<u>1,375,500</u>	<u>835,435</u>	<u>540,065</u>
6030 Total Expenditures	<u>1,375,500</u>	<u>1,375,500</u>	<u>835,435</u>	<u>540,065</u>
1200 Net Change in Fund Balances	-	-	203,092	203,092
0100 Fund Balance - September 1 (Beginning)	<u>777,702</u>	<u>777,702</u>	<u>777,702</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 777,702</u>	<u>\$ 777,702</u>	<u>\$ 980,794</u>	<u>\$ 203,092</u>

MELISSA INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 13,896,112	\$ 13,896,112	\$ 14,982,856	\$ 1,086,744
5800 State Program Revenues	-	-	316,741	316,741
5020 Total Revenues	13,896,112	13,896,112	15,299,597	1,403,485
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Liabilities	3,625,000	3,625,000	3,625,000	-
0072 Interest on Long-Term Liabilities	12,627,705	12,618,705	12,618,705	-
0073 Bond Issuance Cost and Fees	8,000	8,000	8,000	-
6030 Total Expenditures	16,260,705	16,251,705	16,251,705	-
1200 Net Change in Fund Balances	(2,364,593)	(2,355,593)	(952,108)	1,403,485
0100 Fund Balance - September 1 (Beginning)	5,172,677	5,172,677	5,172,677	-
3000 Fund Balance - August 31 (Ending)	\$ 2,808,084	\$ 2,817,084	\$ 4,220,569	\$ 1,403,485

MELISSA INDEPENDENT SCHOOL DISTRICT
STATE COMPENSATORY EDUCATION AND BILINGUAL EDUCATION PROGRAM EXPENDITURES
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.	\$1,434,433
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	\$866,143

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.	\$313,252
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year.	\$281,421

FEDERAL AWARDS SECTION

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HankinsEastup

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Deaton Tonn Seay & Scarborough | A Texas LLC

INDEPENDENT AUDITORS' 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
Melissa Independent School District
Melissa, 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 Melissa Independent School District, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise Melissa Independent School District's basic financial statements, and have issued our report dated November 30, 2023.

Report on Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the District'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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompany schedule of findings and questioned costs as item 2023-1 that we consider to be a significant deficiency.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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*.

District's Response to Findings

Government Auditing Standards require the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Hankins Eastup Deaton Tonn Seay & Scarborough, LLC

Denton, Texas
November 30, 2023

Hankins Eastup

Deaton Tonn Seay & Scarborough | A Texas LLC

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

Board of Trustees
Melissa Independent School District
Melissa, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Melissa Independent School District's 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 Melissa Independent School District's major federal programs for the year ended August 31, 2023. Melissa Independent School 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, Melissa Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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 Melissa Independent School 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 Melissa Independent School 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 Melissa Independent School District's federal programs.

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 Melissa Independent School 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 generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Melissa Independent School District's compliance with the requirements of each major federal program as a whole.

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

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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a significant deficiency.

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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023-1 to be a significant deficiency.

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.

Government Auditing Standards require the audit to perform limited procedures on the District's response to noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to other auditing procedures applied in the audit of compliance, and accordingly, we express no opinion on the response.

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.

Hankins Eastup Deaton Tonn Seay & Scarborough, LLC

Denton, Texas
November 30, 2023

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2023

I. Summary of Auditors' Results

1. Type of auditor's report issued on the financial statements: **Unmodified**
2. Internal control over financial reporting:

Material weakness(es) identified: **None**
Significant deficiency(ies) identified that are not considered to be material weaknesses:
2023-1
3. Noncompliance that is material to the financial statements: **None**
4. Internal controls over major federal programs:

Material weakness(es) identified: **None**
Significant deficiency(ies) identified that are not considered to be material weaknesses:
2023-1
5. Type of auditor's report on compliance for major federal programs: **Unmodified**
6. Did the audit disclose findings which are required to be reported in accordance with 2 CFR 200.516(a)? **No**
7. Major programs include:

COVID 19 - Supplemental ESSER Fund – Assistance Listing # 84.425U
COVID 19 - ARP Education for Homeless Children – Assistance Listing # 84.425W

Child Nutrition Cluster:
School Breakfast Program – Assistance Listing # 10.553
National School Lunch Program – Assistance Listing # 10.555
8. Dollar threshold used to distinguish between Type A and Type B programs: **\$750,000**
9. Low risk auditee: **Yes**

II. Findings Related to the Financial Statements

2023-1

III. Federal Award Findings and Questioned Costs:

None

MELISSA INDEPENDENT SCHOOL DISTRICT
FINDING # 2023-1
FOR THE YEAR ENDED AUGUST 31, 2023

Finding Type: Significant Deficiency

Criteria: TEA Financial Accountability Resource Guide; Texas Grant Management Standards; Compliance Supplement – Part 6; COSO internal control framework or federal government’s Green Book (*Standards for Internal Control in the Federal Government*).

Condition: The State of Texas and the federal government require public school districts to have effective systems of internal control over financial reporting and internal control over federal and state program compliance. Public school districts must document and demonstrate the effectiveness of five components of internal control pertaining to financial reporting and grant compliance: control environment, risk assessment, control activities, information and communication, and monitoring. The District lacks documentation of the five components of internal control pertaining to financial reporting and grant compliance.

Cause: The District is a fast growing district that is evolving into a more complex financial reporting and grant compliance environment.

Effect: Noncompliance with state and federal requirements pertaining to establishing effective systems of internal control fails to mitigate the risks of material misstatement in financial statements and noncompliance with grant provisions.

Recommendation: Conduct control self-assessments to identify and assess risks of material misstatement and noncompliance and implement an effective system of internal control to mitigate risks to acceptable levels.

Management’s Response: District administration will conduct control assessment workshops to identify, document, and implement systems of internal accounting and grant compliance controls that satisfy federal requirements by August 1, 2024. Dr. Brian Walton, Executive Director of Finance, is the person responsible for implementing management’s response.

MELISSA INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2023

(Prepared by District Administration)

In response to finding 2023-1, District administration will conduct control assessment workshops to identify, document, and implement systems of internal accounting and grant compliance controls that satisfy federal requirements by August 1, 2024. Dr. Brian Walton, Executive Director of Finance, is the person responsible for implementing management's response.

MELISSA INDEPENDENT SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2023

There were no prior year findings.

MELISSA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2023

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	23610101057950	\$ 46,716
*IDEA - Part B, Formula	84.027	236600010439086600	649,285
*IDEA - Part B, Discretionary	84.027	236600010439086600	152,789
*COVID 19 - IDEA, Part B, Formula - (ARP)	84.027X	225350010439015350	3,138
Total Assistance Listing Number 84.027			805,212
*IDEA - Part B, Preschool	84.173A	236600010439016600	8,909
Total Special Education Cluster (IDEA)			814,121
Title III, Part A - English Language Acquisition	84.365A	23671001057950	30,683
ESEA, Title II, Part A, Teacher Principal Training	84.367A	23694501057950	20,048
ESSA, Title IV, Part A	84.424A	23680101057950	8,731
COVID 19 - Supplemental ESSER Fund	84.425U	21528043057950	1,652,767
COVID 19 - ARP Education for Homeless Children	84.425W	21533002043908	8,586
Total Assistance Listing Number 84.425			1,661,353
Total Passed Through Texas Education Agency			2,581,652
TOTAL U.S. DEPARTMENT OF EDUCATION			2,581,652
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Education Agency</u>			
COVID 19-School Health Support Grant, Cycle 2	93.323	223935027110073	61,825
Total Passed Through Texas Education Agency			61,825
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			61,825
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the Texas Department of Agriculture</u>			
*School Breakfast Program	10.553	NT4XL2YGLGC5	51,925
*National School Lunch Program - Cash Assistance	10.555	NT4XL2YGLGC5	322,535
*National School Lunch Prog. - Non-Cash Assistance	10.555	NT4XL2YGLGC5	35,242
Total Assistance Listing Number 10.555			357,777
Total Child Nutrition Cluster			409,702
Total Passed Through the Texas Department of Agriculture			409,702
TOTAL U.S. DEPARTMENT OF AGRICULTURE			409,702
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,053,179
*Clustered Programs			

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

MELISSA INDEPENDENT SCHOOL DISTRICT
 NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 YEAR ENDED AUGUST 31, 2023

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted for specific purposes by a grantor.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities and fund balance are included on the balance sheet. Operating statements for these funds present increases and decreases in net current assets. Federal grant funds are earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until expended in accordance with grant provisions.
- The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extends 90 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Performance of Federal Funds, 3 CFR Section 200.343 (b).
- Assistance listing numbers for commodity assistance are the assistance listing numbers of the programs under which USDA donated the commodities.
- Reconciliation Information:

Amount reported on the Schedule of Expenditures of Federal Awards	\$3,053,179
SHARS revenue reported in the general fund	<u>323,741</u>
Total Federal Program Revenue Reported on Exhibit C-3	<u>\$3,376,920</u>

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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

Fiscal Year Ending	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023²
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, <u>2023</u>	August 31, <u>2022</u>	Amount of Increas e (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	<u>89.1</u>	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>
<u>Fiscal Year</u>						
<u>Ended 8/31</u>	<u>No. of</u>	<u>Principal</u>	<u>No. of</u>	<u>Principal</u>	<u>No. of</u>	<u>Principal</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

Portfolio	Benchmark Return	Return ²
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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