

OFFICIAL STATEMENT

Dated August 28, 2024

Rating:
S&P: “AAA”/“A+”
PSF Guaranteed
See: “OTHER INFORMATION -
Rating” and “APPENDIX D – THE
PERMANENT SCHOOL FUND
GUARANTEE PROGRAM” herein

NEW ISSUE – Book-Entry-Only

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

THE BONDS HAVE BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS”
FOR FINANCIAL INSTITUTIONS. SEE “TAX MATTERS.”



\$5,035,000
ACADEMY INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Bell County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024

Dated: September 19, 2024

Due: August 15, as shown on page 2

Interest accrues from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$5,035,000 Academy Independent School District (the “District”) Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”) will accrue from the Date of Initial Delivery, will be payable on February 15, 2025, and each August 15 and February 15 thereafter until the stated maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distributions of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas (see “THE BONDS – Paying Agent/Registrar”).

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the “State”), including particularly Chapter 45, Texas Education Code, as amended, an order authorizing the issuance of the Bonds (the “Order”) approved by the Board of Trustees of the District (the “Board”) on August 28, 2024 and an election held in the District on May 1, 2021 (see “THE BONDS – Authority for Issuance”). The Bonds are direct obligations of the District, payable from a continuing, direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see “THE BONDS – Security and Source of Payment”). **An application has been filed and conditional approval received for the Bonds to be guaranteed by the Permanent School Fund (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) acquisition, construction, renovation and equipment of school buildings in the District including a new high school, (ii) the purchase of school sites and school buses, and (iii) paying the costs associated with the issuance of the Bonds (see “THE BONDS – Purpose”).

CUSIP PREFIX: 004014
MATURITY SCHEDULE
SEE PAGE 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see “APPENDIX C – FORM OF BOND COUNSEL’S OPINION”). Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on September 19, 2024 (the “Date of Initial Delivery”).

SAMCO CAPITAL

ACADEMY SECURITIES

MATURITY SCHEDULE

Maturity (August 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2026	\$ 85,000	5.000%	2.870%	004014JT4
2027	90,000	5.000%	2.900%	004014JU1
2028	90,000	5.000%	2.940%	004014JV9
2029	95,000	5.000%	2.950%	004014JW7
2030	100,000	5.000%	3.000%	004014JX5
2031	105,000	5.000%	3.080%	004014JY3
2032	110,000	5.000%	3.160%	004014JZ0
2033	120,000	5.000%	3.180%	004014KA3

\$255,000 5.000% Term Bonds due August 15, 2035 Priced to Yield 3.280%⁽²⁾ – 004014KC9⁽¹⁾
\$280,000 5.000% Term Bonds due August 15, 2037 Priced to Yield 3.360%⁽²⁾ – 004014KE5⁽¹⁾
\$310,000 5.000% Term Bonds due August 15, 2039 Priced to Yield 3.480%⁽²⁾ – 004014KG0⁽¹⁾
\$340,000 5.000% Term Bonds due August 15, 2041 Priced to Yield 3.650%⁽²⁾ – 004014KJ4⁽¹⁾
\$570,000 4.250% Term Bonds due August 15, 2044 Priced to Yield 4.000%⁽²⁾ – 004014KM7⁽¹⁾
\$420,000 4.000% Term Bonds due August 15, 2046 Priced to Yield 4.100% – 004014KP0⁽¹⁾
\$700,000 4.000% Term Bonds due August 15, 2049 Priced to Yield 4.170% – 004014KS4⁽¹⁾
\$1,365,000 4.125% Term Bonds due August 15, 2054 Priced to Yield 4.270% – 004014KX3⁽¹⁾

(Interest accrues from the Date of Initial Delivery)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the District, the Financial Advisor or the Underwriters. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancements by investors that is applicable to all or a portion of the Bonds. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2033, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

REDEMPTION . . . The Bonds maturing on and after August 15, 2035, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on August 15, 2033, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.” Additionally, Term Bonds maturing on August 15 in the years 2035, 2037, 2039, 2041, 2044, 2046, 2049 and 2054 are subject to mandatory sinking fund redemption (see “THE BONDS – Mandatory Sinking Fund Redemption.”)

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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.

Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "APPENDIX D – 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 ("TEA") and the District, respectively, to provide certain information on a continuing basis. The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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 JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEA DESCRIBED UNDER THE CAPTION "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," AS SUCH INFORMATION HAS BEEN 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 "OTHER INFORMATION - FORWARD-LOOKING STATEMENTS" HEREIN.

TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY	4	TABLE 9 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS	29
DISTRICT OFFICIALS, STAFF AND CONSULTANTS	6	TABLE 10 – OTHER OBLIGATIONS	29
INTRODUCTION.....	7	FINANCIAL INFORMATION	30
THE BONDS	7	TABLE 11 – CHANGES IN NET POSITION	30
THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.....	14	TABLE 11A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY	31
STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS.....	14	INVESTMENTS	32
CURRENT PUBLIC SCHOOL FINANCE SYSTEM....	14	TABLE 12 – CURRENT INVESTMENTS	34
SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT	19	TAX MATTERS.....	34
TAX RATE LIMITATIONS.....	19	CYBERSECURITY	36
AD VALOREM PROPERTY TAXATION	21	CONTINUING DISCLOSURE OF INFORMATION ...	36
TABLE 1 – VALUATION, EXEMPTIONS AND TAX-SUPPORTED DEBT.....	25	OTHER INFORMATION	38
TABLE 2 – VALUATION AND TAX SUPPORTED DEBT HISTORY	26	APPENDICES	
TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY	26	GENERAL INFORMATION REGARDING THE DISTRICT.....	A
TABLE 4 – TEN LARGEST TAXPAYERS.....	26	EXCERPTS FROM THE ANNUAL FINANCIAL REPORT	B
TABLE 5 – TAX ADEQUACY	27	FORM OF BOND COUNSEL’S OPINION	C
TABLE 6 – ESTIMATED OVERLAPPING DEBT.....	27	THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM... ..	D
DEBT INFORMATION.....	28		
TABLE 7 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS	28		
TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION.....	28		

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

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE DISTRICT	The Academy Independent School District (the “District”) operates as an independent school district under the laws of the State of Texas (the “State”). It is located in Bell County, Texas. The District is approximately 58 square miles in area. The District is governed by a seven-member Board of Trustees (the “Board”) who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board (see “INTRODUCTION – Description of the District”).
THE BONDS	\$5,035,000 Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”) will be issued as serial bonds maturing on August 15 in each of the years 2026 through and including 2033 and as Term Bonds maturing on August 15 in the years 2035, 2037, 2039, 2041, 2044, 2046, 2049 and 2054 (see “THE BONDS – Description of the Bonds”).
PAYMENT OF INTEREST	Interest on the Bonds will accrue from September 19, 2024 (the “Date of Initial Delivery”) and will be payable on February 15, 2025 and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE BONDS – Description of the Bonds”).
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the “State”), including particularly Chapter 45, Texas Education Code, as amended, an order authorizing the issuance of the Bonds (the “Order”) approved by the Board of Trustees of the District (the “Board”) on August 28, 2024 and an election held in the District on May 1, 2021 (see “THE BONDS – Authority for Issuance”).
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District (see “THE BONDS – Security and Source of Payment”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in the State. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS – Security and Source of Payment” and “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
PSF GUARANTEE	The District has made application and received conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
REDEMPTION	The Bonds maturing on and after August 15, 2035, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on August 15, 2033, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption (see “THE BONDS – Optional Redemption”). Additionally, Term Bonds maturing on August 15 in the years 2035, 2037, 2039, 2041, 2044, 2046, 2049 and 2054 are subject to mandatory sinking fund redemption (see “THE BONDS – Mandatory Sinking Fund Redemption”).
TAX EXEMPTION	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.
QUALIFIED TAX-EXEMPT OBLIGATIONS	The District has designated the Bonds as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (i) acquisition, construction, renovation and equipment of school buildings in the District including a new high school, (ii) the purchase of school sites and school buses, and (iii) paying the costs associated with the issuance of the Bonds (see “THE BONDS – Purpose”).

MUNICIPAL BOND RATING The Bonds have been rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the outstanding tax-supported debt of the District have also been rated “A+” by S&P without regard to credit enhancement. The District also has several outstanding issues which are rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE” and “OTHER INFORMATION – Rating”).

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

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Tax Supported Debt ⁽³⁾	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to TAV	% of Total Tax Collections
2020	5,915	\$ 500,503,401	\$ 84,616	\$ 18,225,000	\$ 3,081	3.64%	99.40%
2021	6,125	575,703,726	93,992	59,704,994	9,748	10.37%	98.78%
2022	5,972	631,244,030	105,701	58,454,994	9,788	9.26%	99.98%
2023	6,147	737,569,428	119,989	57,149,994	9,297	7.75%	101.40%
2024	6,043	760,840,156	125,904	88,079,994 ⁽⁴⁾	14,576 ⁽⁴⁾	11.58% ⁽⁴⁾	98.64% ⁽⁵⁾

(1) Source: The Municipal Advisory Council of Texas.

(2) Values with the exception of 2024 are as reported by the District’s audited financial statements. 2024 values are reported by the Tax Appraisal District of Bell County. Includes frozen values.

(3) Excludes the District’s outstanding \$85,000 Time Warrants, Series 2016 and \$710,000 Maintenance Tax & Revenue Notes, Series 2019.

(4) Projected, includes the Bonds.

(5) Partial collections through June 30, 2024.

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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Term Expires</u>
Calvin Eshbaugh President	May 2026
Jason Lambert Vice President	May 2025
Jennifer Burnett Secretary	May 2027
Alex Bass Boardmember	May 2026
Adam Fossett Boardmember	May 2025
Dana White Boardmember	May 2027
Amy Adcock Boardmember	May 2025

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>
Darla Nolen, M.Ed	Superintendent
Calvin Itz	Assistant Superintendent
Logan Chaney	Executive Director of Business Services

CONSULTANTS AND ADVISORS

Auditor..... Singleton, Clark & Company⁽¹⁾
Cedar Park, Texas

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

Financial Advisor..... Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the District, please contact:

Darla Nolen, M.Ed Superintendent Academy ISD 704 East Main Street Little River Academy, Texas 76554 254/982-4304 254/982-4420 Fax	or	Jennifer Ritter Managing Director Specialized Public Finance Inc. 248 Addie Roy Road Suite B-103 Austin, Texas 78746 512/275-7300 512/275-7305 Fax
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⁽¹⁾ The District changed audit firms after completion of the Fiscal Year 2023 Annual Financial Report.

**OFFICIAL STATEMENT
RELATING TO

\$5,035,000
ACADEMY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024**

INTRODUCTION

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$5,035,000 Academy Independent School District Unlimited Tax School Building Bonds, Series 2024 (the “Bonds”).

The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the “State”), including particularly Chapter 45, Texas Education Code, as amended, an order authorizing the issuance of the Bonds (the “Order”) approved by the Board of Trustees of the District (the “Board”) on August 28, 2024 and an election held in the District on May 1, 2021. Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District’s Financial Advisor, Specialized Public Finance Inc., Austin, Texas.

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

DESCRIPTION OF THE DISTRICT . . . Academy Independent School District (the “Issuer” or the “District”) operates as an independent school district under the laws of the State of Texas (the “State”). It is a political subdivision located in Bell County, Texas. The District is governed by the seven-member Board who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 58 square miles in Bell County.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated September 19, 2024 (the “Date of Initial Delivery”), and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the Date of Initial Delivery and will be payable on February 15, 2025 and each August 15 and February 15 thereafter until the stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the “State”), including particularly Chapter 45, Texas Education Code, as amended, and the Order.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

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

INTEREST AND SINKING FUND . . . The Order creates or confirms the establishment of the Interest and Sinking Fund to be used to pay principal and interest on the Bonds. The Order requires that the District deposit to the credit of the Interest and Sinking Fund District ad valorem taxes (and penalties and interest thereon) levied to pay debt service requirements on the Bonds. The Order requires that the Interest and Sinking Fund be applied solely to provide for the payment of the principal or redemption price of and interest on the Bonds when due.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds maturing on and after August 15, 2035, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2033 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . . Bonds maturing on August 15 in the years 2035, 2037, 2039, 2041, 2044, 2046, 2049 and 2054 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity at the redemption price of par plus accrued interest to the date of redemption on the respective dates and in principal amounts as follows:

<u>Term Bonds Due August 15, 2035</u>		<u>Term Bonds Due August 15, 2037</u>	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 15, 2034	\$ 125,000	August 15, 2036	\$ 135,000
August 15, 2035*	130,000	August 15, 2037*	145,000
<u>Term Bonds Due August 15, 2039</u>		<u>Term Bonds Due August 15, 2041</u>	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 15, 2038	\$ 150,000	August 15, 2040	\$ 165,000
August 15, 2039*	160,000	August 15, 2041*	175,000
<u>Term Bonds Due August 15, 2044</u>		<u>Term Bonds Due August 15, 2046</u>	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 15, 2042	\$ 180,000	August 15, 2045	\$ 205,000
August 15, 2043	190,000	August 15, 2046*	215,000
August 15, 2044*	200,000		
<u>Term Bonds Due August 15, 2049</u>		<u>Term Bonds Due August 15, 2054</u>	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 15, 2047	\$ 225,000	August 15, 2050	\$ 250,000
August 15, 2048	235,000	August 15, 2051	260,000
August 15, 2049*	240,000	August 15, 2052	275,000
		August 15, 2053	285,000
		August 15, 2054*	295,000

*Stated Maturity.

The Principal amount of the Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District by the principal amount of any Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with monies in the Interest and Sinking Fund at a price not exceeding the principal amount of the Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

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

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

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the District, so long as a book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant (defined below) or Indirect Participant (defined below) 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 Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption 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 Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption. See “THE BONDS – Book-Entry-Only System” herein.

DEFEASANCE OF OUTSTANDING BONDS . . . The Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired and no longer outstanding (a “Defeased Obligation”) within the meaning of the Order, except to the extent provided below for the Paying Agent to continue payments and for the District to retain the right to call Defeased Obligations to be paid at maturity, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption or the establishment of irrevocable provisions for the giving of such notice) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Obligations shall have become due and payable or (3) any combination of (1) and (2). At such time as a Bond shall be deemed to be a Defeased Obligation, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied as provided in the Order, and such principal and interest shall be payable solely from such money or Defeasance Securities, 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 Obligations, 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 deposit under clause (ii) above shall be deemed a payment of a Bond when proper notice of redemption of such Bonds shall have been given or the establishment of irrevocable provisions for the giving of such notice, in accordance with the Order. Any money so deposited with the Paying Agent or an eligible trust company or commercial bank may at the discretion of the Board also be invested in Defeasance Securities, maturing in the amounts and at the times as set forth in the Order, and all income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank that is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, shall be turned over to the Board.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Order for the payment of principal of the Bonds and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Bonds and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Obligations shall have become due and payable, the Paying Agent shall perform the services of Registrar

for such Defeased Obligations the same as if they had not been defeased, and the District shall make proper arrangements to provide and pay for such services as required by the Order.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent or an eligible trust company or commercial bank for the payment of Bonds and such Bonds shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Order shall be made without the consent of the registered owner of each Bond affected thereby.

Retention of Rights. To the extent that, upon the defeasance of any Defeased Obligation to be paid at its maturity, the District retains the right under Texas law to later call that Defeased Obligation for redemption in accordance with the provisions of the Order, the District may call such Defeased Obligation for redemption upon complying with the provisions of Texas law and upon the satisfaction of the provisions set forth above regarding such Defeased Obligation as though it was being defeased at the time of the exercise of the option to redeem the Defeased Obligation and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Obligation.

Investments. Any escrow agreement or other instrument entered into between the District and the Paying Agent or an eligible trust company or commercial bank pursuant to which money and/or Defeasance Securities are held by the Paying Agent or an eligible trust company or commercial bank for the payment of Defeased Obligations may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent or an eligible trust company or commercial bank which is not required for the payment of the Bonds and interest thereon, with respect to which such money has been so deposited, will be remitted to the Board.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) 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 Board adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Bonds are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable State law in existence at the time of such defeasance that may be used to defease obligations such as the Bonds. For the purposes of these provisions, "Federal Securities" means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including the interest component of bonds issued by the Resolution Funding Corporation). There is no assurance that the ratings for U.S. Treasury securities used as Federal Securities or those for any other Federal Security will be maintained at any particular rating category.

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each stated maturity of the Bonds, in the aggregate principal amount of each 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 rating of “AA+” from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/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 the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, principal and interest 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 dates 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 in 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 or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC’s book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable, but the District and the Underwriters take no 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 Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

Information concerning DTC and the Book-Entry Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the District, its Financial Advisor or the Underwriters.

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under “THE BONDS – Transfer, Exchange and Registration” below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “– Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

LIMITATION ON TRANSFER OF BONDS . . . Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing at the close of business on the Record Date and ending at the opening of business on the next interest payment date or (ii) called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date,” which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

AMENDMENTS . . . In the Order the District has reserved the right to amend the Order, without the consent of or notice to any Owner, from time to time and at any time, in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission in the Order. The Order provides in addition, that the District, with the written consent of Owners holding a majority in aggregate principal amount of the Bonds then outstanding affected thereby, may amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all Owners of then outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. Reference is made to the Order for further provisions relating to the amendment of the Order.

BONDHOLDERS’ REMEDIES . . . The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of, or redemption price, or interest on the Bonds when due or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a

period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions or enforce the rights of payment under the Permanent School Fund Guarantee. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (2006) ("Tooke") that a waiver of sovereign immunity 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 Texas 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 Act. As noted above, the Order provides that registered owners may seek to exercise the remedy of mandamus to enforce the obligations of the District under the Order. 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 Texas courts. In general, Texas 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. Texas 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, Texas courts have held that 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.

The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition. 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 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 D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) acquisition, construction, renovation and equipment of school buildings in the District including a new high school, (ii) the purchase of school sites and school buses, and (iii) paying the costs associated with the issuance of the Bonds.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds are expected to be applied as follows:

Sources:	
Par Amount of Bonds	\$ 5,035,000.00
Net Reoffering Premium	<u>170,245.70</u>
Total Sources	\$ 5,205,245.70
Uses:	
Deposit to Construction Fund	\$ 5,080,000.00
Deposit to Debt Service Fund	16.83
Underwriters' Discount	42,981.61
Costs of Issuance	<u>82,247.26</u>
Total Uses	\$ 5,205,245.70

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW. . . . The following language constitutes only a summary of the public school finance system (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 for school districts 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: (i) a maintenance and operations (“M&O”)

tax to pay current expenses and (ii) an interest and sinking fund (“I&S”) tax 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. School districts are required to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount. See “TAX RATE LIMITATIONS – I&S Tax Rate Limitations” herein. Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district’s M&O tax rate.

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

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

When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded four special sessions during the 88th Texas Legislature (such special sessions, together with the 88th Regular Session, the “2023 Legislative Sessions”).

During the second called special session, legislation was passed, and at an election held in the State on November 7, 2023, voters approved a State constitutional amendment that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and to hold districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibited school districts, cities and counties from repealing or reducing an optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. This legislation reduces the amount of property taxes paid by homeowners and businesses and increases the State’s share of the cost of funding public education.

As described above, the Governor has called four special sessions and may call additional special sessions. During any additional called special session, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. The District can make no representations or predictions regarding the scope of additional legislation that may be considered during any additional called special sessions or the potential impact of such legislation at this time.

LOCAL FUNDING FOR SCHOOL DISTRICTS . . . A school district’s M&O tax rate is composed of two distinct parts: the “Tier One Tax Rate,” which is the local M&O tax rate required for a school district to receive any part of the basic level of State funding (referred to herein as “Tier One”) under the Foundation School Program, as further described below, and the “Enrichment Tax Rate,” which is any local M&O tax effort in excess of its Tier One Tax Rate. Formulas for the State Compression Percentage and Maximum Compressed Tax Rate (each as described below) are designed to compress M&O tax rates in response to year-over-year increases in property values across the State and within a school district, respectively. The discussion in this subcaption “– Local

Funding for School Districts” is generally intended to describe funding provisions applicable to all school districts; however, there are distinctions in the funding formulas for school districts that generate local M&O tax revenues in excess of the school districts’ funding entitlements. Such distinctions are discussed under the subcaption “– Local Revenue Level in Excess of Entitlement” herein.

State Compression Percentage. The “State Compression Percentage” or “SCP” is the lesser of three alternative calculations: (i) 93% or a lower percentage set by appropriation for a school year; (ii) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (iii) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2024, the SCP is set at 68.80%.

Maximum Compressed Tax Rate. The “Maximum Compressed Tax Rate” or 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 (described below) 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 “State Compression Percentage” (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district’s MCR is calculated to be less than 90% of any other school district’s MCR for the current year, then the school district’s MCR is instead equal to the 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, establishing \$0.6880 as the maximum rate and \$0.6192 as the floor.

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate.” However, to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district’s MCR for such year. Additionally, a school district’s levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next. See “– State Funding for School District – 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 calculated M&O revenues generated by the school district’s respective M&O tax rates.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district’s Tier One Tax Rate. Tier One funding may then be “enriched” with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district’s Enrichment Tax Rate, allowing a school district to increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district’s own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as amended (see “– Local Revenue Level in Excess of Entitlement”)), 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 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 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 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 Legislature.

Tier One. Tier One funding is the basic level of programmatic funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics, the demographics of students in ADA, and the educational programs the students are being served in, to make up most of a school district’s Tier One entitlement under the Foundation School Program.

The Basic Allotment for a school district with a Tier One Tax Rate equal to the school district’s MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district’s MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment, (iii) a college, career and military readiness allotment to further the State’s goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher compensation incentive allotment to increase teacher retention in disadvantaged or rural school districts. A school district’s total Tier One funding, divided by \$6,160, is a school district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding. The fast growth allotment weights are 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$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 in WADA in 2025 for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district’s Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2024-2025 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 the program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Education 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 Education Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2024-2025 State fiscal biennium, the Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the 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 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 Legislature for the 2024-2025 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2024-2025 State fiscal biennium on new bonds issued by school districts in the 2024-2025 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption from \$40,000 to \$100,000. See “– 2023 Legislative Sessions.” Hold-harmless applies only to bonds authorized by voters prior to September 1, 2023.

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

Tax Rate and Funding Equity. The Education 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 Education Commissioner may also adjust a school district’s ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district’s attendance.

Furthermore, “property-wealthy” school districts that received additional State funds under the Finance System prior to the enactment of certain legislation passed during the 86th Texas Legislature 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 Texas Legislature. Furthermore, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year exceeds \$400 million, the Education 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 in excess of entitlement, Chapter 49 school districts are generally subject to a process known as “recapture,” which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district’s funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption “– Options for Local Revenue Levels in Excess of Entitlement,” below. Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

Furthermore, a school district may not adopt a tax rate until its effective local revenue level is at or below the level that would produce its guaranteed entitlement under the Foundation School Program. If a school district fails to exercise a permitted option, the Education 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 Education Commissioner do not provide for assumption of any of the transferring school district's existing debt.

SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2022-2023 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's excess local revenue must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS . . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on May 3, 2003, in accordance with the provisions of Section 45.003, Texas Education Code, as amended.

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

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

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

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

of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as “new money” bonds and are, therefore, subject to the 50-cent Test. The District not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

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

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

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

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

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

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

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

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 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 Bell County Tax 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.

Effective January 1, 2024, appraisal districts are prohibited from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the subjected property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the subjected property for the preceding tax year; (b) the appraised value of the subjected property for the preceding tax year; and (c) the market value of all new improvements to the subjected property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026, the Appraisal Cap may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the Maximum Property Value.

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 PROPERTY TAXATION – 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.

During the second special session of the 88th Texas Legislative Session, the Legislature passed Senate Bill 2 ("SB 2"), which includes provisions that increase the school district mandatory homestead exemption from \$40,000 to \$100,000, and places further limitations on increases in appraised values on certain classes of properties. The provision increasing the residential homestead exemption to \$100,000 was approved by voters of the State on November 7, 2023.

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.

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. Additionally, at an election held on May 7, 2022, the voters in the State approved a constitutional amendment (SJR2) which requires a recalculation of the school district tax limitations (i.e. the tax ceiling) on residence homesteads for persons sixty-five (65) years of age or older or disabled persons to reflect the reductions in MCR (as defined herein) for 2019 and subsequent tax years. Senate Bill 1, which was also passed during the Third Special Session of the 87th Texas Legislature made provisions based on the outcome of the constitutional amendment election for additional State aid to hold school districts harmless for tax revenue losses resulting from these recalculations.

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.

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

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

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

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

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

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

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

TAX LIMITATION AGREEMENTS . . . The Texas Economic Development Act (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 was not subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87th Texas Legislature did not take action to extend this program, which expired by its terms, effective December 31, 2022.

During the Regular Session of the 88th Texas Legislature, Chapter 403T was enacted into law. Chapter 403T is intended as a replacement of former Chapter 313, Texas Tax Code ("Chapter 313"), but it contains significantly different provisions than the prior program under Chapter 313. Under Chapter 403T, 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. Chapter 403T 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 Chapter 403T. Eligible projects must involve manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects and projects must create and maintain jobs, as well as meet certain minimum investment requirements. The effective date of Chapter 403T was January 1, 2024, and the District is still in the process of reviewing Chapter 403T and cannot make any representations as to what impact, if any, Chapter 403T will have on its finances or operations.

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

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. For the 2024 tax year, the minimum eligibility amount has been adjusted to \$59,562,331.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

LEVY AND COLLECTION OF TAXES . . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four (4) equal installments without penalty or interest, commencing on February 1, and continuing as set forth in Section 31.032 of the Texas 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.

DISTRICT APPLICATION OF TAX CODE . . . The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Bell County. 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 Bell County. The Tax Appraisal District of Bell County collects the District's taxes. In addition to the State-mandated exemptions of \$100,000 for general homestead and an additional \$10,000 for persons over 65 and the disabled, the District grants a local option additional exemption of \$6,000 for persons who are 65-years of age or older, but not the disabled.

The District grants a State-mandated residence homestead exemption for disabled veterans.

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

See Table 1 on the following page for a listing of the aggregate amounts of such exemptions.

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

The District does not tax nonbusiness personal property.

The District does permit split payments, and discounts are allowed.

The District does tax freeport property.

The Board of Trustees approved an application for an appraised value limitation agreement pursuant to the Texas Economic Development Act, Chapter 313, Texas Tax Code with 250LB 8me LLC (the "Applicant"). The application was determined to be complete on November 3, 2020. The Applicant proposed to construct a solar electric generation facility. Pursuant to the application, the first year of limitation was 2023. See "AD VALOREM PROPERTY TAXATION – Tax Limitation Agreements" herein.

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

Month	Cumulative Penalty	Cumulative Interest ⁽²⁾	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	32 ⁽¹⁾	6	38

(1) Includes additional penalty of up to 20% assessed after July 1 in order to defray attorney collection expenses.

(2) Interest continues to accrue after July 1 at the rate of 1% per month until paid.

After July, the cumulative penalty remains at 12%, and interest increases at the rate of 1% for each month or portion of a month the tax remains unpaid. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

TABLE 1 – VALUATION, EXEMPTIONS AND TAX-SUPPORTED DEBT

2023/24 Market Valuation Established by Tax Appraisal District of Bell County		
(excluding totally exempt property and productivity loss)		\$ 1,357,966,645
Less Exemptions/Reductions at 100% Market Value		<u>597,126,489</u>
2023/24 Net Taxable Assessed Valuation		\$ 760,840,156 ⁽¹⁾
2024/25 Net Taxable Assessed Valuation		\$ 868,572,641
Debt Payable from Ad Valorem Taxes (as of 7/1/2024)	\$ 84,404,994 ⁽²⁾	
The Bonds	<u>5,035,000</u>	
Total Debt Payable from Ad Valorem Taxes		\$ 89,439,994 ⁽³⁾
Interest and Sinking Fund (as of 7/1/2024)		\$ 2,250,000
Ratio of Net Tax Supported Debt		11.76%

2024 Estimated Population - 6,043

Per Capita Taxable Assessed Valuation - \$125,904

Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$14,801

(1) Includes frozen value of \$117,246,492.

(2) Excludes the District's outstanding \$85,000 Time Warrants, Series 2016 and \$710,000 Maintenance Tax & Revenue Notes, Series 2019.

(3) Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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TABLE 2 – VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year ⁽³⁾	Ratio Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2020	5,915	\$ 500,503,401	\$ 84,616	\$ 18,225,000	3.64%	\$ 3,081
2021	6,125	575,703,726	93,992	59,704,994	10.37%	9,748
2022	5,972	631,244,030	105,701	58,454,994	9.26%	9,788
2023	6,147	737,569,428	119,989	57,149,994	7.75%	9,297
2024	6,043	760,840,156	125,904	88,079,994 ⁽⁴⁾	11.58% ⁽⁴⁾	14,576 ⁽⁴⁾

(1) Source: The Municipal Advisory Council.

(2) Values with the exception of Fiscal Year 2024 are as reported in the District’s audited financial statements. Fiscal Year 2024 is reported by the Tax Appraisal District of Bell County. Includes frozen values.

(3) Excludes the District’s outstanding \$85,000 Time Warrants, Series 2016 and \$710,000 Maintenance Tax & Revenue Notes, Series 2019.

(4) Projected, includes the Bonds.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 8/31	Total Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2020	\$ 1.2495	\$ 0.9700	\$ 0.2795	\$ 6,202,484	98.75%	99.40%
2021	1.1648	0.8747	0.2901	6,705,797	98.05%	98.78%
2022	1.3671	0.8727	0.4944	8,717,376	99.05%	99.98%
2023	1.2810	0.8546	0.4264	9,480,765	99.83%	101.40%
2024	1.1687	0.6692	0.4995	8,203,393	98.25% ⁽¹⁾	98.64% ⁽¹⁾

(1) Partial collections as of June 30, 2024.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2024/25 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Oncor Electric Delivery Co. LLC	\$ 22,564,938	2.62%
Revol Greens	14,000,000	1.63%
Burlington Northern Santa Fe Railway Co.	8,854,748	1.03%
United Pacific Railroad Co.	7,801,373	0.91%
Chillingham Solar LLC	4,979,253	0.58%
Arcosa	4,707,530	0.55%
Atmos Energy/Mid-Tex Pipeline	4,192,765	0.49%
Chillingham Solar LLC	2,993,162	0.35%
Hilliard Dozer LP	2,443,843	0.28%
Kiella Development Inc.	2,429,953	0.28%
	<u>\$ 74,967,565</u>	<u>8.71%</u>

TABLE 5 – TAX ADEQUACY⁽¹⁾

Average Annual Principal and Interest Requirements, 2024-2054	\$ 4,801,138
\$0.5641 Tax Rate at 98% Collection Produces	\$ 4,801,630 ⁽²⁾
Maximum Principal and Interest Requirements, 2034	\$ 5,047,623
\$0.5930 Tax Rate at 98% Collection Produces	\$ 5,047,623 ⁽²⁾

(1) Includes the Bonds.

(2) Calculated using the 2024 Net Taxable Assessed Value of \$868,572,641.

TABLE 6 – ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 5/31/2024
City of Temple	\$ 416,160,000	4.24%	\$ 17,645,184
Bell County	126,930,000	2.41%	3,059,013
Academy ISD	89,439,994 ⁽¹⁾	100.00%	89,439,994 ⁽¹⁾
Total Direct and Overlapping Tax Supported Debt			\$ 110,144,191
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			12.79%
Per Capita Overlapping Tax Supported Debt			\$ 18,227

(1) Includes the Bonds.

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DEBT INFORMATION

TABLE 7 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 8/31	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Tax Supported Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2024	\$ 1,360,000	\$ 2,966,421	\$ 4,326,421	\$ -	\$ -	\$ -	\$ 4,326,421
2025	1,560,000	2,931,458	4,491,458	-	203,144	203,144	4,694,602
2026	1,875,000	2,859,758	4,734,758	85,000	224,331	309,331	5,044,089
2027	1,945,000	2,791,553	4,736,553	90,000	220,081	310,081	5,046,634
2028	1,392,002	3,345,509	4,737,511	90,000	215,581	305,581	5,043,092
2029	1,012,992	3,722,019	4,735,011	95,000	211,081	306,081	5,041,092
2030	2,135,000	2,601,761	4,736,761	100,000	206,331	306,331	5,043,092
2031	2,205,000	2,529,465	4,734,465	105,000	201,331	306,331	5,040,796
2032	2,275,000	2,459,065	4,734,065	110,000	196,081	306,081	5,040,146
2033	2,350,000	2,385,551	4,735,551	120,000	190,581	310,581	5,046,132
2034	2,430,000	2,308,042	4,738,042	125,000	184,581	309,581	5,047,623
2035	2,510,000	2,226,893	4,736,893	130,000	178,331	308,331	5,045,224
2036	2,595,000	2,142,129	4,737,129	135,000	171,831	306,831	5,043,960
2037	2,680,000	2,052,878	4,732,878	145,000	165,081	310,081	5,042,959
2038	2,775,000	1,959,180	4,734,180	150,000	157,831	307,831	5,042,011
2039	2,865,000	1,868,613	4,733,613	160,000	150,331	310,331	5,043,944
2040	2,965,000	1,767,863	4,732,863	165,000	142,331	307,331	5,040,194
2041	3,070,000	1,663,413	4,733,413	175,000	134,081	309,081	5,042,494
2042	3,180,000	1,555,013	4,735,013	180,000	125,331	305,331	5,040,344
2043	3,295,000	1,442,413	4,737,413	190,000	117,681	307,681	5,045,094
2044	3,410,000	1,325,463	4,735,463	200,000	109,606	309,606	5,045,069
2045	3,520,000	1,213,713	4,733,713	205,000	101,106	306,106	5,039,819
2046	3,635,000	1,098,263	4,733,263	215,000	92,906	307,906	5,041,169
2047	3,755,000	979,013	4,734,013	225,000	84,306	309,306	5,043,319
2048	3,880,000	855,713	4,735,713	235,000	75,306	310,306	5,046,019
2049	4,005,000	728,213	4,733,213	240,000	65,906	305,906	5,039,119
2050	4,140,000	593,688	4,733,688	250,000	56,306	306,306	5,039,994
2051	4,280,000	454,488	4,734,488	260,000	45,994	305,994	5,040,481
2052	3,575,000	310,463	3,885,463	275,000	35,269	310,269	4,195,731
2053	3,730,000	158,525	3,888,525	285,000	23,925	308,925	4,197,450
2054	-	-	-	295,000	12,169	307,169	307,169
	<u>\$ 84,404,994</u>	<u>\$ 55,296,527</u>	<u>\$ 139,701,521</u>	<u>\$ 5,035,000</u>	<u>\$ 4,098,757</u>	<u>\$ 9,133,757</u>	<u>\$ 148,835,278</u>

(1) Excludes the District's outstanding Time Warrants, Series 2016 and Maintenance Tax & Revenue Notes, Series 2019.

(2) Interest calculated at the rates shown on the inside cover page hereof.

TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 8-31-24 ⁽¹⁾	\$ 4,326,421
Interest and Sinking Fund, 8-31-23	\$ 2,162,256
Interest and Sinking Fund Tax Levy @ 98% Collection	3,724,389
State Aid (Additional State Aid for Homestead Exemption)	<u>636,863</u>
Estimated Balance, 8-31-24	<u>6,523,508</u>
	\$ 2,197,087

(1) Includes the Bonds.

TABLE 9 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Amount	Amount	Unissued Balance ⁽¹⁾
			Previously Issued	Being Issued ⁽¹⁾	
School Building, School Sites and Buses	5/1/2021	\$79,865,000	\$74,785,000	\$ 5,080,000	\$0

(1) Amount includes allocated premium to be used against voted authority.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . To the extent that the opportunity to refund outstanding unlimited tax bonds for savings arises during the next twelve months, the District may also consider the issuance of additional unlimited tax bonds for refunding purposes within the next twelve months.

However, 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. See “Table 10 – Other Obligations.”

TABLE 10 – OTHER OBLIGATIONS . . . As of September 1, 2024, the District has the following notes payable from various district equipment rentals, time warrants and tax notes.

Year Ending August 31,	Notes Payable		Total
	Principal	Interest	Requirements
2025	\$ 150,000	\$ 17,080	\$ 167,080
2026	155,000	13,620	168,620
2027	160,000	9,840	169,840
2028	165,000	5,940	170,940
2029	165,000	1,980	166,980
	\$ 795,000	\$ 48,460	\$ 843,460

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 8.0%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. For more detailed information concerning the retirement plan, see “APPENDIX B – EXCERPTS FROM THE DISTRICT’S ANNUAL FINANCIAL REPORT,” Note III.K.

RETIREE HEALTH CARE . . . In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (“TRS-Care”), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. 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 “APPENDIX B – EXCERPTS FROM THE DISTRICT’S ANNUAL FINANCIAL REPORT,” Note III.L.

As a result of its participation in the System and TRS-Care 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 No. 45.

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FINANCIAL INFORMATION

TABLE 11 – CHANGES IN NET POSITION

	Fiscal Years Ended August 31,				
	2023	2022	2021	2020	2019
<u>Assets:</u>					
Current and other assets	\$ 51,414,260	\$ 50,740,852	\$ 55,984,963	\$ 8,281,358	\$ 7,017,766
Capital Assets	<u>56,342,735</u>	<u>29,034,792</u>	<u>25,141,234</u>	<u>24,649,189</u>	<u>25,740,271</u>
Total Assets	<u>\$ 107,756,995</u>	<u>\$ 79,775,644</u>	<u>\$ 81,126,197</u>	<u>\$ 32,930,547</u>	<u>\$ 32,758,037</u>
Deferred outflows of Resources	\$ 6,379,213	\$ 5,198,949	\$ 3,185,936	\$ 3,721,995	\$ 2,837,084
<u>Liabilities:</u>					
Other Liabilities	\$ 3,264,937	\$ 2,831,729	\$ 2,580,599	\$ 2,087,784	\$ 2,195,967
Noncurrent Liabilities	<u>98,744,155</u>	<u>71,733,546</u>	<u>72,754,541</u>	<u>28,272,627</u>	<u>28,615,783</u>
Total Liabilities	<u>\$ 102,009,092</u>	<u>\$ 74,565,275</u>	<u>\$ 75,335,140</u>	<u>\$ 30,360,411</u>	<u>\$ 30,811,750</u>
Deferred inflows of Resources	\$ 4,865,017	\$ 5,508,060	\$ 3,813,634	\$ 2,837,371	\$ 1,722,779
<u>Net Position:</u>					
Invested in capital assets net of related debt	\$ 5,730,026	\$ 6,650,960	\$ (1,608,186)	\$ 4,399,021	\$ 4,650,241
Restricted	2,514,541	2,341,702	51,532,855	1,690,908	1,506,036
Unrestricted Net Assets	<u>(982,468)</u>	<u>(4,091,404)</u>	<u>(44,761,310)</u>	<u>(2,635,169)</u>	<u>(3,095,685)</u>
Total Net Position	<u>\$ 7,262,099</u>	<u>\$ 4,901,258</u>	<u>\$ 5,163,359</u>	<u>\$ 3,454,760</u>	<u>\$ 3,060,592</u>

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TABLE 11A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended August 31,				
	2023	2022	2021	2020	2019
Beginning Balance	\$ 4,438,307	\$ 5,166,056	\$ 5,195,671	\$ 3,947,818	\$ 3,564,556
Revenues:					
Local and Intermediate Sources	\$ 6,637,579	\$ 5,647,520	\$ 5,252,083	\$ 5,077,306	\$ 4,741,043
State Sources	9,858,122	9,813,310	11,753,644	10,493,859	9,067,716
Federal Sources	62,555.00	1,123.00	179,944.00	-	-
Total Revenues	<u>\$ 16,558,256</u>	<u>\$ 15,461,953</u>	<u>\$ 17,185,671</u>	<u>\$ 15,571,165</u>	<u>\$ 13,808,759</u>
Expenditures:					
Instruction	\$ 9,245,116	\$ 8,957,647	\$ 9,174,848	\$ 8,084,281	\$ 7,355,458
Instructional Resources & Media	93,862	184,824	217,273	211,382	339,143
Curriculum & Staff Development	305,977	291,129	284,139	217,764	194,608
Instructional Leadership	96,791	-	-	-	-
School Leadership	1,342,654	1,184,290	1,018,779	944,254	738,407
Guidance, Counseling & Evaluation	332,153	392,387	384,357	342,158	312,440
Health Services	189,646	223,895	202,978	186,079	162,709
Student Transportation	767,634	678,176	620,091	469,284	497,470
Food Services	-	1,142	486	-	-
Cocurricular/Extracurricular Activities	964,315	893,948	630,468	611,672	661,327
General Administration	795,019	723,148	682,667	648,757	695,129
Plant Maintenance & Operations	1,990,270	1,873,402	1,708,771	1,553,817	1,424,999
Security & Monitoring Services	148,821	91,032	90,073	71,903	62,298
Data Processing Services	98,305	116,840	167,260	134,951	-
Facilities Acquisition & Construction	220,898	259,086	1,292,662	159,925	1,412,533
Payments to Fiscal Agent	58,821	60,178	460,212	396,266	368,558
Debt Service	204,279	243,004	277,176	234,425	205,418
Total Expenditures	<u>\$ 16,854,561</u>	<u>\$ 16,174,128</u>	<u>\$ 17,212,240</u>	<u>\$ 14,266,918</u>	<u>\$ 14,430,497</u>
Net Revenues	\$ (296,305)	\$ (712,175)	\$ (26,569)	\$ 1,304,247	\$ (621,738)
Other Revenues	\$ -	\$ (15,574)	\$ (3,046)	\$ (56,394)	\$ 1,005,000
Ending Fund Balance on August 31	<u>\$ 4,142,002</u>	<u>\$ 4,438,307</u>	<u>\$ 5,166,056</u>	<u>\$ 5,195,671</u>	<u>\$ 3,947,818</u>

FINANCIAL POLICIES OF THE DISTRICT . . . Basis of Accounting . . . The accounting policies of Academy Independent School District substantially comply with the rules prescribed in the Texas State Board of Education’s Bulletin 679, Financial Accounting Manual. These accounting policies conform to generally accepted accounting principles applicable to state and local governments (see “APPENDIX B – EXCERPTS FROM THE DISTRICT’S ANNUAL FINANCIAL REPORT”).

General Fund Balance . . . The District’s administration objective is to maintain surplus and unencumbered funds equal to at least two months of expenditures in the General Fund. The District currently maintains a fund balance of approximately 26.99% of expenditures.

Debt Service Fund Balance . . . The Debt Service Fund accounts for the use of debt service taxes and other revenues collected for the purposes of retiring bond principal and paying interest due. This is a budgeted fund for which the District’s policy is to maintain a carry-over balance equal to a minimum of one-eighth of the annual debt service requirement.

Budgetary Procedures . . . Budget development is a year round process. The Superintendent of Schools considers major financial issues and establishes the budget framework during the first half of the school year. Trustees approve the official budget in August.

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INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law, the District is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the "SEC") and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA") 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) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "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 the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. 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 ten (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.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (5) and (14) 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 (5) above, clauses (11) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

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

INVESTMENT OBJECTIVES . . . 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 include a list of authorized investments for District funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) Texas law. No person may invest District funds without express written authority from the Board.

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the District, (3) require the registered principal of firms seeking to sell securities to the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer.

TABLE 12 – CURRENT INVESTMENTS

As of July 11, 2024, the District’s investable funds were invested in the following categories:

Type of Investment	% of Portfolio	Market Value
Certificates of Deposit	1.86%	\$ 438,442
TexPool	20.60%	4,857,236
TexSTAR	77.54%	18,279,846
	<u>100.00%</u>	<u>\$ 23,575,524</u>

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their 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.

TAX MATTERS

OPINION . . . On the Date of Initial Delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (i) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (ii) 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 BOND COUNSEL’S OPINION.”

In rendering its opinion, Bond Counsel will rely upon (a) the District’s federal tax certificate; (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds, and certain other matters; 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 Issuer to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, 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 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 accumulated earnings and profits, and excess passive interest incurred, 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.

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

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.

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 IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain

circumstances, and in respect of Non-U.S. Holders, 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.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 55(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligation, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District covenants to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”**

CYBERSECURITY RISKS

The District, like other school districts in the State, utilizes technology in conducting its operations. As a user of technology, the District potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the District may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the District. The District employs a multi-layered approach to combating cybersecurity threats. While the District deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the District’s finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial. Further, cybersecurity breaches could expose the District to litigation and other legal risks, which could cause the District to incur other costs related to such legal claims or proceedings.

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 is obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”). This information will be available to securities brokers and others who subscribe to receive the information from the vendors. See “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . Under Texas law, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report with the Board Secretary within six months after the close of the District’s fiscal year. The District’s fiscal records and audit reports are available for public inspection during the regular business hours, and the District is required to provide a copy of the District’s audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Service Commission.

The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 and in APPENDIX B. The District will update and provide information of the general type included in the numbered tables within six months after the end of each fiscal year and audited financial statements of the District within 12 months after the end of each fiscal year beginning with the fiscal year ending in and after 2024. The District will provide the updated information to the MSRB. The MSRB intends to make the information available to the public without charge through an internet portal as part of an expansion of its Electronic Municipal Market Access (“EMMA”) System. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements within 12 months after the fiscal year end and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

NOTICE OF CERTAIN EVENTS . . . The District will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such 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 any such financial obligation of the District, any of which reflect financial difficulties. For these purposes, (a) any event described in clause (12) in the 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, and (b) the District intends the words used in clauses (15) and (16) in the preceding paragraph and the definition of financial obligation in this section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “Annual Reports.” Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except for the Permanent School Fund guarantee), or liquidity enhancement or a trustee. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.” The District will provide each notice described in this paragraph to the MSRB.

AVAILABILITY OF INFORMATION FROM THE MSRB . . . All information and documentation filings required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. To make such information available to the public free of charge, the MSRB has established the Electronic Municipal Market Access (“EMMA”) system, which may be accessed over the internet at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . In the last five years, the District has complied in all material respects with its continuing disclosure agreements entered into pursuant to the Rule.

OTHER INFORMATION

RATING . . . The Bonds have been rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the outstanding tax-supported debt of the District have also been rated “A+” by S&P without regard to credit enhancement. The District also has several outstanding issues which are rated “AAA” by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective view of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of the company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

LITIGATION . . . The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition of the District.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments 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 at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – 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 capital of one million dollars or more, 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. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS . . . The delivery of the Bonds is subject to the approval of the Attorney General of Texas 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 limitation as to rate or amount, upon all taxable property in the District and the approving legal opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, 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 of 1986, subject to the matters described under “TAX MATTERS” herein. The proposed form of Bond Counsel’s opinion is attached hereto as APPENDIX C. In connection with the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the District. Though it represents the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was 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 disclosure 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 in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions “THE BONDS” (except for “Sources and Uses of Proceeds”), “THE BONDS” (except for “Permanent School Fund Guarantee,” “DTC Redemption Provisions,” “Book-Entry-Only System,” and “Bondholders’ Remedies”), “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” “TAX RATE LIMITATIONS” (except for the last sentence of the second paragraph of “– I&S Tax Rate Limitations” thereunder), “TAX MATTERS,” “OTHER INFORMATION – Registration and Qualification of Bonds for Sale,” “OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas,” “OTHER INFORMATION – Legal Matters” (except for the last sentence of the first paragraph) and “CONTINUING DISCLOSURE OF INFORMATION” (except under subcaption “Compliance with Prior Undertakings”) and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas.

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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

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

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

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$42,981.61. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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.

Academy Securities, Inc. has entered into third-party distribution agreements with various dealers for the retail distribution of certain municipal securities at the original issue prices. Pursuant to these third-party distribution agreements, Academy Securities may share a portion of its underwriting compensation with the respective dealers.

FORWARD-LOOKING STATEMENTS DISCLAIMER . . . The statements contained in this Official Statement, and in any other information provided by the District, that are not purely historical, are forward-looking statements, including statements regarding the District’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available

to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The District's actual results could differ materially from those discussed in such forward-looking statements.

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

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

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

The Order authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment hereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

/s/ Calvin Eshbaugh
President, Board of Trustees
Academy Independent School District

ATTEST:

/s/ Jennifer Burnett
Secretary, Board of Trustees
Academy Independent School District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE DISTRICT . . . Academy ISD, located in Bell County, is an agricultural area that includes the unincorporated communities of Heidenheimer and Sparks and the Town of Little River.

HISTORICAL DISTRICT ENROLLMENT

Year	Enrollment
2018-19	1,652
2019-20	1,723
2020-21	1,726
2021-22	1,756
2022-23	1,830
2023-24	1,911

THE COUNTY . . . Bell County is at the division point of the Balcones Fault and the beginning of the Blackland Belt of Central Texas. Bell County is located 65 miles north of Austin, 40 miles southwest of Waco, and 140 miles south of the Dallas-Fort Worth Metroplex and encompasses the junction points of Interstate Highway 35, U.S. Highway 190, and U.S. Highway 81. The County was the 7th largest producer of oats and the 8th largest producer of corn for the state in 2006. Fort Hood, a federal military base, is located in Bell County, adjacent to the City of Killeen and a short distance west of the City of Belton. Fort Hood is the largest military installation in Texas and one of the largest in the United States. Fort Hood and its immediately surrounding area constitutes the largest single site employer in the State of Texas. According to an analysis performed by the Texas Comptroller of Public Accounts in December 2012, the Fort Hood Army post had an economic impact of approximately \$25.3 billion in the State during fiscal year 2010-11.

ECONOMY . . . Bell County is the site of five major hospitals which include (i) the Scott and White Memorial Hospital, King’s Daughters Hospital, Olin E. Teague Veterans’ Center in Temple, (ii) Metroplex Hospital in Killeen and (iii) Carl R. Darnall Army Medical Center at Fort Hood. The Scott and White Hospital and Clinic and the Olin E. Teague Veterans’ Center serve as a teaching hospital for Texas A&M University, College of Medicine.

Bell County’s economy is centered on manufacturing, agricultural and railroad related industries. The major employer of Bell County is Fort Hood.

UTILITIES . . . Utility services for the County are provided by the Southwestern Bell Telephone Company, Mid-Texas Telephone Company, Energy Future Holdings and Lone Star Gas. Water and sewer services are provided by the cities and various utility districts throughout Bell County.

TRANSPORTATION . . . Bell County is served by Burlington Northern Santa Fe Railway and Amtrak (Temple). Seven motor freight carriers have daily routes. Bus lines include Southwestern Transit, Greyhound and Kerrville. Draughton-Miller Municipal Airport also serves the area from its site in Temple and commercial air service is provided at the Killeen Fort Hood Regional Airport.

RECREATION . . . Lake Belton and Stillhouse Hollow are located within Bell County and provide numerous camping areas. These lakes are well known as excellent fishing and boating lakes. There are also numerous golf courses and athletic playing fields throughout Bell County.

LABOR MARKET PROFILE

	Bell County	
	July 2024	July 2023
Total Civilian Labor Force	154,669	152,365
Total Employment	146,931	145,216
Total Unemployment	7,738	7,149
Percent Unemployed	5.0%	4.7%

	State of Texas	
	July 2024	July 2023
Total Civilian Labor Force	15,454,094	15,124,871
Total Employment	14,776,132	14,486,077
Total Unemployment	677,962	638,794
Percent Unemployed	4.4%	4.2%

Source: Texas Workforce Commission

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APPENDIX B

EXCERPTS FROM THE
ACADEMY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended August 31, 2023

The information contained in this APPENDIX consists of excerpts from the Academy Independent School District Annual Financial Report for the Year Ended August 31, 2023, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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Paul J. Christensen & Associates, LLC

Certified Public Accountants

2110 Austin Avenue
Waco, Texas 76701
(254)752-3436
FAX (254)752-3463
<http://www.waco-cpa.com>

Paul J. Christensen, C.P.A.
Gary L. Sauls, C.P.A.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Academy Independent School District
Little River-Academy, 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 Academy Independent School District, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise Academy 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 Academy 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 Academy Independent School District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Academy 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 Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally 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 Academy Independent School 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 Academy Independent School District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension and OPEB information on pages 7-11 and 52-59 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 Academy Independent School District's basic financial statements. The combining statements, required TEA schedules and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, required TEA schedules and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2024, on our consideration of Academy 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 Academy 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 Academy Independent School District's internal control over financial reporting and compliance.

Paul J. Christensen & Associates, LLC



Waco, Texas
January 24, 2024

ACADEMY INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Academy Independent School District's annual financial report provides our overview of the District's financial performance for the fiscal year ended August 31, 2023. Please read it in conjunction with the District's financial statements, which begin on page 13.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$7,262,099 (*net position*). Of this amount, a deficit of \$982,468 (unrestricted net position) may be used to meet the District's ongoing obligations to students and creditors.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$49,643,826, which is an increase of \$237,052 in comparison with the prior year. This change is primarily a result of the spending of bond proceeds received in the previous year towards the construction of a new high school.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,955,792 or 35% of total General Funds expenditures, an increase of \$1,517,485 from the prior year. The committed fund balance of \$68,884 reflects the net resources and obligations related to ongoing construction projects at the end of the current fiscal year.

Using This Annual Report

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (pages 13 and 14 respectively). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 15) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The remaining statements – the fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The combining statements for non-major funds contain even more information about the District's individual funds. The sections labeled Required TEA Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities, deferred outflows/inflows of resources at the end of the year while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and revenue provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets, deferred outflows/inflows of resources and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, non-financial factors should be considered as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District reports one activity:

- **Governmental Activities** – The District's services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 15 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U.S. Department of Education. The District's administration establishes other funds to help it control and manage money for particular purposes (such as campus activities).

The District has one type of fund as follows:

Governmental funds – All of the District's services are reported in governmental funds. These use the modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the services it provides. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are provided in reconciliation schedules following each of the governmental fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Government-Wide Financial Analysis

The following analysis presents both current and prior year data and discusses significant changes in the accounts. Our analysis focuses on the net position (Table I) and the change in net position (Table II) of the District's governmental activities.

Table I
Academy Independent School District
Net Position

	Governmental Activities 2023	Governmental Activities 2022
ASSETS		
Current and other assets	\$ 51,414,260	\$ 50,740,852
Capital assets, net	56,342,735	29,034,792
Total assets	<u>107,756,995</u>	<u>79,775,644</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on bond refunding	1,359,632	1,450,274
Deferred outflows related to TRS	2,259,675	1,760,036
Deferred outflows related to TRS OPEB	2,759,906	1,988,639
Total Deferred Outflows of Resources	<u>6,379,213</u>	<u>5,198,949</u>
LIABILITIES		
Long-term liabilities	98,744,155	71,733,546
Other liabilities	3,264,937	2,831,729
Total liabilities	<u>102,009,092</u>	<u>74,565,275</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to TRS	508,799	2,344,008
Deferred inflows related to TRS OPEB	4,356,218	3,164,052
Total Deferred Inflows of Resources	<u>4,865,017</u>	<u>5,508,060</u>
NET POSITION:		
Invested in capital assets, net of related debt	5,730,026	6,650,960
Restricted	2,514,541	2,341,702
Unrestricted	(982,468)	(4,091,404)
Total net position	<u>7,262,099</u>	<u>4,901,258</u>
	<u>\$ 114,136,208</u>	<u>\$ 84,974,593</u>

Table II
Academy Independent School District
Change in Net Position

	Governmental Activities 2023	Governmental Activities 2022
Revenues:		
Program Revenues:		
Charges for services	\$ 685,162	\$ 478,019
Operating grants and contributions	2,201,394	2,193,794
General Revenues:		
Property taxes	9,380,532	8,584,292
State aid - formula grants	9,003,479	8,970,543
Investment earnings	1,720,724	245,434
Miscellaneous	137,327	120,915
Total Revenue	23,128,618	20,592,997
Expenses:		
Instruction	10,316,333	10,186,561
Instructional resources and media services	94,884	191,136
Curriculum and instructional staff development	417,982	574,131
Instructional leadership	91,336	-
School leadership	1,312,704	1,207,058
Guidance, counseling and evaluation services	323,599	399,863
Social work services	-	2,582
Health services	189,063	232,165
Student (pupil) transportation	746,368	711,041
Food services	929,529	898,547
Extracurricular activities	1,099,861	891,144
General administration	810,947	764,591
Facilities maintenance and operations	2,117,729	2,014,665
Security and monitoring services	161,819	98,502
Data processing services	98,013	117,821
Community services	46,343	49,779
Debt service	1,602,881	1,634,546
Bond issuance costs and fees	185,903	648
Facilities acquisition and construction	163,662	22,602
Payments to fiscal agent/member district of SSA	58,821	60,178
Total Expenses	20,767,777	20,057,560
Change in net position	2,360,841	535,437
Net position - beginning	4,901,258	4,365,821
Net position - end	\$ 7,262,099	\$ 4,901,258

Analysis

The District's total revenues increased from \$20,592,997 to \$23,128,618 an increase of \$2,535,621. State aid – formula grants increased by \$32,936. Property taxes increased by \$796,240 due to an increase in the appraised value of property within the school district and an increase in the I&S rate. Federal program revenue decreased by \$469,375 due to a decrease in the breakfast and lunch programs of \$339,047, and a decrease in Elementary and Secondary School Emergency Coronavirus Relief Funds (ESSER II) of \$190,661.

The District's total expenses increased by \$710,217 from \$20,057,560 to \$20,767,777.

The District's Funds

As the District completed the year, its governmental funds (as presented in the balance sheet on page 15 – 17) reported a combined fund balance of \$49,643,826 which is more than last year's total of \$49,406,774. This year's operations resulted in an increase of fund balance of \$237,052.

Over the course of the year, the Board of Trustees revised the budget as needed.

The District's General Fund balance of \$4,142,002 reported in exhibit G-1 differs from the General Fund's budgetary fund balance of \$3,697,307 reported in the budgetary comparison schedule within this report. This is principally due to actual revenues being less than budgeted revenues and actual expenditures being less than budgeted expenditures.

Capital Asset and Debt Administration

Capital Assets

At the end of 2023, the District had \$56,342,735 net of depreciation invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

This year's major additions:

New School – Construction in Progress	\$28,309,699
Buildings & Improvements	301,278
Equipment	68,869
Vehicles	126,712

Debt

At year-end, the District had long-term debt obligations of \$92,805,591.

Economic Factors and Next Year's Budgets and Rates

For the 2023-2024 school year, the District will strive to maintain all programs without significant changes. The District continues to be aware of and plan for coming legislative changes to state funding in order to be successful in maintaining their educational programs, meeting increased state guidelines and maintaining adequate fund balance reserves.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Academy Independent School District 704 East Main Street Little River-Academy, TX 76554-9801 – (254) 982-4304.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	1 Primary Government
	Governmental Activities
ASSETS	
1110 Cash and cash equivalents	\$ 50,891,640
1220 Property taxes - delinquent	186,156
1240 Due from other governments	335,652
1290 Other receivables (net)	501
Capital Assets:	
1510 Land	1,648,225
1520 Buildings and Improvements, net	20,865,261
1530 Furniture and Equipment, net	636,405
1540 Vehicles, net	642,920
1560 Library Books and Media, net	113,410
1580 Construction in Progress	32,436,514
1900 Other Assets	311
1000 Total assets	107,756,995
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred charge for refunding	1,359,632
1705 Deferred outflows related to TRS	2,259,675
1706 Deferred outflows related to TRS OPEB	2,759,906
1700 Total deferred outflows of resources	6,379,213
LIABILITIES	
2110 Accounts payable	183,567
2140 Interest payable	109,172
2160 Accrued Wages Payable	1,112,730
2165 Accrued liabilities	61,486
2170 Due to fiduciary funds	110
2200 Accrued Expenditures or expenses	29,905
2300 Deferred revenue	257,967
Noncurrent liabilities:	
2501 Due within one year	1,510,000
2502 Due in more than one year	91,295,591
2540 Net Pension Liability (District's Share)	4,597,320
2545 Net OPEB Liability (District's Share)	2,851,244
2000 Total liabilities	102,009,092
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred inflows related to TRS	508,799
2606 Deferred inflows related to TRS OPEB	4,356,218
2600 Total deferred inflows of resources	4,865,017
NET POSITION	
3200 Invested in capital assets and right to use lease, net of related debt	5,730,026
Restricted for:	
3820 Federal and state programs	112,490
3850 Debt service	2,402,051
3900 Unrestricted	(982,468)
3000 Total net position	\$ 7,262,099

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

ACADEMY 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	10,316,333	242,089	1,379,306	(8,694,938)
12	Instructional resources and media services	94,884	11,959	11,892	(71,033)
13	Curriculum and staff development	417,982	-	15,026	(402,956)
21	Instructional leadership	91,336	-	(3,597)	(94,933)
23	School leadership	1,312,704	122,964	597,638	(592,102)
31	Guidance, counseling, and evaluation services	323,599	9,032	15,123	(299,444)
33	Health services	189,063	-	5,368	(183,695)
34	Student transportation	746,368	-	24,390	(721,978)
35	Food Service	929,529	163,908	31,075	(734,546)
36	Extracurricular activities	1,099,861	99,042	21,521	(979,298)
41	General administration	810,947	-	26,800	(784,147)
51	Facilities maintenance and operations	2,117,729	36,168	67,448	(2,014,113)
52	Security and monitoring services	161,819	-	5,313	(156,506)
53	Data processing services	98,013	-	6,259	(91,754)
61	Community services	46,343	-	(2,168)	(48,511)
72	Interest on long-term debt	1,602,881	-	-	(1,602,881)
73	Bond Issuance costs and fees	185,903	-	-	(185,903)
81	Capital outlay	163,662	-	-	(163,662)
93	Payments related to shared services arrangements	58,821	-	-	(58,821)
TP	Total primary government	\$ 20,767,777	\$ 685,162	\$ 2,201,394	\$ (17,881,221)

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	6,268,997
DT	Property Taxes, Levied for Debt Service	3,111,535
SF	State Aid - Formula Grants	9,003,479
IE	Investment Earnings	1,720,724
MI	Miscellaneous Local and Intermediate Revenue	137,327
TR	Total General Revenues	20,242,062
CN	Change in Net Position	2,360,841
NB	Net Position - beginning	4,901,258
NE	Net Position - ending	\$ 7,262,099

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

**ACADEMY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2023**

EXHIBIT C-1

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS					
1110 Cash and cash equivalents	\$ 6,783,489	\$ 2,487,471	\$ 41,151,959	\$ 468,721	\$ 50,891,640
1220 Property taxes - delinquent	96,750	89,406	-	-	186,156
1240 Due from other governments	13,857	6,569	-	315,226	335,652
1260 Due from other funds	405,402	3,363	1,813,790	-	2,222,555
1290 Other receivables	-	501	-	-	501
1900 Other assets	311	-	-	-	311
1000 Total Assets	<u>7,299,809</u>	<u>2,587,310</u>	<u>42,965,749</u>	<u>783,947</u>	<u>53,636,815</u>
LIABILITIES					
2110 Accounts payable	111,287	-	-	72,280	183,567
2160 Accrued wages payable	983,487	-	-	129,243	1,112,730
2170 Due to other funds	1,820,505	-	209,537	192,623	2,222,665
2200 Accrued expenditures/expenses	20,892	-	-	9,013	29,905
2300 Unearned revenue	124,886	95,854	-	37,227	257,967
2000 Total Liabilities	<u>3,061,057</u>	<u>95,854</u>	<u>209,537</u>	<u>440,386</u>	<u>3,806,834</u>
DEFERRED INFLOWS OF RESOURCES					
2601 Unavailable revenue - property taxes	96,750	89,405	-	-	186,155
2600 Total Deferred Inflows of Resources	<u>96,750</u>	<u>89,405</u>	<u>-</u>	<u>-</u>	<u>186,155</u>
FUND BALANCES					
3450 Restricted - Food Service	-	-	-	112,490	112,490
3470 Restricted - Capital Projects	-	-	42,756,212	-	42,756,212
3480 Restricted - Debt Service	-	2,402,051	-	-	2,402,051
3510 Committed - Construction	68,884	-	-	19,844	88,728
3545 Committed - Bell Co. Coop	-	-	-	152,674	152,674
3600 Unassigned	4,073,118	-	-	58,553	4,131,671
3000 Total Fund Balances	<u>4,142,002</u>	<u>2,402,051</u>	<u>42,756,212</u>	<u>343,561</u>	<u>49,643,826</u>
4000 Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 7,299,809</u>	<u>\$ 2,587,310</u>	<u>\$ 42,965,749</u>	<u>\$ 783,947</u>	<u>\$ 53,636,815</u>

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

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

EXHIBIT C-1R

Total Fund Balances - Governmental Funds	\$	49,643,826
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 \$45,988,138 and the accumulated depreciation was (\$21,080,470). In addition, long-term liabilities, including bonds payable, premium, and the loss on refundings, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		(35,780,430)
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2022 capital outlays and debt principal payments is to increase net position.		2,066,340
<p>Current year bond additions and bond payoffs are revenue in the fund financial statements, but they should be shown as increases or decreases in bonds payable in the government-wide financial statements. The net effect of including the 2023 bond additions and pay-offs is to increase net position.</p>		
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$2,259,675, a deferred resource inflow in the amount of \$508,799 and a net pension liability in the amount of \$4,597,320.		(7,294,000)
<p>Also included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$2,759,906, a deferred resource inflow in the amount of \$4,356,218 and a net OPEB liability in the amount of \$2,851,244. The net effect of items related to GASB 68 and GASB 75 for pension and OPEB liabilities was a decrease in net position.</p>		
4 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,498,306)
5 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, and recognizing the liabilities associated with maturing long-term debt and interest and compensated absences. The net effect of these reclassifications and recognitions is to increase net position.		124,669
19 Net Position of Governmental Activities	\$	7,262,099

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

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

EXHIBIT C-2

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Project Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES					
5700 Local and intermediate sources	\$ 6,637,579	\$ 3,284,766	\$ 1,321,411	\$ 660,718	\$ 11,904,474
5800 State program revenues	9,858,122	73,386	-	98,672	10,030,180
5900 Federal program revenues	62,555	-	-	1,622,949	1,685,504
5020 Total revenues	<u>16,558,256</u>	<u>3,358,152</u>	<u>1,321,411</u>	<u>2,382,339</u>	<u>23,620,158</u>
EXPENDITURES					
Current:					
0011 Instruction	9,245,116	-	-	1,262,451	10,507,567
0012 Instructional resources and media services Curriculum and instructional staff	93,862	-	-	-	93,862
0013 development	305,977	-	-	125,019	430,996
0021 Instructional leadership	96,791	-	-	-	96,791
0023 School leadership	1,342,654	-	-	769	1,343,423
0031 Guidance, counseling, and evaluation services	332,153	-	-	-	332,153
0033 Health services	189,646	-	-	850	190,496
0034 Student (pupil) transportation	767,634	-	-	-	767,634
0035 Food services	-	-	-	909,406	909,406
0036 Extracurricular activities	964,315	-	-	112,755	1,077,070
0041 General administration	795,019	-	-	-	795,019
0051 Facilities maintenance and operations	1,990,270	-	-	33,443	2,023,713
0052 Security and monitoring services	148,821	-	-	-	148,821
0053 Data processing services	98,305	-	-	-	98,305
0061 Community services	-	-	-	50,736	50,736
Debt Service:					
0071 Principal on long-term debt	178,262	1,305,000	-	-	1,483,262
0072 Interest on long-term debt	26,017	1,815,970	-	-	1,841,987
0073 Bond issuance costs and fees	-	(2,613)	-	-	(2,613)
Capital outlay:					
0081 Facilities acquisition and construction	220,898	-	28,654,080	-	28,874,978
Intergovernmental:					
0093 Payments to fiscal agent/member district of SSA	58,821	-	-	-	58,821
6030 Total expenditures	<u>16,854,561</u>	<u>3,118,357</u>	<u>28,654,080</u>	<u>2,495,429</u>	<u>51,122,427</u>
1100 Excess (deficiency) of revenues over expenditures	(296,305)	239,795	(27,332,669)	(113,090)	(27,502,269)
OTHER FINANCING SOURCES (USES) :					
7911 Bond Issued	-	-	27,255,000	-	27,255,000
7916 Premium on bonds	-	-	484,321	-	484,321
7914 Non-current loan proceeds	-	-	-	-	-
7915 Transfers in	-	-	-	-	-
8911 Transfer out	-	-	-	-	-
8949 Payment to escrow	-	-	-	-	-
7080 Total other financing sources and (uses)	-	-	<u>27,739,321</u>	-	<u>27,739,321</u>
1200 Net change in fund balances	(296,305)	239,795	406,652	(113,090)	237,052
0100 Fund balances--beginning	4,438,307	2,162,256	42,349,560	456,651	49,406,774
3000 Fund balances--ending	<u>\$ 4,142,002</u>	<u>\$ 2,402,051</u>	<u>\$ 42,756,212</u>	<u>\$ 343,561</u>	<u>\$ 49,643,826</u>

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

ACADEMY 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-3

Total Net Change in Fund Balances - Governmental Funds	\$	237,052
<p>Bond proceeds are recognized as revenue in the financial statements, but they be shown as increases in long-term debt in the government-wide financial statements. The net effect of removing the 2023 bond revenue is to decrease net position.</p>		
		(27,739,320)
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2021 capital outlays and debt principal payments is to increase net position.</p>		
		30,289,820
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(1,498,306)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, and recognizing the liabilities associated with maturing long-term debt and interest and compensated absences. The net effect of these reclassifications and recognitions is to increase net position.</p>		
		75,805
<p>GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$375,901. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling \$361,351. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$295,600.</p>		
		995,790
<p>GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$1,092,350. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$97,805. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$282,295. The net effect for both GASB 68 and GASB 75 related to pension and OPEB expenses is an increase in the change in net position.</p>		
		995,790
Change in Net Position of Governmental Activities	\$	2,360,841

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

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

EXHIBIT E-1

	Scholarship Trust Fund	Student Activity Custodial Fund
ASSETS		
Cash and Cash Equivalents	\$ 7,088	\$ 155,557
Due from General Fund		110
Total Assets	7,088	155,667
LIABILITIES		
Due to Other Funds	-	-
Due to Student Groups	-	146,021
Total Liabilities	-	146,021
NET POSITION		
Restricted for Scholarships	7,088	9,646
Total Net Position	\$ 7,088	\$ 9,646

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

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

EXHIBIT E-2

	Scholarship Trust Fund	Student Activity Custodial Fund
ADDITIONS:		
Local and Intermediate Sources	\$ 15,103	\$ 392,566
Total Additions	15,103	392,566
DEDUCTIONS:		
Supplies & Materials	-	371,859
Other Operating Costs	74,079	-
Total Deductions	74,079	371,859
Change in Net Position	(58,976)	20,707
Total Net Position - September 1 (Beginning)	66,064	(11,061)
Prior Period Adjustment	-	-
Total Net Position - August 31 (Ending)	\$ 7,088	\$ 9,646

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Academy Independent School District have been prepared in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement No. 76, and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") consists of seven members and has governance responsibilities over all activities related to public elementary and secondary school education within the Academy Independent School District (the "District"). Board members are elected by the public and have the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity". There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. These statements report information on all non-fiduciary activities of the District. The effect of the interfund activity in the government-wide statements eliminates services provided and used in the process of consolidation. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges for services by a given function, and 2) grants and contributions, which are restricted to meeting operational requirements of a particular function. Charges for services includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. Grants and contributions includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes and state aid are properly excluded from program revenues and reported as general revenues instead.

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

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The District considers all revenues available if they are collectible within 60 days of the end of the current fiscal period. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable. However, unmatured interest and principal on long-term debt are recognized only when due. The expenditures related to certain compensated absences and claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

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

Fiduciary funds are used to report on assets held in by the District in trust by others. These funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

Custodial Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities and have no equity. Therefore, revenues and expenditures for these funds are not included for general operations of the district.

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **General Fund** – The General Fund is the District’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in the Debt Service Fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

3. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in the capital projects fund.
4. **Special Revenue Fund** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a Special Revenue Fund. Most Federal and some state financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds:

5. **Private Purpose Trust Fund** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District’s Private Purpose Trust Fund is a Scholarship Fund.
6. **Custodial Fund** – The District accounts for resources held for others in custodial funds. The District’s Custodial Funds are Student Activity Accounts.

E. OTHER ACCOUNTING POLICIES

Food Commodities

Food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and expenditures are charged and revenue is recognized for an equal amount when received.

Capital Assets

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

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

E. OTHER ACCOUNTING POLICIES (continued)

Capital Assets (continued)

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

Buildings, furniture and equipment of the District are depreciated using the straight-line method over the following estimated useful lives. See schedule below

<u>Assets</u>	<u>Year</u>
Buildings	39
Building Improvements	20
Vehicles	7
Office Equipment	7
Computer Equipment	7

Long-Term Obligations

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

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

Compensated Absences

Employees are allowed to accrue five days of state personal leave each year without limit. State personal leave does not vest under the District's policy and accordingly, employees can only utilize state personal leave when sick, or state personal leave for personal reasons when approved by their supervisor. Since the employees' accumulating rights to receive compensation for future absences are contingent upon the absences being caused by future illnesses and such amounts cannot be reasonably estimated, a liability for unused sick leave is not recorded in the basic financial statements.

Employees who retire from the District under the requirements of the Texas Teacher Retirement System are reimbursed for the accrued but unused state sick leave and state personal leave accumulated while employed in the District. The rate of payment is the daily rate for the position. Teachers and administrative personnel do not receive paid vacations but are paid only for the number of days they are required to work each year.

In the event of termination, an employee is reimbursed for any unused accumulated vacation leave. The District has no liability for unused vacation pay since all vacation leave is used or paid if not taken each year. Vacation pay is charged to operations when taken by the employees of the District.

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

E. OTHER ACCOUNTING POLICIES (continued)

Pensions

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

Other Post-Employment Benefits

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District is reporting an item related to TRS which represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net position liability and net OPEB liability. The District also reports a deferred charge on refunding, which is the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the life of the refunded debt.

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

Leases

Effective July 1, 2021, the District implemented GASB No. 87, Leases. As the lessee, the District determines whether a contract is, or contains a lease at inception. Lease agreements with a maximum lease term of twelve months or less, including options to extend, are accounted for as a short-term lease. Lease agreements that transfer ownership of the underlying asset to the District at the end of the contract are recorded as a finance purchase with a related lease liability. Lease agreements not classified as a short-term lease, or a finance purchase are accounted for as a right to use lease asset. Right to use lease assets and lease liabilities are recognized at lease commencement based upon the estimated present value of unpaid lease payments over the lease term. The District uses its incremental borrowing rate based on information available at lease commencement in determining the present value of unpaid lease payments.

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

E. OTHER ACCOUNTING POLICIES (continued)

Fund Balance Classification

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

Non-spendable Fund Balance - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid accounts. It also includes the long-term amount of the loans and notes receivable.

Restricted Fund Balance - includes amounts for which constraints have been placed on the use of the resources (a) either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law thorough constitutional provision of enabling legislation.

Committed Fund Balance - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board of Trustees remove or change the specified use by taking the same type of action it employed when the funds were initially committed.

Assigned Fund Balance - includes amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the Board of Trustees or by other officials to which the Board of Trustees has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board of Trustees delegates the responsibility to assign funds to the superintendent or his/her designees.

Unassigned Fund Balance - is the residual classification for the General Fund. The classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposed within the General Fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

Net Position

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

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

E. OTHER ACCOUNTING POLICIES (continued)

Net Position Flow Assumption

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

Program Revenue

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2023 will change.

Data Control Codes

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

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-1R provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds and long-term liabilities are not reported in the governmental funds. The details of capital assets and long-term liabilities at the beginning of the year were as follows:

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Book Value Beg. of Year	Change in Net Position
Land	\$ 1,648,225	\$ -	\$ 1,648,225	
Buildings and improvements	37,100,698	15,364,645	21,736,053	
Furniture and equipment	4,597,696	3,840,327	757,369	
Vehicles	2,528,109	1,875,498	652,611	
Books and media	113,410	-	113,410	
Construction in Progress	4,126,815	-	4,126,815	
	<u>\$ 50,114,953</u>	<u>\$ 21,080,470</u>	<u>\$ 29,034,483</u>	<u>\$ 29,034,483</u>

Long-term Liabilities at the Beginning of the year	Payable at the Beg. of Year	Change in Net Position
Bonds Payable	\$ 58,454,994	
Premium/Discount on Bonds Sold	6,686,931	
Loans Payable	1,123,262	
Deferred charge on bond refunding	(1,450,274)	
Total Liabilities	<u>\$ 64,814,913</u>	<u>\$ 64,814,913</u>

Net Adjustment to Net Position	<u>\$ (35,780,430)</u>
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**ACADEMY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2023**

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-3 provides the reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements but should be shown as increases in capital assets and reductions in long-term debt in the government-wide statements and this adjustment affects both the net position balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
<u>Current Year Capital Outlay:</u>			
Land	\$ -		
Buildings and Improvements	301,278		
Furniture and Equipment	68,869		
Vehicles	126,712		
Construction in Progress	28,309,699		
Total Capital Outlay	<u>\$ 28,806,558</u>	<u>\$ 28,806,558</u>	<u>\$ 28,806,558</u>
<u>Debt Principal Payments</u>			
Loan Payments	\$ 178,262		
Bond Principal	1,305,000		
Total Principal	<u>\$ 1,483,262</u>	<u>\$ 1,483,262</u>	<u>\$ 1,483,262</u>
Total Adjustment to Net Position			<u>\$ 30,289,820</u>

Another element of the reconciliation on Exhibit C-3 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
<u>Adjustments to Revenue and Deferred Revenue:</u>			
Taxes Collected from Prior Years	\$ 777,194	\$ (777,194)	\$ -
Uncollected taxes (assumed collectible) from Current Year Levy	98,890	98,890	98,890
Uncollected taxes (assumed collectible) from Prior Year Levy	87,266	-	87,266
Difference between Prior Estimated Delinquent Taxes Collectable and Actual Collection Rate	82,856	82,856	-
<u>Adjustments to Short-term liabilities</u>			
Interest Payable	4,360	4,360	-
Compensated Absences	(67,432)	(5,945)	(61,487)
<u>Adjustments to Long-term liabilities</u>			
Premium on Bonds	672,838	672,838	-
		<u>\$ 75,805</u>	<u>\$ 124,669</u>

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

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

District Policies and Legal and Contractual Provisions Governing Investments

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

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

As of August 31, 2023, Academy Independent School District had the following investments:

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>				
	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Certificates of Deposit	\$ 438,443	\$ 438,443	\$ -	\$ -	\$ -
TexPool	2,074,589	2,074,589	-	-	-
TexStar	47,297,597	47,297,597	-	-	-
Total Investments	49,810,629	49,810,629	-	-	-
Total Cash	1,081,011	1,080,011	-	-	-
Total Cash & Cash Equivalents	\$ 50,891,640	\$ 50,890,640	\$ -	\$ -	\$ -

Additional policies and contractual provisions governing deposits and investments for Academy Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to certificates of deposits which are covered by pledged securities.

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

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

A. DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires investments to have maturities of one year or less. The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes authorize the District to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool. Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

Allowance for uncollectible tax receivables is based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. There is no allowance for uncollectible tax receivables at August 31, 2023.

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

D. INTERFUND BALANCES AND TRANSFERS

Interfund receivables and payables primarily occur between the General Fund and Special Revenue Funds. Special Revenue Funds often incur expenditures prior to a reimbursement being received from the granting agency. Interfund balances at August 31, 2023, were as follows:

Fund	Due to	Due from
General Fund		
Special Revenue Funds	\$ 3,242	\$ 192,623
Debt Service Fund	3,363	-
Capital Projects Fund	1,813,790	209,537
Trust and Custodial Fund	110	-
	1,820,505	402,160
Special Revenue Funds		
General Fund	192,623	3,242
Special Revenue Fund	-	-
	192,623	3,242
Debt Service Fund		
General Fund	-	3,363
	-	3,363
Capital Projects Fund		
General Fund	209,537	1,813,790
	209,537	1,813,790
Trust and Custodial Fund		
General Fund	-	110
	-	110
	\$ 2,222,665	\$ 2,222,665

Interfund transfer primarily occur with the General Fund making a transfer to another fund that is operating at a deficiency. There were no interfund transfers during the year ended August 31, 2023.

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

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2023, were as follows:

	Property Taxes	Other Governments	Other	Total Receivables
Governmental Activities:				
General Fund	\$ 96,750	\$ 13,857	\$ -	\$ 110,607
Debt Service Fund	89,406	6,569	501	96,476
Other Governmental Funds	-	315,226	-	315,226
Total-Governmental Activities	\$ 186,156	\$ 335,652	\$ 501	\$ 522,309

Payables at August 31, 2023, were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Governments	Other	Total Payables
Governmental Activities:					
General Fund	\$ 111,287	\$ 983,487	\$ -	\$ 20,892	\$ 1,115,666
Debt Service Fund	-	-	-	-	-
Other Governmental Funds	72,280	129,243	-	9,013	210,536
Total-Governmental Activities	\$ 183,567	\$ 1,112,730	\$ -	\$ 29,905	\$ 1,326,202

Amounts not scheduled for payment during
the subsequent year

\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
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F. CAPITAL ASSET ACTIVITY

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

	Balance 8/31/2022	Additions	Retirements	Reclassifications	Balance 8/31/2023
Governmental Activities:					
Land	\$ 1,648,225	\$ -	\$ -	\$ -	\$ 1,648,225
Buildings and improvements	37,100,698	301,278	-	-	37,401,976
Furniture and equipment	4,597,696	68,869	-	-	4,666,565
Vehicles	2,528,109	126,712	-	-	2,654,821
Books and media	113,410	-	-	-	113,410
Construction in Progress	4,126,815	28,309,699	-	-	32,436,514
Total at historical cost	50,114,953	28,806,558	-	-	78,921,511
Less accumulated depreciation for:					
Buildings and improvements	(15,364,645)	(1,172,070)	-	-	(16,536,715)
Furniture and equipment	(3,840,327)	(189,833)	-	-	(4,030,160)
Vehicles	(1,875,498)	(136,403)	-	-	(2,011,901)
Total accumulated depreciation	(21,080,470)	(1,498,306)	-	-	(22,578,776)
Governmental Activities: Capital Assets, Net	\$ 29,034,483	\$ 27,308,252	\$ -	\$ -	\$ 56,342,735

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

F. CAPITAL ASSET ACTIVITY (continued)

Depreciation expense was charged to governmental functions as follows:

Depreciation by Function	Depreciation Expense
11 Instruction	\$ 829,847
12 Instruction Resources and Media Services	7,643
13 Curriculum and Instructional Staff Development	33,659
23 School Leadership	105,689
31 Guidance, Counseling and Evaluation Services	26,058
33 Health Services	15,246
34 Student (Pupil Transportation)	60,082
35 Food Services	74,827
36 Extracurricular Activities	88,460
41 General Administration	65,274
51 Facilities Maintenance and Operations	170,619
52 Security and Monitoring Services	12,998
53 Data Processing Services	7,904
Total	\$ 1,498,306

G. UNEARNED REVENUE

Governmental funds defer revenue recognition in connection with monies that have been received but not yet earned. As of August 31, 2023, the components of unearned revenue reported in the General, Debt Service and Non-Major funds consisted of the following:

	General	Debt Service	Non-Major	Totals
Grants	\$ 124,886	\$ 95,854	\$ 30,817	\$ 251,557
Other	-	-	6,410	6,410
Totals	\$ 124,886	\$ 95,854	\$ 37,227	\$ 257,967

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

H. LONG-TERM LIABILITIES

The District's long-term liabilities consist of bond indebtedness and notes payable. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund.

Changes in Long-term Liabilities

Long-term liability activity for the fiscal year ended August 31, 2023 was as follows:

Description	Amounts			Amounts Outstanding 8/31/2023	Due Within One Year
	Outstanding 9/1/2022	Additions	Retirements		
General Obligation Bonds	\$ 58,454,994	\$ 27,255,000	\$ 1,305,000	\$ 84,404,994	\$ 1,360,000
Bond Premium	7,108,147	672,838	325,388	7,455,597	-
Notes Payable	1,123,262	-	178,262	945,000	150,000
Net Pension Liability	1,981,422	2,977,249	361,351	4,597,320	-
Net OPEB Liability	4,548,983	(1,599,934)	97,805	2,851,244	-
Totals	\$ 73,216,808	\$ 29,305,153	\$ 2,267,806	\$ 100,254,155	\$ 1,510,000

Bonds Payable

Bond indebtedness of the District is reflected in the general long-term debt account group. Current requirements for principal and interest expenditures related to bonds are accounted for in the Debt Service Fund.

In May 2021, the District issued Unlimited Tax Refunding Bonds in the amount of \$13,539,994, for the purpose of refunding a portion of existing bonds at a present value savings. The proceeds were used to refund \$13,540,000 of Unlimited Tax School Building Bonds, Series 2013 that had an interest rate ranging from 2-5%. This portion of the old bonds are considered defeased and have been removed from the District's financial statements leaving \$1,195,000 of the original bond outstanding. The reacquisition price exceeded the net carrying value of the old debt by \$1,540,916, which is reported as a deferred outflow of resources and amortized over the remaining life of the refunding debt. The refunding reduced the District's total debt service payments by \$2,659,704 for a present value economic gain of \$2,186,212.

On August 21, 2023, the District issued \$27,255,000 in Unlimited Tax Building Bonds for the purpose of designing, construction, renovating, improving, upgrading, updating, acquiring and equipping school facilities, and the purchase of necessary sites for school facilities, and the purchase of new school vehicles and were issued in accordance with Texas law. The bonds mature in various amounts, with interest rates of 4-5% with final maturity on August 15, 2053. The bonds were issued at a net premium of \$672,838, which is being amortized over the life of the bonds.

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

H. LONG-TERM LIABILITIES (continued)

A summary of changes in bonds payable for the year ended August 31, 2023 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/1/2022	Issued	Retired	Amounts Outstanding 8/31/23	
Unlimited Tax School Build. Bonds Series 2013	2 - 5%	\$ 16,985,000	\$ 25,325	\$ 810,000	\$ -	\$ 400,000	\$ 410,000	
Unlimited Tax Refunding Bond Series 2021 May	1 - 4%	13,539,994	299,445	13,359,994	-	190,000	13,169,994	
Unlimited Tax School Build. & Refund. Bond Series 2021 August	3 - 5%	44,970,000	1,491,200	44,285,000	-	715,000	43,570,000	
Unlimited Tax School Build. Bond Series 2023 August	4-5%	27,255,000	-	-	27,255,000	-	27,255,000	
				<u>\$ 1,815,970</u>	<u>\$ 58,454,994</u>	<u>\$ 27,255,000</u>	<u>\$ 1,305,000</u>	<u>\$ 84,404,994</u>

The annual requirements to pay principal and interest on the bond obligations outstanding as of August 31, 2023, are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2024	\$ 1,360,000	\$ 2,966,421	\$ 4,326,421
2025	1,560,000	2,931,458	4,491,458
2026	1,875,000	2,859,757	4,734,757
2027	1,945,000	2,791,553	4,736,553
2028	1,392,002	3,345,509	4,737,511
2029-2033	9,977,992	13,697,859	23,675,851
2034-2038	12,990,000	10,689,120	23,679,120
2039-2043	15,375,000	8,297,312	23,672,312
2044-2048	18,200,000	5,472,163	23,672,163
2049-2053	19,730,000	2,245,375	21,975,375
	<u>\$ 84,404,994</u>	<u>\$ 55,296,527</u>	<u>\$ 139,701,521</u>

Prior-Year Refunding's

In prior years, the District defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District's financial statements.

Notes Payable

Note indebtedness of the District is reflected in the following schedule.

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

H. LONG-TERM LIABILITIES (continued)

A summary of changes in notes payable for the year ended August 31, 2023 is as follows:

Description	Note	Payable	Interest Current Year	Amounts Outstanding 9/1/2022	Issued	Retired	Amounts Outstanding 8/31/23
BB&T Gov. Fin. - Time Warrants	6/30/2016	1.930%	\$ 3,956	\$ 245,000	\$ -	\$ 80,000	\$ 165,000
Amegy Bank - Tax Notes	3/28/2019	2.400%	19,491	845,000	-	65,000	780,000
BancorpSouth - Bus	8/20/2021	2.590%	2,570	33,262	-	33,262	-
			\$ 26,017	\$ 1,123,262	\$ -	\$ 178,262	\$ 945,000

The annual requirements to pay principal and interest on the notes payable outstanding as of August 31, 2023, are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2024	\$ 150,000	\$ 20,293	\$ 170,293
2025	150,000	17,080	167,080
2026	155,000	13,620	168,620
2027	160,000	9,840	169,840
2028	165,000	5,940	170,940
2029	165,000	1,980	166,980
	\$ 945,000	\$ 68,753	\$ 1,013,753

I. COMMITMENTS UNDER LEASES

At August 31, 2023, the District's leased assets were immaterial to the financial statements.

J. ACCUMULATED UNPAID LEAVE BENEFITS

Upon retirement, the District pays accumulated sick leave and personal days obtained while at the District. The employee must have served 10 consecutive years in the District, be in good standing, and retiring through TRS. The District will reimburse for a maximum of 40 days at the employee's daily rate with a maximum payout of \$9,000. As of the fiscal year ending August 31, 2023, the District's potential payout to retirees for unpaid leave was \$61,486.

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

K. DEFINED BENEFIT PENSION PLAN

Plan Description. Academy Independent School District participates in a public employee retirement system that is a multiple-employer, cost-sharing, defined benefit pension plan that has a special funding situation. The plan is administered by the Board of Trustees of the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established or amended under the authority of the Texas Constitution, Article XVI, Section 67 and by the Legislature in the 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 benefits.

State law requires the plan to be actuarially sound in order for the legislature to consider a benefit enhancement, such as a supplemental payment to retirees. The pension became actuarially sound in May 2019 when the 86th Texas legislature approved the TRS Pension Reform Bill (SB12) that provided gradual contribution increases from the state, participating employers and active employees for the fiscal years 2019 through 2024.

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 243,553,045,455
Less: Plan Fiduciary Net Position	<u>(184,185,617,196)</u>
Net Pension Liability	<u>\$ 59,367,428,259</u>
 Net Position as percentage of Total Pension Liability	 75.62%

Benefits Provided. TRS provides retirement, disability, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard workload and who are not exempt from membership under Texas Government Code, Title 8, Section 822.002. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description listed above.

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. 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.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2020 thru 2025.

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

K. DEFINED BENEFIT PENSION PLAN (continued)

	Contribution Rates	
	2022	2023
Member	8.00%	8.00%
Non-Employer Contributing Entity (State)	7.75%	8.00%
Employers	7.75%	8.00%
Current fiscal year employer contributions		\$ 375,901
Current fiscal year member contributions		904,466
2022 measurement year NECE on-behalf contributions		673,950

Contributors to the plan include active members, employers and the State of Texas as the only non-employer contributing entity. 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, private, local or non-educational and general funds.
- When the employing district is a public junior college district, the employer shall contribute to the retirement system an amount equal to 50 percent of the state contribution rate for certain instructional or administrative employees and 100 percent of the state contribution rate for all other employees.

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

- 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.
- All public schools, charter schools and regional education service centers must contribute 1.7 percent of the member's salary beginning in fiscal year 2022, gradually increasing to 2 percent in fiscal year 2025. The surcharge amount is 1.8 percent for fiscal year 2023.

Actuarial Methods and Assumptions. The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the total pension liability to August 31, 2022.

The total pension liability is determined by an annual actuarial valuation. The actuarial methods and assumptions were selected by the Board of Trustees based upon analysis and recommendations by the System's actuary. The Board of Trustees has sole authority to determine the actuarial assumptions used for the Plan. The actuarial methods and assumptions were primarily based on a study of actual experience for the four-year period ending August 31, 2021 and were adopted in July 2022.

The post-retirement mortality rates for healthy lives were based on the 2021 TRS of Texas Healthy Pensioners Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published projection scale ("U-MP"). The active mortality rates were based on the published PUB(2010) Mortality Tables for Teachers, below median, also with full generational mortality. The long-term expected rate of return on pension plan investments is 7.00 percent.

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

K. DEFINED BENEFIT PENSION PLAN (continued)

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

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 Rate	7.00%
Municipal Bond Rate as of August 2020	3.91% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Inflation	2.30%
Salary Increases	2.95% to 8.95%, including inflation
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2021. For a full year description of these assumptions, please see the actuarial valuation report dated November 22, 2022 and located at <https://www.trs.texas.gov>.

Discount Rate. The single discount rate used to measure the total pension liability was 7.00 percent. The rate was based on the expected rate of return on plan investments of 7.00 percent. 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 set during the 2019 legislative 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.

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:

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

K. DEFINED BENEFIT PENSION PLAN (continued)

Asset Class ¹	Target Allocation ²	Real Return Geometric Basis ³	Long-term Expected Portfolio Real Rate of Return
Global Equity			
U.S.	18%	3.60%	0.94%
Non-U.S. Developed	13%	4.40%	0.83%
Emerging Markets	9%	4.60%	0.74%
Private Equity	14%	6.30%	1.36%
Stable Value			
Government Bonds	16%	-0.20%	0.01%
Absolute Return	0%	1.10%	0.00%
Stable Value Hedge Funds	5%	2.20%	0.12%
Real Return			
Real Estate	15%	4.50%	1.00%
Energy and Natural Resources	6%	4.70%	0.35%
Commodities	0%	1.70%	0.00%
Risk Parity			
Risk Parity	8%	2.80%	0.28%
Asset Allocation Leverage			
Cash	2%	-0.70%	-0.01%
Asset Allocation Leverage	-6%	-0.50%	0.03%
Inflation Expectation			2.20%
Volatility Drag ⁴			-0.95%
Total	100%		6.90%

1 Absolute Return includes Credit Sensitive Investments.

2 Target allocations are based on the FY2022 policy model.

3 Capital market assumptions come for Aon Hewitt (as of 8/31/2022)

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of 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%)
Proportionate share of the net pension liability:	\$ 7,151,687	\$ 4,597,320	\$ 2,526,886

Pension Liabilities, Pension Expense, and Deferred Overflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2023, Academy Independent School District reported a liability of \$4,597,320 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Academy Independent School District. The amount recognized by Academy 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 Academy Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 4,597,320
State's proportionate share that is associated with the District	8,574,398
Total	\$ 13,171,718

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

K. DEFINED BENEFIT PENSION PLAN (continued)

The net pension liability was measured as of 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 thru August 31, 2022.

At August 31, 2022 the employer's proportion of the collective net pension liability was 0.0077438429% which was an increase of 0.0000366717% from its proportion measured as of August 31, 2021.

Changes of Assumptions Since the Prior Measurement Date 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.

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

For the year ended August 31, 2023, the District recognized pension expense of \$1,476,566 and revenue of \$819,615 for support provided by the State in the Government-Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 66,661	\$ 100,230
Changes in actuarial assumptions	856,630	213,496
Differences between projected and actual investment earnings	454,201	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	506,282	195,073
Total as of August 31, 2022 measurement date	\$ 1,883,774	\$ 508,799
Contributions paid to TRS subsequent to the measurement date	375,901	
Total as of fiscal year-end	\$ 2,259,675	\$ 508,799

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

Fiscal year ended August 31,	Pension Expense Amount
2024	\$ 386,145
2025	230,647
2026	82,167
2027	583,424
2028	92,591
Thereafter	1

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

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established in 1986 by the Texas Legislature and is administered in accordance with the Texas Insurance Code, Chapter 1575. The board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. The board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

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

Components of the net OPEB liability of the TRS-Care plan as of August 31, 2022 is as follows:

<u>Net OPEB Liability</u>	<u>Total</u>
Total OPEB Liability	\$ 27,061,942,520
Less: Plan Fiduciary Net Position	(3,117,937,218)
Net OPEB Liability	<u>\$ 23,944,005,302</u>
Net Position as percentage of Total OPEB Liability	11.52%

Benefits Provided. TRS-Care provides basic health insurance coverage to all retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension system. 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 dependents may elect to participate 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.

The General Appropriations Act passed by the 86th Legislature included funding to maintain TRS-Care premiums at their current level through 2021. The 86th legislature also passed Senate Bill 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures. This amount is estimated at \$300,000,000 as of August 31, 2022.

The premium rates for retirees are presented in the following table:

	<u>TRS-Care Plan Premium Rates</u>	
	<u>Medicare</u>	<u>Non-Medicare</u>
Retirees*	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999
<i>* or surviving spouse</i>		

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 active employee compensation. The TRS Board of trustees does not have the authority to set or amend contribution rates.

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

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

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 employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75 percent of each active employee's pay for fiscal year 2022. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2022	2023
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 1,092,350
Current fiscal year member contributions		\$ 73,488
2022 Measurement year NECE on-behalf contributions		\$ 119,307

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

A supplemental appropriation was authorized by 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. All of the demographic assumptions used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions employed in the August 31, 2021 TRS annual 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 Incidence

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 were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from mortality projection scale MP-2018.

The initial medical trend rates were 8.25% for Medicare retirees and 7.25% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.

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

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2021 rolled forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	1.95% as of August 31, 2021
Aging Factors	Based on plan specific experience
Election Rates	Normal retirement: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% to 9.05%, including inflation
Ad hoc post-employment benefit changes	None

The election rates for normal retirement were 62% participation rate prior to age 65 and 25% participation rate after age 65. For pre-65 retirees, 30% were assumed to discontinue coverage at age 65.

Discount Rate. A single discount rate of 3.91% was used to measure the total OPEB liability. There was an increase of 1.96% in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was 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 was fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index”.

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

	1% Decrease in Discount Rate (2.91%)	Discount Rate (3.91%)	1% Increase in Discount Rate (4.91%)
Proportionate share of the net OPEB liability	\$ 3,361,843	\$ 2,851,244	\$ 2,437,594

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$2,349,438	\$2,851,244	\$3,501,722

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

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

OPEB Liabilities and OPEB Expense At August 31, 2023, the District reported a liability of \$2,851,244 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 2,851,244
State's proportionate share that is associated with the District	3,478,070
Total	<u>\$ 6,329,314</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 District's proportion of the Net OPEB Liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2021 thru August 31, 2022.

At August 31, 2022, the District's proportion of the collective Net OPEB Liability was 0.0119079677% which was an increase of 0.0001152382% from its proportion measured as of August 31, 2021.

For the year ended August 31, 2023, the District recognized OPEB expense of \$(678,056) and revenue of \$(493,566) for support provided by the State.

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 was changed from 1.95 percent to 3.95 percent as a result of requirements by GASB Statement 74 to utilize the yield or index rate for 20-year, tax-exempt general obligation bonds rated AA/Aa (or equivalent) or higher in effect on the measurement date.
- There were no changes in benefit terms since the prior measurement date.

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 158,519	\$ 2,375,343
Changes in actuarial assumptions	434,301	1,980,875
Differences between projected and actual investment earnings	8,493	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	1,066,243	-
Total as of August 31, 2022 measurement date	1,667,556	4,356,218
Contributions paid to TRS subsequent to the measurement date	1,092,350	
Total as of August 31, 2022 fiscal year-end	<u>\$ 2,759,906</u>	<u>\$ 4,356,218</u>

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

L. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS (continued)

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 OPEB will be recognized in OPEB expense as follows:

Fiscal year ended August 31,	OPEB Expense Amount
2024	\$ (509,305)
2025	(509,277)
2026	(388,364)
2027	(224,670)
2028	(309,753)
Thereafter	(747,293)

M. MEDICARE PART D COVERAGE

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retire drug subsidy payments from the federal government to offset certain prescription drug expenditure for the eligible TRS-Care participants. For the fiscal years ended August 31, 2023, 2022, and 2021, the subsidy payments received by TRS-Care on behalf of the District were \$61,180, \$47,966, and \$48,514, respectively.

N. HEALTH CARE COVERAGE

The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. The plan is authorized by the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and by the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan is a premium-based plan. Payments are made on a monthly basis for all covered employees.

O. DEFERRED INFLOWS

Deferred inflows at August 31, 2023 end consisted of the following:

	General	Debt Service	Total
Property Taxes	\$ 124,196	\$ 61,960	\$ 186,156

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

P. DUE FROM OTHER GOVERNMENTS

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

	State Entitlements	Federal Grants	Property Tax	Total
General Fund	\$ -	\$ -	\$ 110,607	\$ 110,607
Debt Service Fund	-	-	95,975	95,975
ESEA Title I, Part A	-	29,514	-	29,514
IDEA Part B Formula	-	84,569	-	84,569
National Breakfast and Lunch Program	-	35,284	-	35,284
ESEA Title II, A	-	28,944	-	28,944
Esser Relief Fund	-	114,875	-	114,875
State Textbook Fund	-	22,040	-	22,040
Total Due from Other Governments	\$ -	\$ 315,226	\$ 206,582	\$ 521,808

Q. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Debt Service Fund	National Breakfast and Lunch Program	SSA Bell Co. Coop Fund	Internal Service Fund	Future Bees Service Fund	Capital Projects	Total
Property Taxes	\$ 6,249,726	\$ 3,111,534	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,361,260
Interest Income	219,738	173,232	-	5,897	-	-	1,321,411	1,720,278
Tuition and Fees	22,300	-	-	-	-	62,038	-	84,338
Food sales	-	-	239,968	-	-	-	-	239,968
CoCurricular	49,968	-	-	-	-	-	-	49,968
Alternative Education	-	-	-	243,662	-	-	-	243,662
Gifts and Bequests	59,489	-	-	-	-	-	-	59,489
Other	36,358	-	-	-	109,153	-	-	145,511
	\$ 6,637,579	\$ 3,284,766	\$ 239,968	\$ 249,559	\$ 109,153	\$ 62,038	\$ 1,321,411	\$ 11,904,474

R. SHARED SERVICES ARRANGEMENT

The District is the fiscal agent for the following Shared Services Arrangement (SSA):

Alternative School – This arrangement is to operate alternative education through two programs; the Alternative Education Placement (AEP) program, and the Disciplinary Alternative Educational Placement (DAEP) program. There are five member districts. The member districts provide program funds to the fiscal agent for all services by the fiscal agent. According to guidance provided in TEA’s Resource Guide, the District accounted for the activities of the SSA in Fund No. 459. Member districts share equally in the cost of the program.

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

R. SHARED SERVICES ARRANGEMENT (continued)

The District is also a member of the following Shared Services Arrangement (SSA):

Special Education - The District participates in a shared services arrangement for Special Education with four other districts. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Holland Independent School District, 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 Academy Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

S. RISK MANAGEMENT

Workers' Compensation Aggregate Deductible

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

Academy Independent School District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2023, the Fund carries a discounted reserve of \$166,136,125 for future development on reported claims and claims that have been incurred but not yet reported.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2023 are available on the TASB Risk Management Fund website and have been files with the Texas Department of Insurance in Austin.

Auto, Liability, and/or Property Programs

During the year ended August 31, 2023, Academy Independent School District participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability
Auto Physical Damage
Legal Liability
Privacy & Information Security
Property

The Fund was created and is operated under the provision of the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties.

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

S. RISK MANAGEMENT (continued)

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2023, the Fund anticipates that Academy Independent School District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is acceptance by the Fund's Board of Trustees in February of the following year. The fund's audited financial statements as of August 31, 2023, are available on the TASB Risk Management Fund website and have been filed with The Texas Department of Insurance in Austin.

Unemployment Compensation Pool

During the year ended August 31, 2023, Academy Independent School District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2021, the Fund anticipates that Academy Independent School District has no additional liability behind the contractual obligation for payment of contribution.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2023 are available on the TASB Risk Management Fund website and have been files with the Texas Department of Insurance in Austin.

T. SUBSEQUENT EVENTS

The District has evaluated subsequent events through January 24, 2024 the date which financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

ACADEMY 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	Variance With
		Original	Final	(GAAP BASIS)	Final Budget Positive or (Negative)
REVENUES					
5700	Local and intermediate sources	\$ 6,654,948	\$ 6,745,405	\$ 6,637,579	\$ (107,826)
5800	State program revenues	8,623,814	9,520,400	9,858,122	337,722
5900	Federal program revenues	1,500	34,946	62,555	27,609
5020	Total revenues	15,280,262	16,300,751	16,558,256	257,505
EXPENDITURES					
Current:					
0011	Instruction	9,085,339	9,185,338	9,245,116	(59,778)
0012	Instructional resources and media services	205,442	155,443	93,862	61,581
0013	Curriculum and instructional staff development	261,505	311,505	305,977	5,528
0021	Instructional leadership	-	120,000	96,791	23,209
0023	School leadership	1,171,288	1,331,288	1,342,654	(11,366)
0031	Guidance, counseling, and evaluation services	328,840	338,840	332,153	6,687
0033	Health services	224,683	224,683	189,646	35,037
0034	Student (pupil) transportation	492,129	792,129	767,634	24,495
0036	Extracurricular activities	765,717	945,206	964,315	(19,109)
0041	General administration	680,781	830,781	795,019	35,762
0051	Facilities maintenance and operations	1,695,405	2,025,405	1,990,270	35,135
0052	Security and monitoring services	91,600	161,600	148,821	12,779
0053	Data processing services	-	120,000	98,305	21,695
0071	Principal on long-term debt	202,533	205,533	178,262	27,271
0072	Interest on long-term debt	-	-	26,017	(26,017)
0081	Facilities acquisition and construction	25,000	234,000	220,898	13,102
0093	Payments to fiscal agent/member district of SSA	50,000	60,000	58,821	1,179
6030	Total expenditures	15,280,262	17,041,751	16,854,561	187,190
1100	Excess (deficiency) of revenues over expenditures	-	(741,000)	(296,305)	444,695
OTHER FINANCING SOURCES (USES) :					
7914	Non-current loan proceeds	-	-	-	-
7915	Transfers in	-	-	-	-
7080	Total other financing sources and (uses)	-	-	-	-
1200	Net change in fund balances	-	(741,000)	(296,305)	444,695
0100	Fund balances--beginning	4,438,307	4,438,307	4,438,307	
3000	Fund balances--ending	\$ 4,438,307	\$ 3,697,307	\$ 4,142,002	\$ 444,695

Budget variances explanation:

Function 0011: Increase in Sped Contract Services

Function 0023: Increase in travel

Function 0036: Increase in sports officials and athletic supplies

Function 0072: The budget for interest on long-term debt was included with the budget for Function 0071

**ACADEMY 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**

Measurement Year Ended August 31,	2022	2021	2020
District's Proportion of the Net Pension Liability (Asset)	0.0077438429%	0.0077805146%	0.0067025005%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 4,597,320	\$ 1,981,422	\$ 3,589,723
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	8,574,398	3,794,699	7,802,143
Total	<u>\$ 13,171,718</u>	<u>\$ 5,776,121</u>	<u>\$ 11,391,866</u>
District's Covered Payroll	\$ 11,270,058	\$ 10,900,739	\$ 9,962,806
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	40.79%	18.18%	36.03%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	75.62%	88.79%	75.54%

Note: Only nine years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

2019	2018	2017	2016	2015	2014
0.0075022845%	0.0065308852%	0.0064004988%	0.0060252989%	0.0057296000%	0.0030006000%
\$ 3,899,922	\$ 3,594,758	\$ 2,046,535	\$ 2,276,871	\$ 2,025,337	\$ 801,502
6,741,852	7,511,048	4,402,628	5,298,030	4,754,849	4,071,557
\$ 10,641,774	\$ 11,105,806	\$ 6,449,163	\$ 7,574,901	\$ 6,780,186	\$ 4,873,059
\$ 8,999,986	\$ 8,577,722	\$ 8,107,698	\$ 7,574,901	\$ 6,780,186	\$ 4,873,059
43.33%	41.91%	25.24%	30.06%	29.87%	16.45%
75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

**ACADEMY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2023**

Fiscal Year Ended August 31,	2023	2022	2021
Contractually Required Contribution	\$ 375,901	\$ 361,351	\$ 331,622
Contribution in Relation to the Contractually Required Contribution	(375,901)	(361,351)	(331,622)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Payroll	\$ 11,305,820	\$ 11,270,058	\$ 10,900,739
Contributions as a percentage of Covered Payroll	3.32%	3.21%	3.04%

Note: Only nine years of data is presented in accordance with GASB #68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

2020	2019	2018	2017	2016	2015
\$ 276,547	\$ 260,628	\$ 223,345	\$ 209,152	\$ 191,435	\$ 170,117
(276,547)	(260,628)	(220,849)	(209,152)	(191,435)	(170,117)
\$ -	\$ -	\$ 2,496	\$ -	\$ -	\$ -
\$ 9,962,806	\$ 8,999,986	\$ 8,577,722	\$ 8,107,698	\$ 6,974,243	\$ 6,731,201
2.78%	2.90%	2.60%	2.58%	2.74%	2.53%

ACADEMY 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

EXHIBIT G-4

Measurement Year Ended August 31,	2021	2021	2020	2019	2018	2017
District's Proportion of the Net OPEB Liability (Asset)	0.0119079677%	0.0117927295%	0.0110149084%	0.0107626468%	0.0096634510%	0.0091407767%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 2,851,244	\$ 4,548,983	\$ 4,187,264	\$ 5,089,790	\$ 4,825,050	\$ 3,974,981
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	3,478,070	6,094,623	5,626,679	6,763,189	7,558,802	6,575,185
Total	\$ 6,329,314	\$ 10,643,606	\$ 9,813,943	\$ 11,852,979	\$ 12,383,852	\$ 10,550,166
District's Covered Payroll	\$ 11,270,058	\$ 10,900,739	\$ 9,962,806	\$ 8,999,986	\$ 8,577,722	\$ 8,107,698
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	25.30%	41.73%	42.03%	56.55%	56.25%	49.03%
Plan Fiduciary Net Position as a percentage of the Total OPEB Liability	11.52%	6.18%	4.99%	2.66%	1.57%	0.91%

Note: Only six years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**ACADEMY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2023**

EXHIBIT G-5

Fiscal Year Ended August 31, 2022	2023	2022	2021	2020	2019	2018
Contractually Required Contribution	\$ 1,092,350	\$ 97,805	\$ 92,128	\$ 83,721	\$ 76,011	\$ 66,462
Contribution in Relation to the Contractually Required Contribution	(1,092,350)	(97,805)	(92,128)	(83,721)	(76,011)	(66,664)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (202)</u>
District's Covered Payroll	\$ 11,305,820	\$ 11,270,058	\$ 10,900,739	\$ 9,962,806	\$ 8,999,986	\$ 8,577,722
Contributions as a percentage of Covered Payroll	9.66%	0.87%	0.85%	0.84%	0.84%	0.77%

Note: Only six years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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

BUDGETARY INFORMATION

The Board of Trustees adopts an “appropriated budget” for the General Fund, the Debt Service Fund, and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1, the Food Service Fund Budget report appears in Exhibit J-2 and the Debt Service Fund Budget appears in Exhibit J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board of Trustees is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board of Trustees. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board of Trustees. Amendments are presented to the Board of Trustees at its regular meetings and each amendment must be approved. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board of Trustees, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board of Trustees. All budget appropriations lapse at year end.

DEFINED BENEFIT PENSION PLAN

Changes of benefit terms.

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

Changes of assumptions.

There were no changes of assumptions that affected measurement of the total pension liability during the measurement period.

OTHER POST-EMPLOYMENT BENEFIT PLAN

Changes of benefit terms.

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

Changes of assumptions.

See Footnote L page 46 for changes in assumptions that affected measurement of the total OPEB liability during the measurement period.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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*[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.]*

**ACADEMY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2024
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$5,035,000**

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 bear interest from the dates specified in the text of the Bonds, until maturity or prior redemption, at the rate and payable on the dates as stated in the text of the Bonds, and maturing on August 15 in each of the years 2026 through 2033, inclusive, 2035, 2037, 2039, 2041, 2044, 2046, 2049 and 2054 all in accordance with the terms and conditions stated in the text of the Bonds.

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

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 laws applicable to the Issuer relating to governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar matters affecting creditors' rights generally or by general 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 limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the "Code"). In expressing the aforementioned opinions, we have relied on and assume compliance by the Issuer with, certain representations and covenants regarding the use and investment of the proceeds of the Bonds, 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 failure by the Issuer to comply with such representations and covenants may cause the interest on the Bonds to 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. In particular, but not by way of limitation, we express no opinion with respect to the federal, state or local tax consequences arising from the enactment of any pending or future legislation. 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.

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

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering 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. 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.



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.

Respectfully,

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APPENDIX D

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 though the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the “Prudent Person Standard”). In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, and the Fund is managed as an endowment fund with a long-term investment horizon. 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.

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

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

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

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

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

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

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

As required by State law, during the 87th Regular Session the LBB issued a fiscal note on SB 1232. The fiscal note stated that uncertainty exists regarding the nature of future returns and the effect of the bill on distributions from all components of the PSF to the ASF, such that the financial impact of the bill could not be determined during the legislative session. However, the fiscal note stated that TEA and the

GLO projected that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. No assurances can be given as to future investment results for the Fund.

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

THE TOTAL RETURN CONSTITUTIONAL AMENDMENT . . . The Total Return Constitutional Amendment 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 FUND⁽¹⁾

Fiscal Year Ending	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023⁽²⁾
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.

<u>State Fiscal Biennium</u>	<u>2008-09</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>	<u>2024-25</u>
<u>SBOE Distribution Rate</u> ⁽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 ALLOCATIONS . . . 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				
ASSET CLASS	August 31, 2023	August 31, 2022	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$ 2,975.1	\$ 2,858.4	\$ 116.7	4.1%
Domestic Large Cap	<u>7,896.5</u>	<u>6,402.1</u>	<u>1,494.4</u>	<u>23.3%</u>
Total Domestic Equity	10,871.6	9,260.5	1,611.1	17.4%
International Equity	<u>7,945.5</u>	<u>7,197.9</u>	<u>747.6</u>	<u>10.4%</u>
TOTAL EQUITY	18,817.1	16,458.4	2,358.7	14.3%
FIXED INCOME				
Domestic Fixed Income	5,563.7	5,867.5	(303.8)	-5.2%
U.S. Treasuries	937.5	1,140.2	(202.7)	-17.8%
High Yield Bonds	1,231.6	1,142.5	89.1	7.8%
Emerging Market Debt	<u>869.7</u>	<u>1,190.9</u>	<u>(321.2)</u>	<u>-27.0%</u>
TOTAL FIXED INCOME	8,602.5	9,341.1	(738.6)	-7.9%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,175.8	2,932.3	243.5	8.3%
Real Estate	6,525.2	6,286.9	238.3	3.88%
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.

Investment Schedule – PSF(SLB)⁽¹⁾

Fair Value (in millions) August 31, 2023

As of 8-31-23

Investment Type Investments in Real Assets

Sovereign Lands

\$ 276.14

Discretionary Internal Investments

264.32

Other Lands

167.97

Minerals⁽²⁾⁽³⁾

5,435.62⁽⁶⁾

Total Investments⁽⁴⁾

6,144.05

Cash in State Treasury⁽⁵⁾

508.38

Total Investments & Cash in State Treasury

\$6,652.44

(1) Unaudited 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 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.

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

Since December 16, 2009, the IRS Limit was a static limit set at 500% of the total cost value of the assets held by the PSF as of December 16, 2009; however, on May 10, 2023, the IRS released Notice 2023-39 (the “IRS Notice”), stating that the IRS would issue regulations amending the existing regulations to amend the calculation of the IRS limit to 500% of the total cost value of assets held by the PSF as of the date of sale of new bonds, 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 Ending 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

At 8/31	Principal Amount ⁽¹⁾
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⁾

School District Bonds		Charter District Bonds			Totals	
FYE 8/31	No. of Issues	Principal Amount	No. of Issues	Principal Amount	No. of Issues	Principal Amount
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 8-31-2023⁽¹⁾

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return⁽²⁾</u>
Total PSF (CORP) Portfolio	6.14	4.38
Domestic Large Cap Equities	16.09	15.94
Domestic Small/Mid Cap Equities	9.31	9.14
International Equities	12.38	11.89
Emerging Market Equity	2.48	1.25
Fixed Income	(1.30)	(1.19)
Treasuries	(9.21)	(9.69)
Absolute Return	7.59	7.58
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 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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