OFFICIAL STATEMENT
DATED SEPTEMBER 9, 2024

NEW ISSUE - Book-Entry-Only

RATINGS (Enhanced/Unenhanced):
S&P: "AAA"/"A"
(See "OTHER INFORMATION – Ratings" and "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

In the opinion of Bond Counsel, interest on the Series 2024A 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.

THE DISTRICT WILL NOT DESIGNATE THE SERIES 2024A BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS".

$16,050,000
HEARNE INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Robertson County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024A

Dated: August 1, 2024 **Due: February 15, as shown on page iii**
Interest to accrue from Delivery Date (defined below)

Payment Terms . . . The $16,050,000 Hearne Independent School District Unlimited Tax School Building Bonds, Series 2024 (the "Series 2024A Bonds") will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2024A Bonds will accrue from the Delivery Date and will be payable on August 15 and February 15 of each year commencing August 15, 2025 until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Series 2024A Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Beneficial ownership of the Series 2024A Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Series 2024A Bonds will be made to the owners thereof.** Principal and interest on the Series 2024A Bonds will be payable by the Paying Agent/Registrar (defined herein) 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 Series 2024A Bonds (see "THE BONDS - Book-Entry-Only System" herein.) The initial Paying Agent/Registrar is U.S. Bank Trust Company, N.A., Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

Authority for Issuance . . . The Series 2024A Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Hearne Independent School District (the "District" or "Issuer") on May 4, 2024, and an order authorizing the issuance of the Series 2024A Bonds (the "Series 2024A Order") adopted by the Board of Trustees (the "Board") of the District on September 9, 2024. The Series 2024A Bonds are direct obligations of the District payable from an 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 – Authority for Issuance"). The District has applied to the Texas Education Agency for conditional approval of the Series 2024A Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which guarantee will automatically become effective when the Attorney General of Texas approves the Series 2024A Bonds (see "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for discussion of recent developments in Texas law affecting the financing of public school districts in Texas).

Purpose . . . Proceeds from the sale of the Series 2024A Bonds will be used (1) for the construction, renovation, acquisition, and equipment of school buildings, the purchase of necessary sites for school buildings, and (2) to pay costs of issuance of the Series 2024A Bonds (see "PLAN OF FINANCE – Purpose").

See page iii for Maturity Schedule, Interest Rates, Yields, and CUSIP Numbers

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Legality . . . The Series 2024A Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, The Bates Law Firm, Houston, Texas.

Delivery . . . It is expected that the Series 2024A Bonds will be available for initial delivery through the services of DTC, on or about September 30, 2024 (the "Delivery Date").

SAMCO Capital **Stephens Inc.**

OFFICIAL STATEMENT
DATED SEPTEMBER 9, 2024

NEW ISSUE - Book-Entry-Only

RATINGS (Insured/Underlying):
S&P: "AA"/"A"
(See "OTHER INFORMATION – Ratings" and "BOND INSURANCE" herein)

In the opinion of Bond Counsel, interest on the Series 2024B 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.

THE DISTRICT WILL NOT DESIGNATE THE SERIES 2024B BONDS AS "QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS".

$2,200,000
HEARNE INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Robertson County)
UNLIMITED TAX REFUNDING BONDS, SERIES 2024B (Non-PSF)

Dated: August 1, 2024 **Due: February 15, as shown on page iv**
Interest to accrue from Delivery Date (defined below)

Payment Terms . . . The $2,200,000 Hearne Independent School District Unlimited Tax Refunding Bonds, Series 2024 (Non-PSF) (the "Series 2024B Bonds" and together with the Series 2024A Bonds, the "Bonds") will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Series 2024B Bonds will accrue from the Delivery Date and will be payable on August 15 and February 15 of each year commencing August 15, 2025 until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Series 2024B Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Beneficial ownership of the Series 2024B Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Series 2024B Bonds will be made to the owners thereof.** Principal and interest on the Series 2024B Bonds will be payable by the Paying Agent/Registrar (defined herein) 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 Series 2024B Bonds (see "THE BONDS - Book-Entry-Only System" herein.) The initial Paying Agent/Registrar is U.S. Bank Trust Company, N.A., Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

Authority For Issuance . . . The Series 2024B Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207, Texas Government Code, as amended, Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Hearne Independent School District (the "District" or "Issuer") on May 4, 2024, and an order authorizing the issuance of the Series 2024B Bonds (the "Series 2024B Order") adopted by the Board of Trustees (the "Board") of the District on September 9, 2024. The Series 2024B Bonds are direct obligations of the District payable from an 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 – Authority for Issuance"). See also "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for discussion of recent developments in Texas law affecting the financing of public school districts in Texas).

Purpose . . . Proceeds from the sale of the Series 2024B Bonds will be used to (1) refund certain of the District's currently outstanding obligations of the series, in the maturities, and in the amounts described on SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS hereto (collectively, the "Refunded Obligations"), and (2) to pay costs of issuance of the Series 2024B Bonds (see "PLAN OF FINANCE – Purpose").

See page iv for Maturity Schedule, Interest Rates, Yields, and CUSIP Numbers

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ASSURED GUARANTY®

Insurance . . . The scheduled payment of principal and interest on the Series 2024B Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Series 2024B Bonds by Assured Guaranty Inc. ("AG") (see "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein)

Legality . . . The Series 2024B Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Escamilla & Poneck, LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, The Bates Law Firm, Houston, Texas.

Delivery . . . It is expected that the Series 2024B Bonds will be available for initial delivery through the services of DTC, on or about September 30, 2024 (the "Delivery Date").

SAMCO Capital **Stephens Inc.**

MATURITY SCHEDULE, INTEREST RATES, YIELDS, AND CUSIP NUMBERS

$16,050,000
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024A

CUSIP[1] Prefix: 422272

$7,085,000 Serial Bonds

Maturity Date (February 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix[1]
2031	$ 80,000	5.000%	2.820%	EW0
2032	395,000	5.000%	2.920%	EX8
2033	415,000	5.000%	2.990%	EY6
2034	435,000	5.000%	3.050%	EZ3
2035	460,000	5.000%	3.130% [2]	FA7
2036	480,000	5.000%	3.170% [2]	FB5
2037	505,000	5.000%	3.210% [2]	FC3
2038	530,000	5.000%	3.270% [2]	FD1
2039	555,000	5.000%	3.320% [2]	FE9
2040	585,000	5.000%	3.400% [2]	FF6
2041	615,000	5.000%	3.490% [2]	FG4
2042	645,000	5.000%	3.550% [2]	FH2
2043	675,000	5.000%	3.610% [2]	FJ8
2044	710,000	5.000%	3.660% [2]	FK5

$8,965,000 Term Bonds

$4,045,000 4.000% Term Bonds due February 15, 2049, Priced to Initial Yield 4.120% - FQ2[1]
$4,920,000 4.000% Term Bonds due February 15, 2054, Priced to Initial Yield 4.200% - FV1[1]

(Interest to accrue from the Delivery Date.)

REDEMPTION . . . The District reserves the right, at its option, to redeem the Series 2024A Bonds having stated maturities on and after February 15,2035 in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption of the Bonds"). Additionally, the Series 2024A Bonds maturing on February 15 in the years 2049 and 2054 (the "Term Bonds") are subject to mandatory sinking fund redemption (see "THE BONDS – Mandatory Redemption of the Term Bonds").

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(1) CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2024 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. The Underwriters, the District nor the Financial Advisor are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated based on the assumption the Bonds denoted and sold at premium will be redeemed February 15, 2034, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the date of redemption.

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MATURITY SCHEDULE, INTEREST RATES, YIELDS, AND CUSIP NUMBERS

$2,200,000
UNLIMITED TAX REFUNDING BONDS, SERIES 2024B (NON-PSF)

CUSIP[(1)] Prefix: 422272

Maturity Date (February 15)	Principal Amount	Interest Rate	Initial Yield	CUSIP Suffix[(1)]
2031	$ 900,000	5.000%	2.920%	FW9
2032	635,000	5.000%	3.020%	FX7
2033	665,000	5.000%	3.090%	FY5

(Interest to accrue from the Delivery Date.)

REDEMPTION . . . The Series 2024B Bonds are not subject to optional redemption prior to stated maturity.

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(1) CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2024 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. The Underwriters, the District nor the Financial Advisor are responsible for the selection or correctness of the CUSIP numbers set forth herein.

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This Official Statement, which includes the cover page and the Appendices thereto 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 representation must not be relied upon.

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

The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described.

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

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

NEITHER THE DISTRICT, THE UNDERWRITERS, NOR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", AND "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND THE TEA, RESPECTIVELY.

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

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.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the Bonds or passed upon the adequacy or accuracy of this document. Any representation to the contrary is a criminal offense.

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 hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement.

Assured Guaranty Inc. ("AG") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading "BOND INSURANCE" and "Appendix F - Specimen Municipal Bond Insurance Policy".

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TABLE OF CONTENTS

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

DISTRICT ADMINISTRATION

ELECTED OFFICIALS

Board Member	Length of Service	Term Expires	Occupation
Mary Jane Ramirez, President	8 years, 4 months	May 2027	Retired
James Crawford, Vice President	6 years, 4 months	May 2027	Minister
Nelda Calhoun, Secretary	6 years, 4 months	May 2025	Retired
Teresa Rucker, Member	9 months	May 2025	Payroll Tax Specialist
Jannifer Taylor, Member	6 years, 2 months	May 2027	Juvenile Probation Supervisor
Kimberly Lewis, Member	1 year, 4 months	May 2026	Business Owner
Mark Hart, Member	1 year, 11 months	May 2026	Retired

SELECTED ADMINISTRATIVE STAFF

Name	Position
Dr. Adrain B. Johnson	Superintendent
Ronald Wilson	Chief Financial Officer

CONSULTANTS AND ADVISORS

Auditors .... Armstrong, Vaughan & Associates, P.C.
Universal City, Texas

Financial Advisor .... RBC Capital Markets
Houston, Texas and Dallas, Texas

Bond Counsel .... Escamilla & Poneck, LLP
San Antonio, Texas

For additional information regarding the District, please contact:

Dr. Adrain B. Johnson Superintendent Ronald Wilson Chief Financial Officer 900 Wheelock Street Hearne, Texas 77859 979-279-3200 - Telephone	or	Clarence Grier RBC Capital Markets 609 Main Street Suite 3600 Houston, Texas 77002 713-853-0823 - Telephone	or	Clay Mauldin RBC Capital Markets 200 Crescent Court Suite 1500 Dallas, Texas 75201 214-989-1722 - Telephone

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OFFICIAL STATEMENT
RELATING TO

$16,050,000
HEARNE INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2024A

$2,200,000
HEARNE INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING,
SERIES 2024B (NON-PSF)

INTRODUCTION

This Official Statement, which includes the schedule and appendices hereto, provides certain information regarding the issuance of $16,050,000 Hearne Independent School District Unlimited Tax School Building Bonds, Series 2024A (the "Series 2024A Bonds") and $2,200,000 Hearne Independent School District Unlimited Tax Refunding Bonds, Series 2024B (Non-PSF) (the "Series 2024B Bonds" and together with the Series 2024A Bonds, the "Bonds"). Capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the respective orders authorizing the issuance of the Bonds (the "Series 2024A Order" and the "Series 2024B Order," respectively, and, collectively, the "Order") adopted by the Board of Trustees (the "Board") of the Hearne Independent School District (the "District" or "Issuer") on September 9, 2024 which authorized the issuance of the Bonds, except as otherwise indicated herein.

All financial and other information presented in this Official Statement has been provided by the District from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information and is not intended to indicate future or continuing trends in financial position or other affairs of the District. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future. (See "OTHER INFORMATION – Forward Looking Statements" 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, RBC Capital Markets, Houston and Dallas, Texas, in electronic format or upon payment of reasonable copying, handling and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement and will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "OTHER INFORMATION - Continuing Disclosure of Information" for a description of the District's undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision of the State of Texas located in Robertson County, Texas. The District is governed by the seven-member Board who serve staggered three-year terms with elections being held in May of every 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 is approximately 106.2 square miles in area (see Appendix B – "General Information Regarding the District").

PLAN OF FINANCE

PURPOSE . . . Proceeds from the sale of the Series 2024A Bonds will be used (1) for the construction, renovation, acquisition, and equipment of school buildings, the purchase of necessary sites for school buildings, and (2) to pay costs of issuance of the Series 2024A Bonds. Proceeds from the sale of the Series 2024B Bonds will be used to (1) refund certain of the District's currently outstanding obligations of the series, in the maturities, and in the amounts described on SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS hereto (collectively, the "Refunded Obligations"), and (2) to pay costs of issuance of the Series 2024B Bonds.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and respective redemptions dates of such Refunded Obligations as shown on SCHEDULE I from funds to be deposited pursuant to one or more escrow deposit letters (collectively, the "Escrow Agreement" between the District and U.S. Bank Trust Company, N.A., Houston, Texas (the "Escrow Agent"). The Series 2024B Order provides that from a portion of the proceeds of the sale of each of the Series 2024B Bonds received from the Underwriters and other available District funds, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates. Such funds will be held by the Escrow Agent in one or more special accounts pursuant to the Escrow Agreement (collectively, the "Escrow Fund") and held in cash or used to purchase direct obligation of the United States of America or other permitted defeasance securities. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal and interest on the Refunded Obligations. The paying agent for the Refunded Obligations will certify as to the sufficiency of the amounts initially deposited with the Escrow Agent, without regard to investment, to pay the principal of an interest on the Refunded Obligations, when due.

Upon the deposit of the proceeds of the Series 2024B Bonds and other funds of the District, if any, with the Escrow Agent, the District will have defeased the Refunded Obligations in accordance with applicable State law and the orders authorizing the issuance of the Refunded Obligations. As a result of such defeasance, the Refunded Obligations will no longer be legally outstanding obligations of the District payable from ad valorem tax revenues nor for the purpose of applying any limitation on the issuance of debt.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be issuable in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date as defined on the cover hereof and will be payable on August 15 and February 15 of each year commencing August 15, 2025 and will be calculated on the basis of a 360-day year 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"), New York, New York, pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof**. Principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System" herein).

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not such a day. The payment on such date has the same force and effect as if made on the original date payment was due.

AUTHORITY FOR ISSUANCE . . . The Series 2024A Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, and election held in the District on May 4, 2024, and the Series 2024A Order. The Series 2024B Bonds are issued pursuant to the Constitution and general laws of the State, including Chapter 1207, Texas Government Code, as amended, Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in District on May 4, 2024, and the Series 2024B Order.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are direct obligations of the District, payable from an 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.

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Series 2024A Bonds, the District has made an application for guarantee of the Series 2024A Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code). Subject to the District's approval of its application and subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM", the payment of the principal of and interest on the Series 2024A Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas upon approval of the Series 2024A Bonds by the Texas Attorney General. In the event of default, registered owners of the Series 2024A will receive all payments due from the corpus of the Permanent School Fund.

The Series 2024B Bonds will **not** be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "BOND INSURANCE" herein).

OPTIONAL REDEMPTION OF THE BONDS . . . The District reserves the right, at its option, to redeem the Series 2024A Bonds having stated maturity dates on or after February 15, 2035, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption.

The Series 2024B Bonds are not subject to optional redemption prior to their stated maturity.

If less than all of the Series 2024A Bonds of any maturity are to be redeemed, the District shall determine the amounts of each maturity or maturities to be redeemed and shall direct the Paying Agent/Registrar (or DTC while the Series 2024A Bonds are in Book-Entry-Only form) to select by lot the Series 2024A Bonds, or portions thereof, within such maturity or maturities to be redeemed. If a Series 2024A Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2024A 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 REDEMPTION OF THE TERM BONDS . . . The Series 2024A Bonds maturing on February 15 in the years 2049 and 2054 (the "Term Bonds"), are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the District, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the dates and in the principal amounts shown in the following schedules:

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Term Bonds Maturing February 15, 2049

Mandatory Redemption	Principal Amount
February 15, 2045	$745,000
February 15, 2046	775,000
February 15, 2047	810,000
February 15, 2048	840,000
February 15, 2049*	875,000

*Stated Maturity

Term Bonds Maturing February 15, 2054

Mandatory Redemption	Principal Amount
February 15, 2050	$910,000
February 15, 2051	945,000
February 15, 2052	980,000
February 15, 2053	1,020,000
February 15, 2054*	1,065,000

*Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot or by any other customary method that results in a random selection the specific Term Bonds (or with respect to Terms Bonds having a denomination in excess of $5,000, each $5,000 portion thereof) to be redeemed on the next following February 15 from moneys set aside for that purpose in the Bond Fund maintained for the payment of the Bonds. Any Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of Term Bonds required to be redeemed on any redemption date pursuant to the foregoing mandatory sinking fund redemption provisions hereof shall be reduced, at the option of the District, by the principal amount of any Series 2024A Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the District at a price not exceeding the principal amount of such Series 2024A Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Notice of Redemption . . . Not less than 30 days prior to an optional redemption date for the Series 2024A Bonds, a notice of redemption shall be sent by United States mail, first class postage prepaid, in the name of the District and at the District's expense, by the Paying Agent/Registrar to each registered owner of a Series 2024A Bond to be redeemed in whole or in part at the address of the registered owner appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE SERIES 2024A BONDS CALLED FOR REDEMPTION WILL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY SERIES 2024A BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH SERIES 2024A BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

All notices of redemption must (i) specify the date of redemption for the Series 2024A Bonds, (ii) identify the Series 2024A Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Series 2024A Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Series 2024A Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner.

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 (with regard to the Series 2024A Bonds), notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC (defined herein). Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Series 2024A Bonds called for redemption or any other action premised or any such notice. Redemption of portions of the Series 2024A Bonds by the District will reduce the outstanding principal amount of such Series 2024A Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Series 2024A Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Series 2024A Bonds from the beneficial owners. Any such selection of Series 2024A Bonds to be redeemed will not be governed by the Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Series 2024A Bonds for redemption (see "THE BONDS - Book-Entry-Only System" herein).

In the Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Series 2024A Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners of Series 2024A Bonds. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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 believes the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.

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

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

DTC, the world's largest 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, 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 S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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 date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, 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 payments 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 Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of the Bonds are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates for each maturity of the Bonds will be printed and delivered and the Bonds will be subject the transfer, exchange and registration provisions as set forth in the Order and summarized under "Transfer, Exchange and Registration" below.

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, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

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, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is U.S. Bank 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.

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

SUCCESSOR PAYING AGENT/REGISTRAR . . . The District reserves the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor paying Agent/Registrar selected by the District shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds.

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 will 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 will 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 "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment . . . The date for determining the person to whom the interest is payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month (the "Record Date").

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 must be 15 days after the Special Record Date) will 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 holder 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.

Mutilated, Destroyed, Lost, or Stolen Bonds . . . The District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and Paying Agent of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

Defeasance of Bonds . . . The Bond Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment, (2) Governmental Obligations (defined below), that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment; provided, however, that the sufficiency of deposits shall be certified by an independent public accounting firm, the District's Financial Advisor, or another qualified third party in connection with a defeasance of the Bonds. The District has additionally reserved the right in the Bond Order, subject to satisfying the requirements of (1), (2) and (3) above, as applicable, to substitute other Governmental Obligations for the Governmental Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance.

The Bond Order provides that "Governmental Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. The District may limit these securities as deemed necessary in connection with the sale of the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Governmental Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Bond Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their stated maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

Amendments . . . The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

BONDHOLDERS' REMEDIES . . . The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed with respect to the Series 2024A Bonds, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as well as to enforce the rights of payment under the Permanent School Fund Guarantee with respect to the Series 2024A Bonds. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia* 197 S.W. 3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See " APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Series 2024A Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

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SOURCES AND USES OF BOND PROCEEDS . . . Proceeds from the sale of the Series 2024A Bonds are expected to be expended as follows:

Sources	
Par Amount of the Bonds	$16,050,000.00
Net Reoffering Premium	686,589.10
Total Sources of Funds	$16,736,589.10
Uses	
Construction Fund Deposit	$16,500,000.00
Costs of Issuance	149,732.85
Underwriters' Discount	86,856.25
Total Uses of Funds	$16,736,589.10

Proceeds from the sale of the Series 2024B Bonds are expected to be expended as follows:

Sources	
Par Amount of the Bonds	$2,200,000.00
Reoffering Premium	283,745.40
Total Sources of Funds	$2,483,745.40
Uses	
Escrow Fund Deposit	$2,390,699.84
Costs of Issuance	78,445.56*
Underwriters' Discount	14,600.00
Total Uses of Funds	$2,483,745.40

*Includes the bond insurance policy premium.

BOND INSURANCE

BOND INSURANCE POLICY . . .Concurrently with the issuance of the Series 2024B Bonds, Assured Guaranty Inc. ("AG") will issue its Municipal Bond Insurance Policy (the "Policy") for the Series 2024B Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Series 2024B Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, Maryland, California, Connecticut or Florida insurance law.

ASSURED GUARANTY INC. . . .AG is a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL" and together with its subsidiaries, "Assured Guaranty"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO." AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AG is obligated to pay claims under the insurance policies AG has issued, and not AGL or any of its shareholders or other affiliates.

AG's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AG should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AG in its sole discretion. In addition, the rating agencies may at any time change AG's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AG. AG only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AG on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc. On August 1, 2024, Assured Guaranty Municipal Corp., a New York domiciled financial guaranty insurance company and an affiliate of AG ("AGM"), merged with and into AG, with AG as the surviving company (such transaction, the "Merger"). Upon the Merger, all liabilities of AGM, including insurance policies issued or assumed by AGM, became obligations of AG.

Current Financial Strength Ratings. On July 10, 2024, Moody's, following Assured Guaranty's announcement of the Merger, announced that it had affirmed AG's insurance financial strength rating of "A1" (stable outlook).

On May 28, 2024, S&P announced it had affirmed AG's financial strength rating of "AA" (stable outlook). On August 1, 2024, S&P stated that following the Merger, there is no change in AG's financial strength rating of "AA" (stable outlook).

On October 20, 2023, KBRA announced it had affirmed AG's insurance financial strength rating of "AA+" (stable outlook). On August 1, 2024, KBRA commented that, following the closing of the Merger, AG's insurance financial strength rating of "AA+" (stable outlook) remains unchanged.

AG can give no assurance as to any further ratings action that S&P, Moody's and/or KBRA may take. For more information regarding AG's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Capitalization of AG, AGM and Pro Forma Combined AG.

	As of June 30, 2024 (dollars in millions)		
	AG (Actual)	**AGM (Actual)**	**AG (Pro Forma Combined)**
Policyholders' surplus	$1,649	$2,599	$3,960[1]
Contingency reserve	$421	$910	$1,331
Net unearned premium reserves and net deferred ceding commission income	$355	$2,078 [2]	$2,433[2]

[1]Net of intercompany eliminations.

[2]Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM or pro forma combined AG, as applicable, and (ii) the net unearned premium reserves and net deferred ceding commissions of Assured Guaranty UK Limited ("AGUK") and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus, contingency reserves, and net unearned premium reserves and net deferred ceding commission income of AG, AGM, and the pro forma combined AG were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference. Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AG and AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

(i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (filed by AGL with the SEC on February 28, 2024);

(ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (filed by AGL with the SEC on May 8, 2024); and

(iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2024 (filed by AGL with the SEC on August 8, 2024).

All information relating to AG and AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Series 2024B Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at http://www.sec.gov, at AGL's website at http://www.assuredguaranty.com, or will be provided upon request to Assured Guaranty Inc.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AG and AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Inc." or included in a document incorporated by reference herein (collectively, the "AG Information") shall be modified or superseded to the extent that any subsequently included AG Information (either directly or through incorporation by reference) modifies or supersedes such previously included AG Information. Any AG Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters. AG makes no representation regarding the Series 2024B Bonds or the advisability of investing in the Series 2024B Bonds. In addition, AG has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding AG supplied by AG and presented under the heading "BOND INSURANCE".

BOND INSURANCE INVESTMENT CONSIDERATIONS

GENERAL . . . In the event of default of the payment of principal or interest with respect to the Series 2024B Bonds when all or some becomes due, any owner of the Series 2024B Bonds shall have a claim under the Policy for such payments.

However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy may not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional redemption of the Series 2024B Bonds by the District which is recovered by the District from the Series 2024B Bond owner as a voidable preference under applicable bankruptcy law may be covered by the Policy, however, such payments may be made by the AG at such time and in such amounts as would have been due absent such prepayment by the District unless AG chooses to pay such amounts at an earlier date.

Default of payment of principal and interest will not obligate acceleration of the obligations of AG without its appropriate consent. AG may require its consent to any remedies and AG's consent may be required in connection with amendments to any applicable Series 2024B Bond documents.

In the event AG is unable to make payment of principal and interest as such payments become due under the Policy, the Series 2024B Bonds will be payable solely from the moneys pledged pursuant to the applicable Series 2024B Bond documents. In the event AG becomes obligated to make payments with respect to the Series 2024B Bonds, no assurance is given that such event will not adversely affect the market price of the Series 2024B Bonds or the marketability (liquidity) for the Series 2024B Bonds.

The long-term ratings on the Series 2024B Bonds will be dependent in part on the financial strength of AG and its claims-paying ability. AG's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of AG and of the ratings on the Series 2024B Bonds insured by AG will not be subject to downgrade, and such event could adversely affect the market price of the Series 2024B Bonds or the marketability (liquidity) for the Series 2024B Bonds. See the description under "OTHER INFORMATION - Ratings" herein.

The obligations of AG are contractual obligations and in an event of default by AG, the remedies available may be limited by applicable bankruptcy law or State law related to insolvency of insurance companies.

None of the District, the Financial Advisor or the Underwriters has made independent investigations into the claims-paying ability of AG and no assurance or representation regarding the financial strength or projected financial strength of AG is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal of and interest on the Series 2024B Bonds and the claims-paying ability of AG, particularly over the life of the Series 2024B Bonds.

CLAIMS-PAYING ABILITY AND FINANCIAL STRENGTH OF MUNICIPAL BOND INSURERS . . . Moody's Investor Services, Inc., S&P Global Ratings, a division of S&P Global Inc., and Fitch Ratings have downgraded the claims-paying ability and financial strength of most providers of municipal bond insurance.

Additional downgrades or negative changes in the rating outlook for all bond insurers is possible. In addition, certain events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including AG. Neither the District or the Underwriters has agreed to take any action with respect to any proposed rating change or to bring such change, if any, to the attention of the registered owners of the Series 2024B Bonds, except that the District has agreed to provide certain information discussed under the heading "CONTINUING DISCLOSURE OF INFORMATION." See "BOND INSURANCE" and "RATINGS" herein.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

Subject to satisfying certain conditions, the payment of the Series 2024A 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 Series 2024A Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See "Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix E is incorporated herein and made a part hereof for all purposes.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview . . . The following language constitutes only a summary of the Finance System as it is currently structured. The information contained under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding based on information available to the District as of the date of this Official Statement. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

Local funding is derived from collections of ad valorem taxes levied on property located within each district's boundaries. School districts are authorized to levy two types of property taxes: a limited maintenance and operations ("M&O") tax to pay current expenses and an unlimited 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 on bonds. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed $0.50 per $100 of taxable value at the time bonds are issued. Once bonds are issued, however, districts may levy a 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 among school districts for the same tax rate is also subject to wide variation, however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

2023 Regular and Special Legislative Sessions. The Legislature meets in regular session in odd numbered years, for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. During this time, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. Such legislation may include legislation that modifies the process for setting school district tax rates or implements temporary tax relief measures.

The regular session of the 88th Texas Legislature (the "88th Regular Session") began on January 10, 2023 and adjourned on May 29, 2023. 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 2024-2025 State fiscal biennium and increased the state guaranteed yield on the first $0.08 cents of tax effort beyond a school district's Maximum Compressed Tax Rate (as defined herein) to $126.21 per penny of tax effort per student in WADA (as defined herein) in 2024 (from $98.56 in 2023) and $129.52 per penny of tax effort per student in WADA in 2025. See "– State Funding for School Districts – Tier Two." 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 any previous special sessions of the 88th Texas Legislature.

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% (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.

During the fourth called special session the Legislature considered (i) "legislation relating to primary and secondary education, including the establishment of an education savings account program, the certification, compensation, and health coverage of certain public school employees, the public school finance system, special education in public schools, measures to support the education of public school students that include certain educational grant programs, reading instruction, and early childhood education, the provision of virtual education, and public school accountability;" and (ii) "legislation related to school safety measures and related state funding mechanisms." The session adjourned on December 5, 2023 without any action on these items.

As described above, the Governor may call additional special sessions. During any additional called special session, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. The District can make no representations or predictions regarding any actions the Legislature has taken or may take concerning the substance or the effect of any legislation passed in a previous session or a future session of the Legislature.

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

State Compression Percentage. The "State Compression Percentage" 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 maximum 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* "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two").

STATE FUNDING FOR SCHOOL DISTRICTS . . . State funding for school districts is provided through the two-tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district's Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide "Tier One" funding or "Tier Two" funding, respectively, to fund the difference between the school district's entitlements and the 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 increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some instances is required to be used for that purpose (*see* "TAX RATE LIMITATIONS – I&S Tax Rate Limitations"), Tier Two funding may not be used for the payment of debt service or capital outlay.

The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2024-2025 State fiscal biennium, the State Legislature appropriated funds in the amount of $1,072,511,740 for the EDA, IFA, and NIFA.

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

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

The Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is $6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency.

Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher 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 this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2024-2025 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

Since future-year IFA awards were not funded by the State Legislature for the 2024-2025 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2022-2023 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 State Legislature appropriated funds in the amount of $100,000,000 for each fiscal year of the 2024-2025 State fiscal biennium for NIFA allotments.

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

Furthermore, "property-wealthy" school districts that received additional State funds under the 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. See "AD VALOREM PROPERTY TAXATION – Local Homestead Exemptions" and " – State Mandated Freeze on School District Taxes."

LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT . . . A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended ("Chapter 49"). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district's Golden Pennies in excess of the school district's respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, Chapter 49 school districts are generally subject to a process known as "recapture", which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption "Options for Local Revenue Levels in Excess of Entitlement". Chapter 49 school districts receive their allocable share of funds distributed from the constitutionally-prescribed Available School Fund, but are generally not eligible to receive State aid under the Foundation School Program, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE HEARNE INDEPENDENT SCHOOL DISTRICT

For the 2024-2025 school year, the District was designated as an "excess local revenue" Chapter 49 school district by TEA. Accordingly, the District elected to purchase attendance credits from the State ("Option 3" netting Chapter 48 funding) to reduce local revenues to a level that does not exceed the District's entitlements.

A district's wealth per student must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by 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.

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 I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property. *Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than $5 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of* the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026 unless extended by the State legislature, the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See "Productivity Loss" in "APPENDIX A -- SELECTED FINANCIAL INFORMATION THE DISTRICT – Table 1" for the reduction in taxable valuation attributable to valuation by Productivity Value.

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").

On July 13, 2023, during the second special session of the 88th Texas Legislature, the Legislature passed Senate Bill 2, which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than $5 million dollars (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026, the Appraisal Cap may be increased or decreased by the product of the preceding State fiscal year's increase or decrease in the consumer price index, as applicable, to the Maximum Property Value. The Appraisal Cap took effect on January 1, 2024.

STATE MANDATED HOMESTEAD EXEMPTIONS . . . State law grants, with respect to each school district in the State, (1) a $100,000 exemption of the appraised value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Sessions" for a description of additional legislation concerning the required homestead exemption including an amendment to the Texas Constitution to increase the aforementioned general residential homestead exemption for school districts from $40,000 to $100,000. See "APPENDIX A -- SELECTED FINANCIAL INFORMATION THE DISTRICT – Table 1" for the reduction in taxable valuation, if any, attributable to State mandated homestead exemptions.

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

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. The total amount of ad valorem taxes that may be imposed for general elementary and secondary public school purposes on the residence homestead of a person who is 65 years of age or older or disabled may be adjusted to reflect any statutory reduction from the preceding tax year in the MCR of the M&O taxes imposed for those purposes on the homestead. See "APPENDIX A -- SELECTED FINANCIAL INFORMATION THE DISTRICT – Table 1" for the reduction in taxable valuation, if any, attributable to the freeze on taxes for the elderly and disabled.

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

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

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

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See "APPENDIX A -- SELECTED FINANCIAL INFORMATION THE DISTRICT – Table 1" for the reduction in taxable valuation attributable to Freeport Exemptions.

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

Temporary Exemption for Qualified Property Damaged by a Disaster…The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. 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 the 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), previously 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 can 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 was not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87th Texas Legislature did not vote to extend this program, which expired by its terms on December 31, 2022.

During the regular session of the 88th Texas Legislature, House Bill 5 (codified as Chapter 403, Texas Government Code, Subchapter T. Texas Jobs, Energy, Technology and Innovation Act ("Chapter 403")) was enacted into law. Chapter 403 is intended as a replacement of former Chapter 313, Texas Tax Code ("Chapter 313"), but it contains significantly different provisions than the prior program under Chapter 313. The effective date of Chapter 403 was January 1, 2024. Under Chapter 403, 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 403 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 403**. Eligible projects must relate to manufacturing, provision of utility services, dispatchable electric generation (such as non-renewable energy), development of natural resources, critical infrastructure, or research and development for high-tech equipment or technology, and projects must create and maintain jobs and meet certain minimum investment requirements. The District is currently monitoring the State's implementation of this new economic development program and cannot make any representations as to what impact, if any, Chapter 403 will have on its finances or operations.

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

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $57.2 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

LEVY AND COLLECTION OF TAXES . . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) to include delinquent tax, penalty and interest collected, 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 payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM PROPERTY TAXATION – Temporary Exemption for Qualified Property Damage by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code

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

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

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

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

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS . . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on March 17, 1962 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds 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 Series 2024B Bonds are issued pursuant to a bond election to provide for the payment of existing M&O debt to convert this debt to I&S "new debt" as refunding bonds and are, therefore, together with the Series 2024A Bonds, subject to the 50-cent Test. As such, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test. The District has 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.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT . . . The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $10,000. The disabled are also granted an exemption of $10,000.

The District has not granted any portion of the local option additional exemption of 20% of the market value of residence homesteads, the minimum exemption that can be granted under this provision being $5,000.

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

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

The District does not tax nonbusiness personal property.

The District does not permit split payments, and discounts are not allowed.

The District currently has no tax abatements.

FINANCIAL INFORMATION

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the District substantially comply with the rules prescribed in the Financial Accountability Systems Resource Guide, by the Texas Board of Education. These accounting policies conform to generally accepted accounting principles applicable to governments (see Appendix C - "Hearne Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended August 31, 2023").

General Fund Balance . . . The District's current consensus is to build up surplus and unencumbered funds equal to approximately 60 days of expenditures in the General Fund.

Budgetary Procedures . . . The District policy is to begin budget preparations on the individual school level in March of each year. The principals work with the teachers to formulate a working budget, which then moves to the office of the Superintendent. After refinements at this level, the budget goes to the Board where it is further refined and goes through public hearings prior to final adoption in late June. Priorities are based on long-term and annual goals.

INVESTMENTS . . .The District invests its funds in investments authorized by Texas 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 invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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 of the District 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 SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), 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 Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and 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), 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 as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, 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) 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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, 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 is placed 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; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "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 United States or state bank; (14) no-load money market mutual funds registered with and regulated by the 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 (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have 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.

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 (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) 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 is placed 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 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, if the governing body of the District authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The District may also contract with an investment management firm (x) registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or (y) 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 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 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 POLICIES . . .Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS . . . 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 relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission; (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) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) 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; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TAX MATTERS

The delivery of the Bonds is subject to the opinions of Escamilla & Poneck, LLP, San Antonio, Texas ("Bond Counsel") to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of individuals. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinions appears in APPENDIX D hereto.

In rendering the foregoing opinions, Bond Counsel will rely upon the certifications of the District pertaining to the use, expenditure and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owner thereof for federal income taxes from the date of the issuance of the Bonds. Bond Counsel has not been retained by the District to monitor such post-issuance compliance.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Bond Counsel's opinions are not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinions of Bond Counsel, and Bond Counsel's opinions are not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

TAX CHANGES . . . Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

ANCILLARY TAX CONSEQUENCES . . . Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Pursuant to Public Law No. 115-97 (i.e., the Tax Cuts and Jobs Act), for tax years beginning after December 31, 2017, the corporate alternative minimum tax is repealed. However, interest on the Bonds is taken into account in determining "adjusted financial statement income" (as defined in section 56A of the Code) of "applicable corporations" (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS . . . The initial public offering price to be paid for certain Bonds may be less than the amount payable on such Bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be required to be taken into account in determining the alternative minimum tax on corporations for tax years that began before January 1, 2018 and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax, consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax- exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

TAX ACCOUNTING TREATMENT OF PREMIUM BONDS . . . The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

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 institutions," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(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 obligations, other than "private activity bonds," that are designated by a "qualified small issues" 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 t 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(a)(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 expects to designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant 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."

OTHER INFORMATION

RATINGS. . . The Series 2024A Bonds have an enhanced rated of "AAA" by S&P Global Ratings ("S&P") by virtue of the Permanent School Fund Guarantee (see "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein). The Series 2024B Bonds have an insured rating of "AA" by S&P as a result of the Policy to be delivered by AG (see "BOND INSURANCE" herein). The Bonds and the outstanding debt of the District is rated "A" by S&P without regard to credit enhancement or bond insurance. An explanation of such ratings may be obtained from S&P. The ratings will reflect only the view of such organization at the time such ratings are given, and the District will make no representation as to the appropriateness of the ratings. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by the rating company if, in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

INFECTIOUS DISEASE OUTBREAK – COVID-19. . . The outbreak of COVID-19, a respiratory disease caused by a strain of coronavirus, was characterized as a pandemic by the World Health Organization for over three years (the "Pandemic") and negatively affected travel, commerce, the global supply chain, and financial markets globally. On April 10, 2023, the President of the United States signed into law a bill that ended the national emergency declaration resulting from COVID-19 and on May 5, 2023, the World Health Organization declared the outbreak of COVID-19 over as a global health emergency. The Pandemic affected enrollment and attendance for many school districts. With the changes made to the Finance System in House Bill 3 passed during the 86th Legislative Session, school funding is increasingly tied to Average Daily Attendance ("ADA"). As a result, student enrollment and attendance will be an important factor for M&O (defined herein) funding for the District going forward. The District did not experience a reduction in its taxable assessed valuation during the Pandemic. The Bonds are secured by an unlimited ad valorem tax.

For a discussion of the impact of the Pandemic on the Permanent School Fund, see "Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

CYBERSECURITY. . . The District relies on a technological environment to conduct its operations and potentially faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “Systems Technology”). While the District mitigates this Systems Technology risk by using the digital data storage services of third-party providers that maintain cybersecurity protection policies, as a recipient and provider of personal, private, or sensitive information, the District may be the target of cybersecurity incidents that could result in adverse consequences to the District and its Systems Technology, requiring a response action to mitigate the consequences. Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to the District’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. Cybersecurity breaches could cause material disruption to the District’s finance or operations. The costs of remedying any such damage or obtaining insurance related thereto, or protecting against future attacks could be substantial, and insurance (if any can be obtained) may not be adequate to cover such losses or other resultant costs and expenses. Further, cybersecurity breaches could expose the District to material litigation and other legal risks, which could cause the District to incur material costs related to such legal claims or proceedings.

CLIMATE CHANGE. . . The State is susceptible to the effects of extreme weather events and natural disasters, including floods, droughts, wind events, low temperature events, rain events, earthquakes, hurricanes, and tornadoes, which could result in negative economic impacts on AFIAB and SIA. Such effects can be exacerbated by a longer-term shift in the climate over several decades (commonly referred to as climate change), including increasing global temperatures and rising sea levels. The occurrence of such extreme weather events could damage the District, or the local infrastructure that provides essential services to the District. The economic impacts resulting from such extreme weather events could include a loss of property values, a decline in revenue base, and escalated recovery costs. While the District has not experienced any serious flooding in the past five years, no assurances can be given that a future extreme weather event driven by climate change will not adversely affect he operations of the District.

LITIGATION. . .On the date of delivery of the Bonds to the Underwriters, the District will execute and deliver to the Underwriters a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

The District represents that is not a party to any litigation or other 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 statements 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) thereof; 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.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS. . .Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code), provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Chapter 2256, Texas Government Code), the Bonds may have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See “OTHER INFORMATION - Ratings” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to sure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS. . .The District will furnish the Underwriters with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State 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 limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Escamilla & Poneck LLP, San Antonio, Texas, Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under “TAX MATTERS,” the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel has been retained by and only represents the District. Forms of Bond Counsel’s opinions appears in Appendix D attached hereto.

Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "THE BONDS" (except for the information contained in the subcaptions "Sources and Uses of Bond Proceeds," "Permanent School Fund Guarantee," "Bondholders' Remedies," and "Book-Entry-Only System" as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "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 - Continuing Disclosure of Information" (except under the subcaption "Compliance with Prior Undertakings" as to which no opinion is expressed) and "OTHER INFORMATION - Legal Matters" (except for the last two sentences of the first paragraph thereof, as to which no opinion is expressed), and such firm is of the opinion that the information 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 on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by The Bates Law Firm, Houston, Texas, Counsel to the Underwriters.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION. . .The financial data and other information contained hereunder 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.

CONTINUING DISCLOSURE OF INFORMATION . . . In the Order, the District has made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the MSRB through its Electronic Municipal Market Access ("EMMA") system, when it will be available to the general public, free of charge at www.emma.msrb.com.

Annual Reports. The District will file certain updated financial information and operating data with the MSRB. 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 in Appendix A, attached hereto, under Tables numbered 1 through 5 and 7 through 12, and in APPENDIX C attached hereto. The District will update and provide this information within six months after the end of each fiscal year. The District will provide the updated information to the MSRB in electronic format, which will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's EMMA Internet website or filed with the United States Securities and Exchange Commission (the "SEC"); 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 information by the required time 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 C 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 June 30. Accordingly, it must provide updated information by the last day of Decmeber in each year following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events. The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the federal income tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material. Neither the Bonds nor the Order makes any provision for debt service reserves, credit enhancement (except for the guarantee of the Texas Permanent School Fund), or liquidity enhancement; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide 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. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee and the Policy), or liquidity enhancement.

For these purposes, (A) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (B) the District intends the words used in clauses (15) and (16) of the immediately preceding paragraph and in the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

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

Limitations and Amendments. The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell 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 holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered 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 Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an Underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings. Except as described herein, during the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The District's annual reports for fiscal years ending 2020 and 2021 were filed on July 29, 2021 (with audited information subsequently filed on September 29, 2021) and March 22, 2022, respectively.

FINANCIAL ADVISOR . . . RBC Capital Markets 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. RBC Capital Markets, in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and 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 has provided the following sentence for inclusion in this Official Statement. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Series 2024A Bonds from the District at a price equal to the initial offering price to the public as shown on pages iii of the official statement less an underwriting discount of $86,856.25. The Underwriters have agreed, subject to certain conditions, to purchase the Series 2024B Bonds from the District at a price equal to the initial offering price to the public as shown on pages iv of the official statement less an underwriting discount of $14,600.00. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this official statement in accordance with, and as part of, their responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

MISCELLANEOUS

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

The Order authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters. The Official Statement has been approved by the Board of Trustees of the District for distribution in accordance with provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.C. Section 240.15c2-12.

Hearne Independent School District

/s/ Mary Jane Ramirez
President, Board of Trustees

ATTEST:
Hearne Independent School District

/s/ Nelda Calhoun
Secretary, Board of Trustees

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SCHEDULE I

SCHEDULE OF REFUNDED BONDS

Hearne Independent School District
Maintenance Tax Notes, Series 2023

Maturities	Interest Rate (%)	Original Principal Amount ($)	Refunded Amount ($)	Call Date	Call Price
11/15/2033*	6.500	2,500,000.00	2,384,242.34	09/30/2024	100.00

*Term Note

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APPENDIX A

SELECTED FINANCIAL INFORMATION OF THE DISTRICT

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TABLE 1 - VALUATION, EXEMPTIONS, AND TAX SUPPORTED DEBT

2023/24 Total Appraised Value (Excludes Fully Exempt Property)			$	1,537,143,824
Less Exemptions/Reductions:				
General Homestead	$	121,417,998		
Over 65 or Disabled		4,401,707		
Veterans		6,700,195		
Pollution Control (EPA)		16,340,155		
Absolute		5,174,284		
Minimum $500		85,429		
Productivity Loss		480,712,929		
Homestead Cap Loss		66,575,548		
Total Exemptions				701,408,245
2023/24 Taxable Assessed Valuation (1)			$	835,735,579
Unlimited Tax Debt Payable as of 6/30/2024:			$	4,680,000
Plus: The Series 2024A&B Bonds (2)				18,250,000
Total Unlimited Tax Debt			$	22,930,000
Ratio Net Funded Debt to Taxable Assessed Valuation				2.744%
2024 Estimated Population		7,157		
Estimated Per Capita Taxable Assessed Valuation		$116,772		
Estimated Net Per Capita Tax Debt		$3,204		

Source: Robertson County Appraisal District

(1) The District's current 2024/2025 taxable assessed valuation from Robertson County Appraisal District is $915,121,917.

(2) Preliminary; subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY [1]

	FY 2024		FY 2023		FY 2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 258,870,003	16.8%	$ 200,838,917	18.5%	$ 165,184,214	18.2%
Real, Residential, Multi-Family	10,509,974	0.7%	9,609,221	0.9%	8,493,131	0.9%
Real, Vacant Lots/Tracts	12,710,851	0.8%	9,705,744	0.9%	8,924,413	1.0%
Real, Acreage (Land Only)	523,482,323	34.1%	314,781,451	28.9%	288,509,138	31.9%
Real, Farm and Ranch Improvements	141,340,325	9.2%	99,682,886	9.2%	93,793,382	10.4%
Real, Commercial	67,645,891	4.4%	58,871,146	5.4%	48,080,514	5.3%
Real, Industrial	12,465,636	0.8%	6,963,129	0.6%	9,897,550	1.1%
Real, Oil, Gas and Other Mineral Reserve	111,887,625	7.3%	94,356,314	8.7%	37,003,586	4.1%
Real & Tangible Personal, Utilities	136,153,408	8.9%	117,944,133	10.8%	110,784,613	12.2%
Tangible Personal, Commercial	22,742,957	1.5%	17,345,625	1.6%	15,051,461	1.7%
Tangible Personal, Industrial	226,342,213	14.7%	145,052,170	13.3%	110,124,721	12.2%
Tangible Personal, Other, Mobile Homes	12,992,618	0.8%	12,536,101	1.2%	9,747,372	1.1%
Total Appraised Value	$ 1,537,143,824	100.0%	$ 1,087,686,837	100.0%	$ 905,594,095	100.0%
Less: Exemptions/Reductions	(701,408,245)		(387,609,923)		(328,203,808)	
Net Taxable Assessed Value	$ 835,735,579		$ 700,076,914		$ 577,390,287	

	FY 2021		FY 2020		FY 2019	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 169,873,719	17.9%	$ 147,585,618	27.3%	$ 140,989,059	29.2%
Real, Residential, Multi-Family	9,894,005	1.0%	8,159,892	1.5%	7,148,972	1.5%
Real, Vacant Lots/Tracts	7,415,556	0.8%	6,774,206	1.3%	5,961,581	1.2%
Real, Acreage (Land Only)	272,308,654	28.7%	97,213,714	18.0%	92,610,914	19.2%
Real, Farm and Ranch Improvements	108,708,053	11.5%	16,639,224	3.1%	14,445,373	3.0%
Real, Commercial	49,665,641	5.2%	43,258,369	8.0%	41,958,620	8.7%
Real, Industrial	16,763,602	1.8%	16,391,784	3.0%	11,161,378	2.3%
Real, Oil, Gas and Other Mineral Reserve	67,430,835	7.1%	38,945,242	7.2%	21,224,903	4.4%
Real & Tangible Personal, Utilities	81,139,446	8.6%	43,285,751	8.0%	58,354,411	12.1%
Tangible Personal, Commercial	12,115,520	1.3%	16,739,306	3.1%	17,077,579	3.5%
Tangible Personal, Industrial	143,061,900	15.1%	96,726,882	17.9%	64,240,202	13.3%
Tangible Personal, Other, Mobile Homes	10,016,575	1.1%	8,236,390	1.5%	8,017,579	1.7%
Total Appraised Value	$ 948,393,506	100.0%	$ 539,956,378	100.0%	$ 483,190,571	100.0%
Less: Exemptions/Reductions	(330,505,932)		(82,723,132)		(81,427,246)	
Net Taxable Assessed Value	$ 617,887,574		$ 457,233,246		$ 401,763,325	

Source: Robertson County Appraisal District

(1) The figures above the taxable appraised values as stated at the beginning of each tax year to the State Property Tax Board. Any difference between these figures and table assessed valuations are due to adjustments and corrections to respective tax rolls. The District's current 2025 taxable assessed valuation from Robertson County Appraisal District is $915,121,917.

TABLE 3 – VALUATION AND TAX-SUPPORTED DEBT HISTORY

Fiscal Year Ended	Taxable Assessed Valuation	Tax Supported Debt Outstanding at FYE	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Estimated Population	Per Capita Taxable Assessed Valuation	Tax Supported Debt Per Capita
2018	$ 400,119,901	$ 10,500,000	2.624%	5,087	$ 78,655	$ 2,064
2019	401,763,325	9,825,000	2.445%	4,894	82,093	2,008
2020	457,233,246	9,135,000	1.998%	4,894	93,427	1,867
2021	617,887,574	7,285,000	1.179%	4,012	154,010	1,816
2022	577,390,287	6,660,000	1.153%	4,091	141,137	1,628
2023	700,076,914	6,020,000	0.860%	6,819	102,666	883
2024	835,735,579	4,680,000	0.560%	7,157	116,772	654

Source: Robertson County Appraisal District

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended	Tax Rate	Local Maintenance	Interest & Sinking Fund	Tax Levy	Current Collections	Total Collections
2018	1.27000	1.04000	0.23000	$ 5,081,523	95.63%	98.85%
2019	1.26000	1.04000	0.22000	5,033,678	95.20%	97.75%
2020	1.17770	0.97000	0.20770	5,384,836	94.08%	97.18%
2021	1.02470	0.87470	0.15000	6,195,669	96.32%	99.23%
2022	1.02570	0.87470	0.15100	7,004,530	96.76%	98.43%
2023	0.97100	0.85460	0.11640	7,418,341	97.58%	99.59%
2024	0.84920	0.66920	0.18000	In Process of Collections		

Source: Robertson County Appraisal District

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2023/24 Taxable Assessed Valuation	Percent of Total Taxable Assessed Valuation
GATX Corp.	Equipment	$ 65,424,083	7.8%
LRR Pecos Valley LLC	Oil & Gas	48,498,456	5.8%
Union Pacific Railroad Co.	Railroad	43,859,567	5.2%
Valero Marketing & Supply Co.	Oil & Gas	25,916,959	3.1%
Magellan Pipeline Holdings	Oil & Gas Pipeline	35,247,419	4.2%
Wildfire Pipeline Holdings	Oil & Gas Pipeline	23,705,767	2.8%
Magellan Pipeline Company	Oil & Gas Pipeline	26,729,009	3.2%
ECMD Inc.	Wholesale Supplier / Distribution Center	21,257,986	2.5%
Texas Express Pipeline	Oil & Gas Pipeline	19,118,276	2.3%
ExxonMobil Oil Corporation	Oil & Gas	17,621,124	2.1%
	Taxable Assessed Valuation	$ 327,378,646	39.2%
Total Taxable Assessed Valuation			$ 835,735,579

Source: Robertson County Appraisal District

As shown in the table above, the total combined top ten taxpayers in the District currently account for over 39% of the District's tax base. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever. See "THE BONDS – Bondholders' Remedies", "AD VALOREM TAXATION - The Property Tax Code as Applied to the District" and "TAX RATE LIMITATION – Penalties and Interest" herein.

TABLE 6 - ESTIMATED OVERLAPPING DEBT

Taxing Jurisdiction	2023/24 Taxable Assessed Valuation	2023/24 Tax Rate	Tax Supported Debt as of 8/1/2024	Overlapping Debt %	District's Overlapping Supported Debt
City of Hearne	$ 329,761,179	0.7460	$ 10,164,000	100.00%	$ 10,164,000
Robertson County	4,081,647,827	0.4420	13,140,000	19.93%	2,618,802
Hearne ISD	835,735,579	0.8492	22,930,000 (1)	100.00%	22,930,000
Total Direct and Overlapping Tax Supported Debt					$ 35,712,802
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					4.27%
Per Capita Direct and Overlapping Tax Supported Debt					$ 4,989.91

(1) Projected, includes the Bonds.

TABLE 7 - UNLIMITED TAX - I&S TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 6/30	Outstanding Debt Service			The Series 2024A Bonds			The Series 2024B Bonds			Total Unlimited Tax Debt Requirements			Principal Payoff
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	
2025	$ 705,000	$ 187,200	$ 892,200	$ -	$ -	$ -	$ -	$ -	$ -	$ 705,000	$ 187,200	$ 892,200	
2026	735,000	159,000	894,000	-	980,169	980,169	-	151,250	151,250	735,000	1,290,419	2,025,419	
2027	760,000	129,600	889,600	-	712,850	712,850	-	110,000	110,000	760,000	952,450	1,712,450	
2028	795,000	99,200	894,200	-	712,850	712,850	-	110,000	110,000	795,000	922,050	1,717,050	
2029	825,000	67,400	892,400	-	712,850	712,850	-	110,000	110,000	825,000	890,250	1,715,250	17%
2030	860,000	34,400	894,400	-	712,850	712,850	-	110,000	110,000	860,000	857,250	1,717,250	
2031				80,000	712,850	792,850	900,000	110,000	1,010,000	980,000	822,850	1,802,850	
2032				395,000	708,850	1,103,850	635,000	65,000	700,000	1,030,000	773,850	1,803,850	
2033				415,000	689,100	1,104,100	665,000	33,250	698,250	1,080,000	722,350	1,802,350	
2034				435,000	668,350	1,103,350				435,000	668,350	1,103,350	36%
2035				460,000	646,600	1,106,600				460,000	646,600	1,106,600	
2036				480,000	623,600	1,103,600				480,000	623,600	1,103,600	
2037				505,000	599,600	1,104,600				505,000	599,600	1,104,600	
2038				530,000	574,350	1,104,350				530,000	574,350	1,104,350	
2039				555,000	547,850	1,102,850				555,000	547,850	1,102,850	47%
2040				585,000	520,100	1,105,100				585,000	520,100	1,105,100	
2041				615,000	490,850	1,105,850				615,000	490,850	1,105,850	
2042				645,000	460,100	1,105,100				645,000	460,100	1,105,100	
2043				675,000	427,850	1,102,850				675,000	427,850	1,102,850	
2044				710,000	394,100	1,104,100				710,000	394,100	1,104,100	61%
2045				745,000	358,600	1,103,600				745,000	358,600	1,103,600	
2046				775,000	328,800	1,103,800				775,000	328,800	1,103,800	
2047				810,000	297,800	1,107,800				810,000	297,800	1,107,800	
2048				840,000	265,400	1,105,400				840,000	265,400	1,105,400	
2049				875,000	231,800	1,106,800				875,000	231,800	1,106,800	79%
2050				910,000	196,800	1,106,800				910,000	196,800	1,106,800	
2051				945,000	160,400	1,105,400				945,000	160,400	1,105,400	
2052				980,000	122,600	1,102,600				980,000	122,600	1,102,600	
2053				1,020,000	83,400	1,103,400				1,020,000	83,400	1,103,400	
2054				1,065,000	42,600	1,107,600				1,065,000	42,600	1,107,600	100%
	$ 4,680,000	$ 676,800	$ 5,356,800	$ 16,050,000	$ 13,983,919	$ 30,033,919	$ 2,200,000	$ 799,500	$ 2,999,500	$ 22,930,000	$ 15,460,219	$ 38,390,219	

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 6/30/2024 [1]		$ 892,200
Interest and Sinking Fund Balance, Fiscal Year Ending 6/30/2023	1,063,022	
Budgeted Interest & Sinking Fund Tax Levy Collections	863,495	
Estimated Fund Balance, Fiscal Year Ending 6/30/2024		$ 1,034,317

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Amount Being Issued	Unissued Balance
School Building & Security	5/4/2024	$ 11,500,000	$ 11,500,000	$ -
Athletic Improvements	5/4/2024	3,500,000	3,500,000	-
Stadium	5/4/2024	2,500,000	2,500,000	-
Technology	5/4/2024	1,500,000	1,500,000	-
		$ 19,000,000	**$ 19,000,000**	**$ -**

TABLE 10 - OTHER OBLIGATIONS

On December 28, 2015, the District issued $1,525,000 Qualified Energy Conservation Maintenance Tax Notes, Taxable Series 2015 (payments reflected below).

Fiscal Year Ending 6/30	Outstanding Debt Service Principal	Interest	Total	Principal Payoff
2025	$ 105,000	$ 9,667	$ 114,667	
2026	105,000	8,212	113,212	
2027	105,000	6,757	111,757	
2028	105,000	5,301	110,301	
2029	110,000	3,812	113,812	71%
2030	110,000	2,287	112,287	
2031	110,000	762	110,762	100%
	$ 750,000	$ 36,798	$ 786,798	

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 6.4% 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 C, "Hearne Independent School District Annual Financial Report for Fiscal Year Ended August 31, 2023" - Note G).

TABLE 11 - NET ASSETS

	Fiscal Year Ended August 31 (1)				
	2023	2022	2021	2020	2019
Revenues					
Charges for Services	$ 101,899	$ 91,166	$ 35,377	$ 72,859	$ 85,131
Operating Grants & Contributions	5,542,481	4,831,928	3,485,818	4,363,714	3,112,825
Property Taxes	7,525,926	5,651,719	6,276,344	5,687,512	5,075,287
State Aid - Formula	3,692,479	4,994,385	4,483,127	4,367,129	4,320,596
Investment Earnings	311,241	29,332	21,712	44,610	79,123
Miscellaneous	290,591	449,898	4,711,025	27,846	144,007
Total Revenues	**$ 17,464,617**	**$ 16,048,428**	**$ 19,013,403**	**$ 14,563,670**	**$ 12,816,969**
Expenses					
Instruction	$ 7,556,090	$ 6,334,601	$ 6,257,387	$ 6,871,795	$ 6,209,421
Instructional Resource & Media Services	161,721	149,371	157,473	154,832	159,823
Curriculum and Staff Development	492,548	404,643	134,799	75,449	303,780
Instructional Leadership	841,058	762,935	717,521	1,014,685	638,383
School Leadership	1,090,786	1,149,923	1,017,993	971,255	782,731
Guidance, Counseling & Evaluation Services	212,415	252,616	182,252	172,002	167,275
Social Work	128,718	112,590	-	-	-
Health Services	142,582	129,539	115,213	116,672	98,534
Student (Pupil) Transportation	475,176	422,078	347,154	333,046	307,406
Food Services	924,626	784,434	585,624	651,292	696,084
Extracurricular Activities	617,613	607,655	464,531	534,775	513,774
General Administration	1,050,398	971,103	778,006	860,703	857,561
Facilities Maintenance and Operations	1,526,572	1,420,169	1,131,002	1,257,961	1,277,041
Security and Monitoring Services	194,696	120,026	73,001	60,062	64,898
Data Processing Services	299,238	304,671	445,425	225,222	239,102
Community Services	117,834	23,999	53,873	43,399	27,016
Debt Service - Interest on Long-Term Debt	213,991	227,968	226,181	238,643	244,115
Debt Service - Bond Issuance Costs and Fees	-	1,250	801	1,250	1,250
Facilities Acquisition and Construction	5,059	74,501	194,079	-	13,691
Payments Related to Shared Services Arrangement	338,399	330,999	167,466	184,747	178,777
Other Intergovernmental Charges	143,690	122,756	128,153	110,378	109,647
Total Expenses	**$ 16,533,210**	**$ 14,707,827**	**$ 13,177,934**	**$ 13,878,168**	**$ 12,890,309**
Increase (Decrease) in Net Assets	**$ 931,407**	**$ 1,340,601**	**$ 5,835,469**	**$ 685,502**	**$ (73,340)**
Beginning Net Assets	10,715,045	9,374,444	3,538,975	2,853,473	2,926,813
Ending Net Assets	**$ 11,646,452**	**$ 10,715,045**	**$ 9,374,444**	**$ 3,538,975**	**$ 2,853,473**

Source: The District's Audited Financial Statements.

(1) The District changed its fiscal year end to June 30 beginning in fiscal year 2024.

TABLE 11A - GENERAL FUND REVENUE & EXPENDITURES HISTORY

	Fiscal Year Ended August 31 [1]				
	2023	2022	2021	2020	2019
Revenues					
Local and Intermediate Sources	$ 7,223,348	$ 5,386,253	$ 9,152,898	$ 4,720,274	$ 4,449,349
State Program Revenues	4,039,121	5,144,454	4,824,687	4,824,243	4,737,984
Federal Program Revenues	1,287,696	1,348,658	764,942	520,708	629,974
Total Revenues	$ 12,550,165	$ 11,879,365	$ 14,742,527	$ 10,065,225	$ 9,817,307
Expenses					
Instruction	$ 5,886,543	$ 5,134,343	$ 4,706,526	$ 4,636,405	$ 4,795,640
Instructional Resource & Media Services	79,164	69,407	71,236	69,888	73,632
Curriculum and Staff Development	45,428	34,223	5,672	7,168	39,004
Instructional Leadership & School Leadership	794,892	962,911	1,002,494	797,043	757,627
Guidance, Counseling & Evaluation Services	153,269	155,919	-	-	-
Health Services	81,293	67,935	-	-	-
Student Services - Student (Pupil)	-	-	260,714	248,624	205,639
Student (Pupil) Transportation	469,672	1,130,556	328,050	313,942	354,024
Food Services	826,785	760,968	525,573	463,596	633,940
Extracurricular Activities	611,677	562,087	384,639	429,122	425,903
General Administration	821,351	831,177	735,864	684,680	731,250
Plant Maintenance and Operations	1,420,120	1,304,611	1,106,774	1,128,856	1,254,759
Security and Monitoring Services	65,004	81,312	26,142	14,990	16,642
Data Processing Services	202,780	219,330	190,065	151,174	209,336
Community Services	-	44	2,509	-	-
Debt Service	241,787	114,660	116,916	112,397	114,164
Capital Outlay	546,067	487,332	3,754,317	-	293,952
Other Intergovernmental Charges	143,690	122,756	128,153	110,378	178,777
Payments Related to Shared Services Arrangement	159,591	158,750	167,466	184,747	109,647
Total Expenses	$ 12,549,113	$ 12,198,321	$ 13,513,110	$ 9,353,010	$ 10,193,936
Net Change in Fund Balance	$ 1,052	$ (318,956)	$ 1,229,417	$ 712,215	$ (376,629)
Other Resources (Uses)	-	719,798	951,914	-	(38,977)
Beginning Fund Balance	6,262,318	5,861,476	3,680,145	2,967,930	3,383,536
Ending Fund Balance	$ 6,263,370	$ 6,262,318	$ 5,861,476	$ 3,680,145	$ 2,967,930

Source: The District's Audited Financial Statements.

(1) The District changed its fiscal year end to June 30 beginning in fiscal year 2024.

TABLE 12 - CURRENT INVESTMENTS

Type of Security	Fair Value	Percent
TexStar Investment Pool	$ 7,378,830	100.00%
Total Fair Value	$ 7,378,830	100.00%

Source: The District's Audited Financial Statements (as of August 31, 2023).

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT

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LOCATION

The District is a political subdivision located in Robertson County, Texas. The District is approximately 106.2 square miles in area and serves a population of approximately 7,774.

ADMINISTRATION

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three-year staggered terms with elections being held in May of each year. The Board delegates administrative responsibilities to the Superintendent of Schools.

ENROLLMENT AND FACILITIES

The school facilities currently provided by the District include one elementary school, one middle school, and one high school.

AVERAGE DAILY ATTENDANCE

Historical average daily attendance for the District is as follows:

School Year	Average Daily Attendance
2014-2015	854
2015-2016	823
2016-2017	803
2017-2018	792
2018-2019	734
2019-2020	643
2020-2021	654
2021-2022	648
2022-2023	672
2023-2024	668

Source: The Municipal Advisory Council of Texas

EMPLOYMENT STATISTICS

	Robertson County			State of Texas		
	July 2024	July 2023	July 2022	July 2024	July 2023	July 2022
Civilian Labor Force	8,387	7,921	7,839	15,454,094	15,124,871	14,691,720
Total Employment	8,015	7,605	7,496	14,776,132	14,486,077	14,090,681
Total Unemployment	372	316	343	677,962	638,794	601,039
Percentage Unemployment	4.4%	4.0%	4.4%	4.4%	4.2%	4.1%

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APPENDIX C

HEARNE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT

For the Fiscal Year Ended August 31, 2023

The information contained in this Appendix consists of excerpts from the Hearne Independent School District Annual Financial and Compliance Report for the Fiscal 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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HEARNE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2023

HEARNE INDEPENDENT SCHOOL DISTRICT

INTRODUCTORY SECTION

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

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

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HEARNE INDEPENDENT SCHOOL DISTRICT

CERTIFICATE OF BOARD

Hearne Independent School District	Robertson	198905
Name of School District	County	Co.-Dist. Number

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

Nelda Calhoun
Signature of Board Secretary

Mary Jae Ramirez
Signature of Board President

Hearne Independent School District

FINANCIAL SECTION

Armstrong, Vaughan & Associates, P. C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Hearne Independent School District
900 Wheelock Street
Hearne, Texas 77859

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 Hearne Independent School District, as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise Hearne Independent School District's basic financial statements as listed in the table of contents.

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Hearne Independent School District and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe 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

Hearne Independent School District's 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; this includes 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 Hearne 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.

941 West Byrd Blvd., Suite 101 • Universal City, Texas 78148
Phone: 210-658-6229 • Fax: 210-659-7611 • Email: info@avacpa.com • www.avacpa.com

Auditor's Responsibility for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hearne 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 Hearne 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 required supplementary information (consisting of management's discussion and analysis and the required supplementary information section as listed in the table of contents) be presented to supplement the basic financial statements. Such information, 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 Hearne Independent School District's basic financial statements. The supplementary information (as listed in the table of contents), and schedule of expenditures of federal awards (SEFA), as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards)* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary information, including the SEFA, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 supplementary information and SEFA are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information (as listed in the table of contents) does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2023 on our consideration of Hearne 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 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 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 Hearne Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

December 22, 2023

This section of Hearne Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal period ended August 31, 2023. Please read it in conjunction with the Independent Auditor's Report, which precedes this Analysis and the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by $931 thousand as a result of this year's operation.
- Total cost of all of the District's programs increased $1.8 million or 12.4% from the prior year. The increase is mostly attributable to increase in salaries.
- The expenditures for the fiscal year were $791K less than budgeted in the General Fund.
- The District's unassigned fund balance at year end was $2.1 million or 18.3% of current General Fund operating expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities is one way to measure the District's financial health or position.

- Viewed over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the Governmental activities. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

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

The District has the following kinds of funds:

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

- *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates *like businesses*.

- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's net position was $11.6 million at August 31, 2023 (See Table A-1). Of this amount, $12.9 is invested in capital assets and $1.2 million is restricted, leaving a deficit in unrestricted net position of $2.5 million. Adding back the net pension and net other post-employment benefits (and related deferred inflows/outflows) leave a positive $6.7 million.

Changes in Net Position

The District's total revenues were $17.5 million. A significant portion of the District's revenue came from local taxes of $7.5 million or 43.1% ; $9.8 million or 56.3% came from Federal, State, and Local aid – formula grants, while only $102 thousand or 0.6% related to charges for services.

The total cost of all programs and services was $16.5 million; instruction, instruction related, and student service costs were $12.6 million or 76.5%. Other important services are general administration, facilities operation and maintenance, and payments related to shared services arrangements.

Table A-2 presents the cost of each of the District's functions with a comparison to the prior year.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled $18.1 million, an increase of $1.2 million or 7.0% from the preceding year. While local revenues increased due to property tax collections, state and federal program revenues decreased. Total governmental fund expenditures of $18.0 million increased $723 thousand or 4.2%. The most significant increase in expenditures from the prior year was for Instruction.

BUDGETARY HIGHLIGHTS

The General Fund's expenditures were $791 thousand less than the final budgeted expenditures, primarily in student transportation, extracurricular activities, and general administration. Combined with revenues that exceeded budget by $324 thousand, the General Fund ended the fiscal year $1.1 million better than the budget anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2023, the District had invested $30.6 million in a broad range of capital assets, including land, equipment, buildings, and vehicles (See Table A-3). Additions for the 2023 school year included the beginning of the Wood Field Athletic project, additional renovations to campuses, and a new vehicle. After depreciation, the book value of these assets at August 31, 2023 was $19.9 million.

Long Term Debt

At year-end the District owed $7.0 million in principal for outstanding bonds and maintenance tax notes. The District issued no new debt during 2023. More detailed information about the District's debt is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND TAX RATES

The District's Board of Trustees approved in August of 2023 a General Fund budget for the 23-24 school year that projects revenues at $11.6 million. Expenditures for the same period are expected to exceed $13.4 million. Additionally, for the 2023-2024 fiscal year, the District's approved the tax rate for Maintenance & Operations as $0.6692 per $100 in property valuation and for Interest and Sinking as $0.1800 per $100 property valuation.

Additionally, the District has approved to change their fiscal year end beginning with FY 24 to be June 30.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, we invite you to contact the District's Finance Office, 900 Wheelock Street, Hearne, Texas 77859.

Table A-1
Hearne Independent School District's Net Position

	Governmental Activities		Percentage
	2023	2022	Change
Current and Other Assets	$ 9,247,315	$ 8,470,954	9.2%
Capital Assets	19,958,765	20,192,085	-1.2%
Total Assets	29,206,080	28,663,039	1.9%
Deferred Outflows of Resources	6,558,801	2,721,399	141.0%
Current Liabilities	1,298,524	657,548	97.5%
Long-Term Liabilities	15,767,912	13,228,601	19.2%
Total Liabilities	17,066,436	13,886,149	22.9%
Deferred Inflows of Resources	7,051,993	6,783,244	4.0%
Net Investment in Capital Assets	12,955,427	12,286,924	5.4%
Restricted	1,204,566	1,148,232	4.9%
Unrestricted (Deficit)	(2,513,541)	(2,720,111)	-7.6%
Total Net Position	$ 11,646,452	$ 10,715,045	8.7%

Table A-2
Changes in Hearne Independent School District's Net Position

	Governmental Activities 2023	Governmental Activities 2022	Percentage Change
Program Revenues:			
Charges for Services	$ 101,899	$ 91,166	11.8%
Operating Grants & Contributions	5,542,481	4,831,928	14.7%
General Revenues:			
Property Taxes	7,525,926	5,651,719	33.2%
State Aid - Formula Grants	3,692,479	4,994,385	-26.1%
Investment Earnings	311,241	29,332	961.1%
Miscellaneous	290,591	449,898	-35.4%
Total Revenues	17,464,617	16,048,428	8.8%
Expenses:			
Instruction	7,556,090	6,334,601	19.3%
Instructional Resources and Media Services	161,721	149,371	8.3%
Curriculum and Staff Development	492,548	404,643	21.7%
Instructional Leadership	841,058	762,935	10.2%
School Leadership	1,090,786	1,149,923	-5.1%
Guidance, Counseling, & Evaluation Services	212,415	252,616	-15.9%
Social Work	128,718	112,590	14.3%
Health Services	142,582	129,539	10.1%
Student (Pupil) Transportation	475,176	422,078	12.6%
Food Services	924,626	784,434	17.9%
Extracurricular Activities	617,613	607,655	1.6%
General Administration	1,050,398	971,103	8.2%
Facilities Maintenance and Operations	1,526,572	1,420,169	7.5%
Security and Monitoring Services	194,696	120,026	62.2%
Data Processing Services	299,238	304,671	-1.8%
Community Services	117,834	23,999	391.0%
Debt Service - Interest on Long-Term Debt	213,991	229,218	-6.6%
Facilities Acquisition and Construction	5,059	74,501	-93.2%
Payments Related to Shared Services Arrangement	338,399	330,999	2.2%
Other Intergovernmental Charges	143,690	122,756	17.1%
Total Expenses	16,533,210	14,707,827	12.4%
Increase (Decrease) in Net Position	931,407	1,340,601	-30.5%
Beginning Net Position	10,715,045	9,374,444	
Ending Net Position	$ 11,646,452	$ 10,715,045	

Table A-3
Changes in Hearne Independent School District's Capital Assets

	Beginning Balance	Additions	Disposals	Ending Balance
Land and Construction in Progress	$ 769,651	$ 363,726	$ (102,339)	$ 1,031,038
Buildings and Improvements	26,314,628	164,170	102,339	26,581,137
Vehicles, Furniture, and Equipment	2,807,663	188,077	(6,400)	2,989,340
Less: Accumulated Depreciation	(9,699,857)	(949,293)	6,400	(10,642,750)
Total Capital Assets	$ 20,192,085	$ (233,320)	$ -	$ 19,958,765

Land and Construction in Progress are not depreciated.

HEARNE INDEPENDENT SCHOOL DISTRICT

BASIC FINANCIAL STATEMENTS

EXHIBIT A-1

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

Data Control Codes		1 Governmental Activities
	ASSETS:	
1110	Cash and Cash Equivalents	$ 545,471
1120	Current Investments	7,069,663
1225	Property Taxes Receivable, Net	578,592
1240	Due from Other Governments	1,052,846
1290	Other Receivables	743
	Capital Assets:	
1510	Land and Improvements	708,248
1520	Buildings and Improvements, Net	17,780,524
1530	Furniture and Equipment, Net	1,147,203
1580	Construction in Progress	322,790
1000	*Total Assets*	29,206,080
	DEFERRED OUTFLOW OF RESOURCES:	
1700	Deferred Loss on Debt Refunding	39,785
1705	Deferred Pension Related Outflows	3,559,980
1706	Deferred OPEB Related Outflows	2,959,036
	Total Deferred Outflows	$ 6,558,801

The accompanying notes are an integral part of this statement

EXHIBIT A-1

HEARNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION (CONTINUED)
AUGUST 31, 2023

Data Control Codes		1 Governmental Activities
	LIABILITIES:	
2110	Accounts Payable	$ 723,263
2140	Interest Payable	30,763
2160	Accrued Wages Payable	463,243
2180	Due to Other Governments	18,357
2190	Due to Student Groups	11,988
2300	Unearned Revenue	50,910
	Noncurrent Liabilities:	
2501	Due Within One Year	888,320
2502	Due in More Than One Year	6,154,803
2540	Net Pension Liability	5,723,964
2545	Net OPEB Liability	3,000,825
2000	*Total Liabilities*	17,066,436
	DEFERRED INFLOW OF RESOURCES:	
2605	Deferred Pension Related Inflows	834,218
2606	Deferred OPEB Related Inflows	6,217,775
	Total Deferred Inflows	7,051,993
	NET POSITION:	
3200	Net Investment in Capital Assets	12,955,427
	Restricted For:	
3820	Federal and State Programs	7,626
3850	Debt Service	1,063,022
3890	Other Restrictions	133,918
3900	Unrestricted (Deficit)	(2,513,541)
3000	*Total Net Position*	$ 11,646,452

The accompanying notes are an integral part of this statement

HEARNE INDEPENDENT SCHOOL DISTRICT

EXHIBIT B-1

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

		1	3	4	6
			Program Revenues		Net (Expense) Revenue and Changes in Net Position
Data Control Codes	Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
	Primary Government				
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 7,556,090	$ -	$ 1,512,438	$ (6,043,652)
12	Instructional Resources and Media Services	161,721	-	37,293	(124,428)
13	Curriculum and Staff Development	492,548	-	444,677	(47,871)
21	Instructional Leadership	841,058	-	794,342	(46,716)
23	School Leadership	1,090,786	-	478,825	(611,961)
31	Guidance, Counseling, & Evaluation Services	212,415	-	40,983	(171,432)
32	Social Work	128,718	-	210,696	81,978
33	Health Services	142,582	-	392,962	250,380
34	Student (Pupil) Transportation	475,176	-	21,322	(453,854)
35	Food Services	924,626	36,489	842,341	(45,796)
36	Extracurricular Activities	617,613	65,410	26,154	(526,049)
41	General Administration	1,050,398	-	177,921	(872,477)
51	Facilities Maintenance and Operations	1,526,572	-	16,143	(1,510,429)
52	Security and Monitoring Services	194,696	-	145,328	(49,368)
53	Data Processing Services	299,238	-	65,176	(234,062)
61	Community Services	117,834	-	117,189	(645)
72	Debt Service - Interest on Long-Term Debt	213,991	-	40,860	(173,131)
81	Facilities Acquisition and Construction	5,059	-	-	(5,059)
93	Payments Related for Shared Services	338,399	-	177,831	(160,568)
99	Other Intergovernmental Charges	143,690	-	-	(143,690)
TG	Total Governmental Activities	16,533,210	101,899	5,542,481	(10,888,830)
TP	*Total Primary Government*	$ 16,533,210	$ 101,899	$ 5,542,481	(10,888,830)
		General Revenues:			
MT		Property Taxes, Levied for General Purposes			6,635,559
DT		Property Taxes, Levied for Debt Service			890,367
SF		State Aid - Formula Grants			3,692,479
IE		Investment Earnings			311,241
MI		Miscellaneous Local and Intermediate Revenue			290,591
TR		Total General Revenues			11,820,237
CN		Change in Net Position			931,407
NB		Net Position - Beginning			10,715,045
NE		Net Position - Ending			$ 11,646,452

The accompanying notes are an integral part of this statement

HEARNE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
AUGUST 31, 2023

Data Control Codes		10 General Fund	50 Debt Service Fund	ESSER III Fund	SSI Community Partnership Fund	Other Nonmajor Governmental Funds	98 Total Governmental Funds
	ASSETS:						
1110	Cash and Cash Equivalents	$ 420,801	$ 49,551	$ -	$ -	$ 75,119	$ 545,471
1120	Current Investments	6,027,995	959,218	-	-	82,450	7,069,663
1225	Taxes Receivable, Net	483,273	95,319	-	-	-	578,592
1240	Receivables from Other Governments	329,870	8,054	193,375	232,613	288,934	1,052,846
1260	Due from Other Funds	588,804	-	-	-	34,300	623,104
1290	Other Receivables	743	-	-	-	-	743
1000	*Total Assets*	$ 7,851,486	$ 1,112,142	$ 193,375	$ 232,613	$ 480,803	$ 9,870,419
	LIABILITIES:						
2110	Accounts Payable	$ 589,712	$ -	$ -	$ 107,210	$ 26,341	$ 723,263
2160	Accrued Wages Payable	463,243	-	-	-	-	463,243
2170	Due to Other Funds	34,300	-	193,375	125,403	270,026	623,104
2180	Due to Other Governments	-	18,357	-	-	-	18,357
2190	Due to Student Groups	11,988	-	-	-	-	11,988
2300	Unearned Revenue	5,600	-	-	-	45,310	50,910
2000	*Total Liabilities*	1,104,843	18,357	193,375	232,613	341,677	1,890,865
	DEFERRED INFLOWS OF RESOURCES:						
2600	Unavailable Revenue - Property Taxes	483,273	95,319	-	-	-	578,592
	Total Deferred Inflows of Resources	483,273	95,319	-	-	-	578,592
	FUND BALANCES:						
	Restricted Fund Balances:						
3450	Federal/State Funds Grant Restrictions	2,418	-	-	-	5,208	7,626
3480	Retirement of Long-Term Debt	-	998,466	-	-	-	998,466
3490	Other Restricted Fund Balance	-	-	-	-	133,918	133,918
	Assigned Fund Balances:						
3530	Capital Expenditures for Equipment	3,958,972	-	-	-	-	3,958,972
3590	Other Assigned Fund Balance	154,230	-	-	-	-	154,230
3600	*Unassigned*	2,147,750	-	-	-	-	2,147,750
3000	*Total Fund Balances*	6,263,370	998,466	-	-	139,126	7,400,962
4000	Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 7,851,486	$ 1,112,142	$ 193,375	$ 232,613	$ 480,803	$ 9,870,419

The accompanying notes are an integral part of this statement

EXHIBIT C-1R

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

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		$ 7,400,962
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and therefore, are not reported in the funds.		19,958,765
Other long-term assets are not available to pay for current-period expenditures and therefore, are deferred in the funds.		578,592
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore, not reported in the funds.		
Bonds Payable	5,360,000	
Maintenance Tax Notes	850,000	
Note Payable	698,723	
Deferred Loss on Debt Refunding	(39,785)	
Unamortized Bond Premium	134,400	(7,003,338)
Net pension liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.		
Net Pension Liability	5,723,964	
Pension Related Deferred Inflows	834,218	
Pension Related Deferred Outflows	(3,559,980)	(2,998,202)
Net OPEB liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in the funds.		
Net OPEB Liability	3,000,825	
OPEB Related Deferred Inflows	6,217,775	
OPEB Related Deferred Outflows	(2,959,036)	(6,259,564)
Accrued interest payable on long-term bonds is not due and payable in the current period, and therefore, not reported in the funds.		(30,763)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		$ 11,646,452

The accompanying notes are an integral part of this statement

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

Data Control Codes	Functions/Programs	10 General Fund	50 Debt Service Fund	ESSER III Fund	SSI Community Partnership Fund	Other Nonmajor Governmental Funds	98 Total Governmental Funds
	REVENUES:						
5700	Total Local and Intermediate Sources	$ 7,223,348	$ 945,671	$ -	$ -	$ 44,558	$ 8,213,577
5800	State Program Revenues	4,039,121	40,860	-	395,814	359,949	4,835,744
5900	Federal Program Revenues	1,287,696	-	1,401,551	-	2,351,977	5,041,224
5020	*Total Revenues*	12,550,165	986,531	1,401,551	395,814	2,756,484	18,090,545
	EXPENDITURES:						
	Current:						
0011	Instruction	5,886,543	-	375,785	129,260	1,119,487	7,511,075
0012	Instructional Resources and Media Services	79,164	-	-	-	37,498	116,662
0013	Curriculum and Instructional Staff Development	45,428	-	671	160,214	286,235	492,548
0021	Instructional Leadership	141,689	-	430,821	-	367,885	940,395
0023	School Leadership	653,203	-	242,450	-	239,006	1,134,659
0031	Guidance, Counseling, & Evaluation Services	153,269	-	-	-	41,208	194,477
0032	Social Work	-	-	211,854	-	-	211,854
0033	Health Services	81,293	-	43,351	-	-	124,644
0034	Student (Pupil) Transportation	469,672	-	-	-	21,439	491,111
0035	Food Service	826,785	-	-	-	108,534	935,319
0036	Cocurricular/Extracurricular	611,677	-	-	-	26,298	637,975
0041	General Administration	821,351	-	96,619	-	82,280	1,000,250
0051	Plant Maintenance and Operations	1,420,120	-	-	-	16,232	1,436,352
0052	Security and Monitoring Services	65,004	-	-	-	146,126	211,130
0053	Data Processing Services	202,780	-	-	-	65,534	268,314
0061	Community Services	-	-	-	106,340	11,493	117,833
	Debt Service:						
0071	Principal on Long-Term Debt	205,277	660,000	-	-	-	865,277
0072	Interest on Long-Term Debt	36,510	218,000	-	-	-	254,510
	Capital Outlay:						
0081	Facilities Acquisition and Construction	546,067	-	-	-	-	546,067
	Intergovernmental:						
0093	Payments Related for Shared Services	159,591	-			178,808	338,399
0099	Other Intergovernmental Charges	143,690	-	-	-	-	143,690
6030	*Total Expenditures*	12,549,113	878,000	1,401,551	395,814	2,748,063	17,972,541
1200	Net Change in Fund Balances	1,052	108,531	-	-	8,421	118,004
0100	**Fund Balances - Beginning**	6,262,318	889,935	-	-	130,705	7,282,958
3000	**Fund Balances - Ending**	$ 6,263,370	$ 998,466	$ -	$ -	$ 139,126	$ 7,400,962

The accompanying notes are an integral part of this statement

EXHIBIT C-3

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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ 118,004
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense exceeded capital outlay.		(233,320)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. This is the net decrease in those revenues over the year.		13,408
The issuance of long-term debt (e.g. bonds & notes payable) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the net effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		
Principal Payments	865,277	
Amortization of Bond Premiums & Refunding Losses	36,546	
Accrued Interest	3,973	905,796
Governmental funds report required contributions to employee pensions as expenditures. However in the Statement of Activities the cost of the pension is recorded based on the actuarially determined cost of the plan. This is the amount that the actuarially determined pension expense exceeded contributions.		(357,733)
Governmental funds report required contributions to employee other post employment benefits as expenditures. However in the Statement of Activities the cost of the OPEB is recorded based on the actuarially determined cost of the plan. This is the amount that contributions exceeded the actuarially determined OPEB expense.		485,252
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		$ 931,407

The accompanying notes are an integral part of this statement

EXHIBIT E-1

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

	Private Purpose Trust Fund	Custodial Funds
ASSETS:		
Cash and Cash Equivalents	$ 4,941	$ 21,926
Current Investments	309,167	-
Other Receivables	-	4,517
Total Assets	$ 314,108	$ 26,443
LIABILITIES:		
Current Liabilities:		
Accounts Payable	$ -	$ -
Total Liabilities	-	-
NET POSITION:		
Unrestricted	314,108	26,443
Total Net Position	$ 314,108	$ 26,443

The accompanying notes are an integral part of this statement

EXHIBIT E-2

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

	Private Purpose Trust Fund	Custodial Funds
ADDITIONS:		
Contributions	$ 3,450	$ 21,286
Investment Earnings	12,998	103
Total Additions	16,448	21,389
DEDUCTIONS:		
Scholarships	1,500	-
Student Educational Activities	3,092	20,055
Total Deductions	4,592	20,055
Change in Net Position	11,856	1,334
Total Net Position - September 1 Beginning	302,252	25,109
Total Net Position - August 31 Ending	$ 314,108	$ 26,443

The accompanying notes are an integral part of this statement

Hearne Independent School District

NOTES TO THE FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

The basic financial statements of Hearne Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The District is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees ("Board") elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No.39.

The Hearne Education Foundation (the “Foundation”) is a 501(c) 3 nonprofit organization whose purpose under the performance agreement between the District and the Foundation is to improve student outcomes by authorizing the Foundation to operate Hearne Elementary School, Hearne Junior High School, and Hearne High School (the “Schools”) autonomously subject to transparent accountability requirements. The Foundation is a legally separate entity with a separate Board of Directors but solely benefits the District and its constituents. The Foundation is included in the District’s financial statements as a blended component unit. However, the Foundation had no activity for the year ending August 31, 2023. The portion of the District’s General Fund expenditures that were governed and managed by the Foundation are as follows:

Function	Description	Expenditure
0011	Instruction	5,876,289
0012	Instructional Resources and Media Services	79,164
0013	Curriculum and Instructional Staff Development	10,674
0021	Instructional Leadership	101,844
0023	School Leadership	653,203
0031	Guidance, Counseling, & Evaluation Services	153,269
0033	Health Services	72,978
0034	Student (Pupil) Transportation	347
0036	Cocurricular/Extracurricular	22,592
0041	General Administration	253
		$ 6,970,613

A. Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. The District has also elected to report activities from the National School Lunch program in the General Fund.

Debt Service Fund: Is used to account for all funds collected and disbursed for the retirement of governmental debt.

ESSER III Fund: Is used to account for all federal funds collected and disbursed related to the Elementary and Secondary School Emergency Relief Fund received from the Department of Education through the Texas Education Agency.

SSI Community Partnership Fund: Is used to account for all state funds collected and disbursed related to the specific grant award received from the Texas Education Agency.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for revenues and expenditures related to specific federal, state, or local programs.

A. Summary of Significant Accounting Policies (Continued)

2. Basis of Presentation, Basis of Accounting (Continued)

a. Basis of Presentation (Continued)

Fiduciary Funds:
Private Purpose Trust Fund – The District accounts for donations for which the donor has stipulated that both principal and income may be used for purposes that benefit parties outside the District in a private purpose trust fund. These funds are used to provide student scholarships for post-secondary education.

Custodial Fund – The District accounts for resources held for others in a custodial capacity. The District's custodial funds are the student and faculty activity funds.

Fiduciary funds, including custodial funds above, are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or custodial capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide Financial Statements: These financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and use the economic resources measurement focus. The government-wide expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts

a. Cash and Cash Equivalents

Cash and cash equivalents represent demand accounts and certificates of deposit if they have a maturity of three months or less when purchased.

b. Investments

The District reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool maintains a consistent net asset value per share that approximates the fair value of the underlying securities. These investments are reported at net asset value.

c. 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 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 1 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 when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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. The District has recorded allowances for uncollectible property tax receivables in the amounts of $207,117 and $40,851 for the General and Debt Service Funds, respectively.

d. Inventories and Unrealized Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide. Supplies are used for almost all functions of activity and the District does not maintain any significant amount on hand.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as unrealized items.

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line on the government-wide statement of net assets.

g. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. 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 one year.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (Years)
Buildings and Improvements	20 - 50
Buses	15
Other Vehicles	10
Furniture and Equipment	5 - 20

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

h. Compensated Absences

The State of Texas requires districts to provide each employee five days of personal leave per year with no limit on accumulation. Unused personal leave is transferable to other districts in Texas with the employee but does not vest and is not paid to the employee upon separation. Accordingly, no liability is recorded by the District for unused state personal leave.

The District provides an additional three days of leave per year. Unused local days will accumulate to a maximum of thirty leave days. Employees who retire from the District are compensated for unused local leave at a rate of $50 per day. The amount of leave accrued to employees eligible for retirement is not material and no liability is recorded by the District.

i. Long-term Debt Obligations

The District's long-term debt obligations consist of general obligation refunding bonds and a maintenance tax note. Long-term debt is reported as liabilities in the government-wide statements. Bond premiums and discounts that arise at issuance of the debt are deferred and amortized over the life of the bonds using the straight line method. Costs of issuance are recognized as expenditures in the year incurred. Bonds payable are reported with the applicable bond premium or net of the applicable 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 and discounts on debt issuances are reported as Other Financing Sources and Uses, respectively. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The current requirements for the maintenance tax note principal and interest expenditures are accounted for in the General Fund. The current requirements for general obligation building and refunding bonds principal and interest expenditures are accounted for in the Debt Service Fund.

j. Deferred Inflows and Outflows of Resources

A deferred outflow of resources is a consumption of net position by the district that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in a separate section following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

k. 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.

l. Other Post-Employment Benefits

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 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'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.

m. Leases and Subscription Based IT Arrangements

At the commencement of a lease or arrangement, the District initially measures the liability at the present value of payments expected to be made during the term. Subsequently, the liability is reduced by the principal portion of payments made. The right of use asset is initially measured as the initial amount of the liability, adjusted for payments made at or before the commencement date, plus certain initial direct costs. Subsequently, the asset is amortized on a straight-line basis over its useful life. The District recognizes lease liabilities with an initial, individual value of $100,000 or more.

The District monitors changes in circumstances that would require are measurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. Lease assets are reported with other capital assets and lease liabilities are reported with long-term liabilities on the statement of net position.

n. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

o. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

p. Net Position – Government-wide Statement of Net Position

Net position is classified as follows:

Restricted - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Net Investment in Capital Assets – represents the balances of capital assets and unspent bond proceeds less the outstanding balances of debt related to the acquisition of the capital assets. This amount is separated from unrestricted net position so that the unrestricted classification represents net position more readily available to operations.

Unrestricted – represents the residual net position that is not restricted or capital in nature.

q. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

A. Summary of Significant Accounting Policies (Continued)

3. Financial Statement Amounts (Continued)

q. Fund Balances - Governmental Funds (Continued)

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Currently, the Superintendent and Business Manager have been delegated the authority to assign balances. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund, conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

The Board has established a fund balance goal for the General Fund to maintain an unassigned fund balance of not less than 25% of budgeted operational expenditures.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

r. Non-Monetary Transactions

Food commodities received from the Texas Department of Agriculture are used only in the food service program. Although commodities are received at no cost, the fair market value is supplied by the Texas Department of Agriculture and recorded as revenue and expenditures when received.

Textbooks and instructional materials received from the State of Texas are recorded in the Instructional Materials Allotment Fund. The textbooks and materials are valued at a cost value assigned by the State and recorded as revenue and expenditures when received.

s. Adoption of New Accounting Policies

The District adopted GASB Statement No. 96, Subscription Based IT Arrangements effective September 1, 2022. Statement No. 96 establishes standards for recognizing and measuring right of use assets and liabilities related to contracts granting the use and control of information technology. The adoption of this standard had no significant impact on these financial statements.

B. Stewardship, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital projects budgets.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the General Fund, the National School Lunch and Breakfast Program (special revenue fund), and the Debt Service Fund. The District budgets the capital projects fund for each project, which normally covers multiple years. Special revenue funds have approved budgets by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law to reflect currently levels of revenues and anticipated expenditures. There were no material changes between the original budget and the final amended budget. There were no expenditures in excess of appropriations at the function level except Function 81 Facilities Acquisition and Construction which exceed the final budget by $71,067.

C. Deposits and Investments

1. Cash Deposits:

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

At August 31, 2023, the District's cash deposits were entirely covered by FDIC insurance and pledged securities by the agent bank. Therefore, the District was not exposed to custodial credit risk.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

C. Deposits and Investments

2. Investments (Continued):

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

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

Investment or Investment Type	Maturity	Rating	Fair Value
Governmental Activities:			
TexStar Investment Pool	Demand	AAA-m	$ 7,069,663
Fiduciary Funds:			
TexStar Investment Pool	Demand	AAA-m	309,167
Total Investments			$ 7,378,830

The District participates in the TexStar Local Government Pool ("TexStar"), an external investment pool. TexStar is managed by J.P. Morgan Investment Management Inc., an affiliate of JP Morgan Chase Bank, N.A., a national banking association, and First Southwest Asset Management, Inc., an affiliate of Texas based First Southwest Company. TexStar's investment manager maintains a dollar-weighted average maturity of 60 days or less, and the maximum stated maturity for any obligation of the United States, its agencies, or instrumentalities is limited to 397 days for fixed rate securities and 24 months for variable rate notes. TexStar does not meet the requirements of GASB Statement No. 79, and as such, measures its investments at fair value. The District as a participant in TexStar, measures its investment pool at net asset value determined by the pool.

D. Interfund Balances and Activities

Balances due to and due from other funds at August 31, 2023, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	ESSER III	$ 193,375	Short-term pooled cash loans
General Fund	Summer Career & Tech	125,403	Short-term pooled cash loans
General Fund	Other Nonmajor Funds	270,026	Short-term pooled cash loans
Other Nonmajor Funds	General Fund	34,300	Short-term pooled cash loans
	Total	$ 623,104	

E. Capital Assets

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

	Beginning Balances	Increases/ Adjustments	Decreases/ Adjustments	Ending Balances
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	$ 708,248	$ -	$ -	$ 708,248
Construction in Progress	61,403	363,726	(102,339)	322,790
Total Capital Assets Not Being Depreciated	769,651	363,726	(102,339)	1,031,038
Capital Assets Being Depreciated:				
Buildings and Improvements	26,314,628	164,170	102,339	26,581,137
Furniture and Equipment	1,428,033	81,897	-	1,509,930
Vehicles	1,379,630	106,180	(6,400)	1,479,410
Total Capital Assets Being Depreciated	29,122,291	352,247	95,939	29,570,477
Less Accumulated Depreciation For:				
Buildings and Improvements	(8,027,359)	(773,254)	-	(8,800,613)
Furniture and Equipment	(1,172,423)	(86,341)	-	(1,258,764)
Vehicles	(500,075)	(89,698)	6,400	(583,373)
Total Accumulated Depreciation	(9,699,857)	(949,293)	6,400	(10,642,750)
Total Capital Assets Being Depreciated, Net	19,422,434	(597,046)	102,339	18,927,727
Governmental Activities Capital Assets, Net	$ 20,192,085	$ (233,320)	$ -	$ 19,958,765

Depreciation was charged to functions as follows:

11 Instruction	$ 465,613
12 Instructional Resources and Media Services	45,059
23 School Leadership	46,309
31 Guidance, Counseling, & Evaluation Services	17,938
33 Health Services	17,938
34 Student (Pupil) Transportation	90,246
35 Food Services	33,087
36 Cocurricular/Extracurricular Activities	85,362
41 General Administration	14,304
51 Plant Maintenance and Operations	90,220
52 Security and Monitoring Services	12,293
53 Data Processing Services	30,924
	$ 949,293

F. Long-Term Obligations

Long-term obligations include debt and other long-term liabilities. Bonded indebtedness of the District is reflected in the Statement of Net Position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund and General Fund as noted below.

F. Long-Term Obligations (Continued)

The Series 2014 Bonds were issued for the purpose of refunding portions of the Series 2005 bonds, which were issued to construct facilities. These bonds are general obligation bonds; they are a direct obligation of the District, secured by a pledge of the full faith and credit of the District, and a pledge of property tax revenues sufficient to pay debt obligations. Principal and interest payments are paid for entirely through the Debt Service Fund. The bonds mature on February 15, 2030, bearing interest at rates from .37 to 3.0%.

The Qualified Energy Conservation Maintenance Tax Note, Series 2015 was issued to upgrade and install lighting and mechanical upgrades. The note is secured by a pledge of maintenance property taxes and is payable entirely through the General Fund. These notes were a direct borrowing from Bank of Texas, a division of BOKF, N.A. The notes included no significant terms related events of default, termination events with finance-related consequences, or subjective acceleration clauses. The notes mature on October 1, 2030, bearing interest at a rate of 1.386%.

The Series 2021 note payable through Prosperity Bank for $804,000 was for the purpose of purchasing several buses for the District. The note is financed at 2.8% with annual payments due in November each year and maturing on November 8, 2028.

A summary of changes in long-term debt for the year ended August 31, 2023, are as follows:

	Beginning Balances	Increases	Decreases	Ending Balances	Amounts Due Within One Year
Governmental Activities:					
Public Offering:					
Unlimited Tax School					
Refunding Bonds, Series 2014	$ 6,020,000	$ -	$ (660,000)	$ 5,360,000	$ 680,000
Premiums on Issuance (2014)	186,313	-	(51,913)	134,400	-
Private Placement:					
Maintenance Tax Notes, Series 2015	950,000	-	(100,000)	850,000	100,000
Note Payable, Series 2021	804,000	-	(105,277)	698,723	108,320
Total Governmental Activities	$ 7,960,313	$ -	$ (917,190)	$ 7,043,123	$ 888,320

The total deferred loss on debt refunding is $39,785 as of August 31, 2023 and is shown on the Statement of Net Position as deferred outflow of resources. This amount is amortized over the life of the bonds.

F. Long-Term Obligations (Continued)

Debt Service requirements on all long-term obligations at August 31, 2023, are as follows:

Public Offering

	General Obligation Bonds		
Year Ending August 31,	Principal	Interest	Total
2024	$ 680,000	$ 197,400	$ 877,400
2025	705,000	173,100	878,100
2026	735,000	144,300	879,300
2027	760,000	114,400	874,400
2028	795,000	83,300	878,300
2029-2031	1,685,000	68,100	1,753,100
Totals	$ 5,360,000	$ 780,600	$ 6,140,600

Private Placement

	Note Payable			Maintenance Tax Note		
Year Ending August 31,	Principal	Interest	Total	Principal	Interest	Total
2024	$ 108,320	$ 20,193	$ 128,513	$ 100,000	$ 11,088	$ 111,088
2025	111,450	17,063	128,513	105,000	9,667	114,667
2026	114,671	13,842	128,513	105,000	8,212	113,212
2027	117,985	10,528	128,513	105,000	6,757	111,757
2028	121,395	7,188	128,583	105,000	5,301	110,301
2029-2031	124,902	3,609	128,511	330,000	6,861	336,861
Totals	$ 698,723	$ 72,423	$ 771,146	$ 850,000	$ 47,886	$ 897,886

G. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS) and is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms. All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

2. Pension Plan Fiduciary Net Position

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

G. Pension Plan (Continued)

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (1) above.

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

4. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates Plan fiscal year		Contributions Required and
	2022	2023	Made
Member (Employee)	8.00%	8.00%	$ 664,024
Non-employer Contributing Entity (State)	7.75%	8.00%	363,866
Employer	7.75%	8.00%	512,080
			$ 1,539,970

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

G. Pension Plan (Continued)

4. Contributions (Cont.)

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

- 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 educational service centers must contribute 1.8 percent of the member's salary, gradually increasing to 2 percent in fiscal year 2025.

5. Actuarial Assumptions

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

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 31, 2019	3.91% Fidelity 20-Year AA Municipal
Last Year in Projection Period	2121
Inflation	2.30%
Salary Increases including inflation	2.95% to 8.95% including inflation
Ad hoc post-employment benefit changes	None

G. Pension Plan (Continued)

5. Actuarial Assumptions (Cont.)

The actuarial methods and assumptions are used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2022. For a full description of these assumptions please see the actuarial valuation report dated November 12, 2021.

6. Discount Rate

The discount rate of 7.00% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7.00 percent. The projection of cash flows used to determine the discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50 percent of payroll in fiscal year 2020 gradually increasing to 9.55 percent of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

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

The long-term rate of return on pension plan investments is 7.00%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

G. Pension Plan (Continued)

6. Discount Rate (Cont.)

Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2022 are summarized below:

Asset Class	Target Allocation	Long-Term Expected Portfolio Real Rate of Return	Expected Contribution to Portfolio Return
Global Equity			
U.S.	18%	4.6%	1.12%
Non-U.S. Developed	13%	4.9%	0.90%
Emerging Markets	9%	5.4%	0.75%
Private Equity	14%	7.7%	1.55%
Stable Value			
Government Bonds	16%	1.0%	0.22%
Absolute Return	0%	3.7%	0.00%
Stable Value Hedge Funds	5%	3.4%	0.18%
Real Return			
Real Estate	15%	4.1%	0.94%
Energy and Natural Resources	6%	5.1%	0.37%
Commodities	0%	3.6%	0.00%
Risk Parity			
Risk Parity	8%	4.6%	0.43%
Asset Allocation Leverage			
Cash	2%	3.0%	0.01%
Asset Allocation Leverage	-6%	3.6%	-0.05%
Inflation Expectation			2.70%
Volatility Drag			-0.91%
Total	100%		8.21%

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.00%) in measuring the Net Pension Liability.

	Discount Rate		
	1% Decrease	7.00%	1% Increase
District's Proportionate Share of Net Pension Liability	$ 8,904,317	$ 5,723,964	$ 3,146,138

G. Pension Plan (Continued)

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

At August 31, 2023, the District reported a liability of $5,723,964 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District Proportionate Share	$ 5,723,964
State's Proportionate Share	4,629,322
	$ 10,353,286

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 0.0096415894% which was an increase of 0.0032394245% from its proportion measured as of August 31, 2021.

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

For the year ended August 31, 2023, the District recognized pension expense of $1,312,009 which included $442,511 in support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 82,997	$ 124,793
Changes in actuarial assumptions	1,066,561	265,817
Difference between projected and actual investment earnings	565,510	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,332,832	443,608
Contributions paid to TRS subsequent to the measurement date	512,080	-
	$ 3,559,980	$ 834,218

G. Pension Plan (Continued)

8. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Cont.)

The $512,080 in deferred outflows of resources related to pensions from District contributions after the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2024. 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:

Plan Year ending August 31:	Pension Expense Amount
2024	$ 547,627
2025	358,456
2026	245,679
2027	824,577
2028	237,343
Thereafter	-
	$ 2,213,682

H. Other Post-Employment Benefits

1. Plan Description

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

2. OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in a separately-issued Annual Comprehensive 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/pagesabout_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

H. Other Post-Employment Benefits (Continued)

3. Benefits Provided

TRS-Care provides health insurance coverage to retirees from public and charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee. Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. There are no automatic post-employment benefit changes; including automatic COLAs.

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

TRS-Care Monthly for Retirees		
	Medicare	Non-Medicare
Retiree*	$ 135	$ 200
Retiree and Spouse	529	689
Retiree* and Children	468	408
Retiree and Family	1,020	999

* or surviving spouse

4. 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 made from the state, active employees, and school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than .25% or not more than .75% percent of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

H. Other Post-Employment Benefits (Continued)

4. Contributions (Cont.)

	Contribution Rates Plan fiscal year 2022	Contribution Rates Plan fiscal year 2023	Contributions Required and Made
Member (Employee)	0.65%	0.65%	$ 53,953
Non-employer Contributing Entity (State)	1.25%	1.25%	125,566
Employer	0.75%	0.75%	107,312
Federal/Private Funding Remitted by Employers	1.25%	1.25%	$ 286,831

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.

5. Actuarial Assumptions

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2021 TRS pension actuarial valuation that was rolled forward to August 31, 2022:

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

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

H. Other Post-Employment Benefits (Continued)

5. Actuarial Assumptions (Cont.)

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.91%
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65. 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
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

6. Discount Rate

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

The source of the municipal bond rate is the Fidelity "20-year Municipal GO AA Index" as of August 31, 2022 using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

7. 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 in measuring the Net OPEB Liability.

	Discount Rate		
	1% Decrease	3.91%	1% Increase
District's Proportionate Share of Net OPEB Liability	$ 3,538,211	$ 3,000,825	$ 2,565,474

H. Other Post-Employment Benefits (Continued)

8. Healthcare Cost Trend Sensitivity Analysis

The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% point lower or 1% point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's Proportionate Share of Net OPEB Liability	$ 2,472,693	$ 3,000,825	$ 3,685,480

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

At August 31, 2023, the District reported a liability of $3,000,825 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 Proportionate Share	$ 3,000,825
State's Proportionate Share	3,660,535
	$ 6,661,360

The Net OPEB Liability was measured as of August 31, 2021 and rolled forward to August 31, 2022 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to OPEB 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 OPEB liability was 0.0125326779%, which was an increase of 0.0031018736% from its proportion measured as of August 31, 2021.

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

- The discount rate changed from 1.95 percent as of August 31, 2021 to 3.91 percent as of August 31, 2022. This change decreased the TOL.
- There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2023, the District recognized OPEB expense of $(1,111,440) including of $(519,459) in savings recognized by the State.

H. Other Post-Employment Benefits (Continued)

9. OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs (Cont.)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 166,835	$ 2,499,957
Changes in actuarial assumptions	457,085	2,084,795
Difference between projected and actual investment earnings	8,939	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,218,865	1,633,023
Contributions paid to TRS subsequent to the measurement date	107,312	-
	$ 2,959,036	$ 6,217,775

The $107,312 in deferred outflows of resources related to OPEB from District contributions after the measurement date will be recognized as a reduction of the net OPEB liability in the year ended August 31, 2024. The net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year ending August 31:	OPEB Expense Amount
2024	$ (719,393)
2025	(719,364)
2026	(592,109)
2027	(419,827)
2028	(331,151)
Thereafter	(584,207)
	$ (3,366,051)

I. Medicare Part D Coverage

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the last three fiscal years, the subsidy payments received by TRS-Care on behalf of the District were $42,328, $32,735, and $29,467, respectively. These payments are recorded as equal revenues and expenditures in the financial statements of the District.

J. State Unemployment Coverage

During the year ended August 31, 2023, employees of the District were covered by TRS-Active Care. TRS-Active Care is a statewide health care benefits programs for employees of school districts, charter schools, regional education service centers, and other educational districts. The program was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. Participation in TRS-Active Care was mandatory for the District beginning on September 1, 2002.

J. State Unemployment Coverage (Continued)

TRS-Active Care is a self-funded program, not an insured plan. Rates and benefits are not determined by the vendors administering the program, but are established by the TRS Trustees based on the claims experience of the plan. Latest financial statements for TRS-Active Care are available for the year ended August 31, 2023, and have been filed with the Texas State Board of Insurance, Austin, Texas and are public records.

K. Shared Services Arrangements

1. The District participates in the Robertson County Special Services Shared Services Arrangement (the "SSA"), a shared services arrangement for special education resource services. This shared service arrangement includes five participating independent school districts. Franklin ISD is acting as the fiscal agent and is also a member district. Funding is provided through state and local funds from member districts and through federal funds received by the SSA. The District has a joint ownership interest in fixed assets purchased and the net equity of the SSA; however, the fiscal agent is not accumulating significant financial resources or obligations that would give rise to a future benefit or burden to the District. Member districts reimburse the fiscal agent for expenditures which exceed state and federal funding sources; the District's share of reimbursements for the year ended August 31, 2023 was $107,768.

   The SSA will report the following expenditures on behalf of the District for the year ending August 31, 2023:

	District's Share
IDEA-B Formula Grant	$ 232,516
IDEA-B Preschool Grant	6,463
IDEA-B Formula ARP	22,500
IDEA-B Preschool ARP	2,029
Visually Impaired Grant	480
District Shares	168,991
	$ 432,979

K. Shared Services Arrangements (Continued)

2. The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides federal grant funds to member districts for community learning centers to provide academic enrichment and other services to students and literacy-related educational development for their families. In addition to the District, the other member district includes Calvert Independent School District. All services provided by the fiscal agent and each member district authorized TEA to send its funds to the fiscal agent directly. According to guidance provided by TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund Number 352, Shared Services Arrangement – 21st Century Community Learning Centers.

   Expenditures for each member district for federal expenditures are summarized below and were based on direct costs incurred by each District.

Member District	Federal Expenditures
Hearne ISD	$ 654,332
Calvert ISD	178,808
	$ 833,140

L. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2023, the District had the following programs:

1. Liability, Property, and Casualty, Automobile, and Unemployment

   The District participated in the TASB Risk Management Fund's Liability and Property Casualty Program for coverage in property and casualty, general liability, crime and liability for misconduct, and automobile, and the TASB Unemployment Pool, to provide unemployment coverage. These programs were created and are operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. Participating members execute Interlocal Agreements that define the responsibilities of the parties.

   The TASB Risk Management Fund purchases a stop-loss coverage for protection against catastrophic claims in the Auto, Liability and Property Casualty Program. The TASB Fund uses the services of independent actuaries to determine the adequacy of reserves and fully funds those reserves. Expenses for unemployment can be reasonably estimated, and there is not considered a need for aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2023, the TASB Fund anticipates the District has no additional liabilities for either program. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

   The TASB Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The Fund's audited financial statements as of August 31, 2022, are available at the TASB offices and have been filed with the Texas Depart of Insurance in Austin.

M. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired.

2. Litigation

The District is subject to various claims through its normal course of business and employment practices. Management and legal counsel are not aware of any pending or threatened litigation against the District that would have a material financial impact on the District.

3. Commitments

The District has entered into professional services related to construction contracts for the Wood Field Athletic Project for a total of $2,377,100. As of August 31, 2023, $322,790 of services had been incurred leaving estimated future commitments of $2,054,310. The future commitment will be partially funded by donations from the Cal Ripkin Foundation.

N. Subsequent Event

The District issued Maintenance Tax Notes, Series 2023 in the amount of $2,500,000 on November 15, 2023 for funding of the Wood Field Athletic Project. The tax notes are payable over ten years at a rate of 6.5%.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

EXHIBIT G-1

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

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and Intermediate Sources	$ 6,427,000	$ 7,187,200	$ 7,223,348	$ 36,148
5800	State Program Revenues	3,365,905	3,785,256	4,039,121	253,865
5900	Federal Program Revenues	1,352,327	1,253,268	1,287,696	34,428
5020	**Total Revenues**	11,145,232	12,225,724	12,550,165	324,441
	EXPENDITURES				
	Current:				
0011	Instruction	6,674,168	5,946,130	5,886,543	59,587
0012	Instructional Resources and Media Services	-	96,700	79,164	17,536
0013	Curriculum and Instructional Staff Development	43,500	131,000	45,428	85,572
0021	Instructional Leadership	77,700	199,200	141,689	57,511
0023	School Leadership	548,443	706,793	653,203	53,590
0031	Guidance, Counseling and Evaluation Services	-	217,103	153,269	63,834
0033	Health Services	63,600	98,050	81,293	16,757
0034	Student (Pupil) Transportation	344,211	585,071	469,672	115,399
0035	Food Service	771,327	844,418	826,785	17,633
0036	Extracurricular Activities	579,900	734,850	611,677	123,173
0041	General Administration	819,140	946,900	821,351	125,549
0051	Facilities Maintenance and Operations	1,269,000	1,450,000	1,420,120	29,880
0052	Security and Monitoring Services	52,700	101,400	65,004	36,396
0053	Data Processing Services	189,400	219,400	202,780	16,620
0061	Community Services	-	5,000	-	5,000
	Debt Service:				
0071	Principal on Long-Term Debt	238,830	243,143	205,277	37,866
0072	Bond Issuance Costs and Fees	-	36,687	36,510	177
	Capital Outlay:				
0081	Facilities Acquisition and Construction	-	475,000	546,067	(71,067)
	Intergovernmental:				
0093	Payments Related for Shared Services	160,000	160,000	159,591	409
0099	Other Intergovernmental Charges	140,000	143,700	143,690	10
6030	**Total Expenditures**	11,971,919	13,340,545	12,549,113	791,432
1200	Net Change in Fund Balance	(826,687)	(1,114,821)	1,052	1,115,873
0100	**Fund Balance - Beginning**	6,262,318	6,262,318	6,262,318	-
3000	**Fund Balance - Ending**	$ 5,435,631	$ 5,147,497	$ 6,263,370	$ 1,115,873

Budgetary Information - The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The District maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the Board of Trustees and as such is a good management control device. The following funds have legally adopted annual budgets: General Fund, National School Breakfast and Lunch Program (a subset of the General Fund), and Debt Service Fund.

Budgetary preparation and control is exercised at the function level. Actual expenditures may not legally exceed appropriations at the fund level.

Encumbrances represent commitments related to unperformed contracts for goods and services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds.

EXHIBIT G-2

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AUGUST 31, 2023

Measurement Period Ending August 31,	District's Proportion of Net Pension Liability	District's Proportionate Share of the Net Pension Liability	State's Proportion of Net Pension Liability	Total Net Pension Liability	District's Covered Payroll for the Measurement Period	District's Proportionate Share of the Net Pension Liability as a % of Payroll	Plan Fiduciary Net Position as a % of Total Pension Liability
2022	0.0096416%	$ 5,723,964	$ 4,629,322	$ 10,353,286	$ 8,006,818	71.49%	75.62%
2021	0.0064022%	$ 1,630,405	$ 2,353,431	$ 3,983,836	$ 6,688,836	24.38%	88.79%
2020	0.0074490%	$ 3,989,535	$ 4,441,013	$ 8,430,548	$ 6,770,175	58.93%	75.54%
2019	0.0072437%	$ 3,765,483	$ 4,567,755	$ 8,333,238	$ 6,231,039	60.43%	75.24%
2018	0.0066464%	$ 3,658,350	$ 5,106,836	$ 8,765,186	$ 6,095,081	60.02%	73.74%
2017	0.0079049%	$ 2,527,547	$ 3,180,394	$ 5,707,941	$ 6,523,705	38.74%	82.17%
2016	0.0068912%	$ 2,604,072	$ 3,751,411	$ 6,355,483	$ 6,440,911	40.43%	78.00%
2015	0.0070310%	$ 2,485,365	$ 3,748,726	$ 6,234,091	$ 6,398,408	38.84%	78.43%
2014	0.0016926%	$ 1,127,941	$ 3,371,957	$ 4,499,898	$ 6,086,476	18.53%	83.25%

Note: Amounts presented for each fiscal period were determined as of the year ending August 31 of the previous calendar year. Amounts are being accumulated until ten years are presented.

EXHIBIT G-3

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS – TEACHER RETIREMENT SYSTEM
AUGUST 31, 2023

Fiscal Year Ending August 31,	Contractually Required Contribution	Contributions Made	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percent of Covered Payroll
2023	$ 512,080	$ 512,080	$ -	$ 8,300,306	6.17%
2022	$ 450,220	$ 450,220	$ -	$ 8,006,818	5.62%
2021	$ 272,231	$ 272,231	$ -	$ 6,688,836	4.07%
2020	$ 306,322	$ 306,322	$ -	$ 6,770,175	4.52%
2019	$ 252,836	$ 252,836	$ -	$ 6,231,039	4.06%
2018	$ 223,901	$ 223,901	$ -	$ 6,095,081	3.67%
2017	$ 259,070	$ 259,070	$ -	$ 6,523,705	3.97%
2016	$ 218,949	$ 218,949	$ -	$ 6,440,911	3.40%
2015	$ 207,311	$ 207,311	$ -	$ 6,398,408	3.24%

Note: Amounts are being accumulated until 10 years are presented.

The following actuarial assumptions were applied for the most recent valuation:

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 31, 2019	3.91% Fidelity 20-Year AA Munic
Last Year in Projection Period	2121
Inflation	2.30%
Salary Increases including inflation	2.95% to 8.95% including inflation
Ad hoc post-employment benefit changes	None

The following were changes to the actuarial assumptions or other inputs that affected the measurement of the pension liability during the years ending August 31:

2022	Expected rate of return reduced from 7.25% to 7.00%
	Municipal bond rate increased from 1.95% to 3.91%
2021	Municipal bond rate reduced from 2.3% to 1.95%
2020	Municipal bond rate reduced from 2.6% to 2.3%
2019	Municipal bond rate reduced from 3.7% to 2.6%
2018	Inflation rate reduced from 2.5% to 2.3%
	Expected rate of return reduced from 8% to 7.25%
	Salary increases reduced from 3.5-9.5% to 3.05-9.05%
2017	None
2016	None

There have been no changes in benefit terms impacting the schedule.

EXHIBIT G-4

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
AUGUST 31, 2023

Measurement Period Ending August 31,	District's Proportion of Net OPEB Liability	District's Proportionate Share of the Net OPEB Liability	State's Proportion of Net OPEB Liability	Total Net OPEB Liability	District's Covered Payroll for the Measurement Period	District's Proportionate Share of the Net Pension Liability as a % of Payroll	Plan Fiduciary Net Position as a % of Total OPEB Liability
2022	0.0125327%	$ 3,000,825	$ 3,660,535	$ 6,661,360	$ 8,006,818	37.48%	11.52%
2021	0.0094308%	$ 3,637,883	$ 4,873,592	$ 8,511,475	$ 6,688,836	54.39%	6.18%
2020	0.0109803%	$ 4,174,110	$ 5,609,004	$ 9,783,114	$ 6,770,175	61.65%	4.99%
2019	0.0116705%	$ 5,519,107	$ 7,333,657	$ 12,852,764	$ 6,231,039	88.57%	2.66%
2018	0.0100108%	$ 4,998,469	$ 5,151,274	$ 10,149,743	$ 6,095,081	82.01%	1.57%
2017	0.0121779%	$ 5,295,709	$ 4,880,195	$ 10,175,904	$ 6,523,705	81.18%	0.91%

Note: Amounts presented for each fiscal period were determined as of the year ending August 31 of the previous calendar year. Amounts are being accumulated until ten years are presented.

EXHIBIT G-5

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICTS OPEB CONTRIBUTIONS – TEACHER RETIREMENT SYSTEM
AUGUST 31, 2023

Fiscal Year Ending August 31,	Contractually Required Contribution	Contributions Made	Contribution Deficiency (Excess)	District's Covered Payroll	Contributions as a Percent of Covered Payroll
2023	$ 107,312	$ 107,312	$ -	$ 8,300,306	1.29%
2022	$ 102,535	$ 102,535	$ -	$ 8,006,818	1.28%
2021	$ 73,077	$ 73,077	$ -	$ 6,688,836	1.09%
2020	$ 89,513	$ 89,513	$ -	$ 6,770,175	1.32%
2019	$ 78,925	$ 78,925	$ -	$ 6,231,039	1.27%
2018	$ 69,060	$ 69,060	$ -	$ 6,095,081	1.13%

Note: Amounts are being accumulated until 10 years are presented.

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION ON OPEB
AUGUST 31, 2023

The following actuarial assumptions were applied for the most recent valuation:

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.91%
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65. 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
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 following were changes to the actuarial assumptions or other inputs that affected the measurement of the OPEB liability during the years ending August 31:

2022	Discount rate increased from 1.95% to 3.91%
2021	Discount rate decreased from 2.63% to 1.95%
2020	Discount rate decreased from 2.63% to 2.33% Participation rate for post-65 retirees lowered from 50% to 40% Health care trend rate lowered from 4.5% to 4.25%
2019	Discount rate decreased from 3.69% to 2.63% Election rates reduced from 70% to 65%
2018	Inflation rate reduced from 2.5% to 2.3% Discount rate increased from 3.42% to 3.69% Salary increases reduced from 3.5-9.5% to 3.05-9.05%

There have been no changes in benefit terms impacting the schedule.

SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
AUGUST 31, 2023

Data Control Codes		201 TDA Equipment Grant	211 ESEA Title I, Part A Improving Basic Program	242 Summer Feeding Program	243 Supply Chain Grant
	ASSETS:				
1110	Cash and Cash Equivalents	$ -	$ -	$ 5,208	$ 7,433
1120	Current Investments	-	-	-	-
1240	Due from Other Governments	10,019	30,893	-	-
1260	Due from Other Funds	-	-	-	-
1000	*Total Assets*	$ 10,019	$ 30,893	$ 5,208	$ 7,433
	LIABILITIES:				
2110	Accounts Payable	$ -	$ 12,308	$ -	$ 7,433
2170	Due to Other Funds	10,019	18,585	-	-
2300	Unearned Revenue	-	-	-	-
2000	*Total Liabilities*	10,019	30,893	-	7,433
	FUND BALANCES:				
	Restricted Fund Balances:				
3450	Federal/State Grant Restrictions	-	-	5,208	-
3490	Other Restricted Fund Balance	-	-	-	-
3000	*Total Fund Balances*	-	-	5,208	-
4000	Total Liabilities and Fund Balance	$ 10,019	$ 30,893	$ 5,208	$ 7,433

255 ESEA II, A Training and Recruiting	263 Title III, Part A English Language Acquisition	270 Title VI, Part B Rural & Low Income	271 Work Baased Learning	279 TCLAS ESSER III	280 High Quality After School	281 ESSER II
$ -	$ -	$ -	$ 10,000	$ -	$ -	$ -
-	-	-	-	-	-	-
75,816	11,339	-	-	15,909	4,562	8,077
-	-	-	-	-	-	-
$ 75,816	$ 11,339	$ -	$ 10,000	$ 15,909	$ 4,562	$ 8,077
$ 6,600	$ -	$ -	$ -	$ -	$ -	$ -
69,216	11,339	-	-	15,909	4,562	8,077
-	-	-	10,000	-	-	-
75,816	11,339	-	10,000	15,909	4,562	8,077
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
$ 75,816	$ 11,339	$ -	$ 10,000	$ 15,909	$ 4,562	$ 8,077

HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET (CONTINUED)
AUGUST 31, 2023

Data Control Codes		284 No Kid Hungry Grant	289 Other Federal Funded Programs	352 21st Century Learning Grant	410 Instructional Material Allot
	ASSETS:				
1110	Cash and Cash Equivalents	$ -	$ -	$ -	$ -
1120	Current Investments	-	-	-	-
1240	Due from Other Governments	-	-	39,292	-
1260	Due from Other Funds	34,300	-	-	-
1000	*Total Assets*	$ 34,300	$ -	$ 39,292	$ -
	LIABILITIES:				
2110	Accounts Payable	$ -	$ -	$ -	$ -
2170	Due to Other Funds	-	-	39,292	-
2300	Unearned Revenue	34,300	-	-	-
2000	*Total Liabilities*	34,300	-	39,292	-
	FUND BALANCES:				
	Restricted Fund Balances:				
3450	Federal/State Grant Restrictions	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
3000	*Total Fund Balances*	-	-	-	-
4000	Total Liabilities and Fund Balance	$ 34,300	$ -	$ 39,292	$ -

421 Texas A&M Gear Up	423 LASO Technology Grant	424 School Safety & Security	426 TCLAS General Revenue	427 SSI Planning Community Partnership	461 Campus Activity Funds	466 Brazos Valley Teach
$ -	$ -	$ -	$ -	$ -	$ 24,529	$ 9,973
-	-	-	-	-	-	-
10,982	-	72,489	9,556	-	-	-
-	-	-	-	-	-	-
$ 10,982	$ -	$ 72,489	$ 9,556	$ -	$ 24,529	$ 9,973
$ -	$ -	$ -	$ -	$ -	$ -	$ -
10,982	-	72,489	9,556	-	-	-
-	-	-	-	-	-	-
10,982	-	72,489	9,556	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	24,529	9,973
-	-	-	-	-	24,529	9,973
$ 10,982	$ -	$ 72,489	$ 9,556	$ -	$ 24,529	$ 9,973

Hearne Independent School District

HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET (CONTINUED)
AUGUST 31, 2023

Data Control Codes		467 Institute for Healthcare Improvement	491 Memorial Garden Fund	499 Philen Scholarship Fund	Total Nonmajor Special Revenue Funds
	ASSETS:				
1110	Cash and Cash Equivalents	$ 16,966	$ 1,010	$ -	$ 75,119
1120	Current Investments	-	-	82,450	82,450
1240	Due from Other Governments	-	-	-	288,934
1260	Due from Other Funds	-	-	-	34,300
1000	*Total Assets*	$ 16,966	$ 1,010	$ 82,450	$ 480,803
	LIABILITIES:				
2110	Accounts Payable	$ -	$ -	$ -	$ 26,341
2170	Due to Other Funds	-	-	-	270,026
2300	Unearned Revenue	-	1,010	-	45,310
2000	*Total Liabilities*	-	1,010	-	341,677
	FUND BALANCES:				
	Restricted Fund Balances:				
3450	Federal/State Grant Restrictions	-	-	-	5,208
3490	Other Restricted Fund Balance	16,966	-	82,450	133,918
3000	*Total Fund Balances*	16,966	-	82,450	139,126
4000	Total Liabilities and Fund Balance	$ 16,966	$ 1,010	$ 82,450	$ 480,803

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

Data Control Codes		201 TDA Equipment Grant	211 ESEA Title I, Part A Improving Basic Program	242 Summer Feeding Program	243 Supply Chain Grant
	REVENUES				
5700	Total Local and Intermediate Sources	$ -	$ -	$ -	$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	32,817	607,637	32,197	34,525
5020	**Total Revenues**	32,817	607,637	32,197	34,525
	EXPENDITURES				
	Current:				
0011	Instruction	-	325,332	-	-
0012	Instructional Resources and Media Services	-	34,404	-	-
0013	Curriculum & Instructional Staff Development	-	51,486	-	-
0021	Instructional Leadership	-	146,366	-	-
0023	School Leadership	-	4,981	-	-
0031	Guidance, Counseling, & Evaluation Services	-	40,810	-	-
0034	Student (Pupil) Transportation	-	-	-	-
0035	Food Service	32,817	-	26,989	34,525
0036	Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	-
0052	Security and Monitoring Services	-	-	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	-	4,258	-	-
0093	Payments for Shared Service Arrangements	-	-	-	-
	Total Expenditures	32,817	607,637	26,989	34,525
1200	Net Change in fund Balances	-	-	5,208	-
0100	Fund Balances - Beginning	-	-	-	-
3000	Fund Balances - Ending	$ -	$ -	$ 5,208	$ -

255 ESEA II, A Training and Recruiting	263 Title III, Part A English Language Acquisition	270 Title VI, Part B Rural & Low Income	271 Work Baased Learning	279 TCLAS ESSER III	280 High Quality After School	281 ESSER II
$ -	$ -	$ -	$ -	$ -	$ -	$ -
-	-	-	-	-	-	-
152,856	11,339	24,816	-	80,453	154,880	347,871
152,856	11,339	24,816	-	80,453	154,880	347,871
34,052	11,339	-	-	77,703	97,006	113,083
-	-	-	-	-	-	-
118,804	-	-	-	2,750	57,874	-
-	-	-	-	-	-	14,203
-	-	-	-	-	-	41,144
-	-	-	-	-	-	-
-	-	-	-	-	-	6,617
-	-	-	-	-	-	14,203
-	-	-	-	-	-	-
-	-	-	-	-	-	79,802
-	-	-	-	-	-	16,232
-	-	24,816	-	-	-	-
-	-	-	-	-	-	62,011
-	-	-	-	-	-	576
-	-	-	-	-	-	-
152,856	11,339	24,816	-	80,453	154,880	347,871
-	-	-	-	-	-	-
-	-	-	-	-	-	-
$ -	$ -	$ -	$ -	$ -	$ -	$ -

HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		284 No Kid Hungry Grant	289 Other Federal Funded Programs	352 21st Century Learning Grant	410 Instructional Material Allot
	REVENUES				
5700	Total Local and Intermediate Sources	$ -	$ -	$ -	$ -
5800	State Program Revenues	-	-	-	2,544
5900	Federal Program Revenues	-	39,446	833,140	-
5020	**Total Revenues**	-	39,446	833,140	2,544
	EXPENDITURES				
	Current:				
0011	Instruction	-	20,469	228,996	2,544
0012	Instructional Resources and Media Services	-	-	-	-
0013	Curriculum & Instructional Staff Development	-	-	33,432	-
0021	Instructional Leadership	-	-	189,146	-
0023	School Leadership	-	79	187,222	-
0031	Guidance, Counseling, & Evaluation Services	-	-	-	-
0034	Student (Pupil) Transportation	-	-	14,822	-
0035	Food Service	-	-	-	-
0036	Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	-
0052	Security and Monitoring Services	-	15,375	-	-
0053	Data Processing Services	-	3,523	-	-
0061	Community Services	-	-	714	-
0093	Payments for Shared Service Arrangements	-	-	178,808	-
	Total Expenditures	-	39,446	833,140	2,544
1200	Net Change in fund Balances	-	-	-	-
0100	Fund Balances - Beginning	-	-	-	-
3000	Fund Balances - Ending	$ -	$ -	$ -	$ -

EXHIBIT H-2 (Cont.)

	421 Texas A&M Gear Up	423 LASO Technology Grant	424 School Safety & Security	426 TCLAS General Revenue	427 SSI Planning Community Partnership	461 Campus Activity Funds	466 Brazos Valley Teach
	$ -	$ -	$ -	$ -	$ -	$ 41,106	$ -
	13,651	89,442	105,935	110,588	37,789	-	-
	-	-	-	-	-	-	-
	13,651	89,442	105,935	110,588	37,789	41,106	-
	6,990	89,442	-	108,118	4,230	183	-
	-	-	-	-	-	3,094	-
	-	-	-	2,470	19,419	-	-
	6,661	-	-	-	11,509	-	-
	-	-	-	-	-	5,580	-
	-	-	-	-	-	398	-
	-	-	-	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	-	26,298	-
	-	-	-	-	445	2,033	-
	-	-	-	-	-	-	-
	-	-	105,935	-	-	-	-
	-	-	-	-	-	-	-
	-	-	-	-	2,186	3,759	-
	-	-	-	-	-	-	-
	13,651	89,442	105,935	110,588	37,789	41,345	-
	-	-	-	-	-	(239)	-
	-	-	-	-	-	24,768	9,973
	$ -	$ -	$ -	$ -	$ -	$ 24,529	$ 9,973

HEARNE INDEPENDENT SCHOOL DISTRICT

HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
NONMAJOR GOVERNMENTAL FUNDS (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		467 Institute for Healthcare Improvement	491 Memorial Garden Fund	499 Philen Scholarship Fund	Total Nonmajor Special Revenue Funds
	REVENUES				
5700	Total Local and Intermediate Sources	$ -	$ -	$ 3,452	$ 44,558
5800	State Program Revenues	-	-	-	359,949
5900	Federal Program Revenues	-	-	-	2,351,977
5020	**Total Revenues**	-	-	3,452	2,756,484
	EXPENDITURES				
	Current:				
0011	Instruction	-	-	-	1,119,487
0012	Instructional Resources and Media Services	-	-	-	37,498
0013	Curriculum & Instructional Staff Development	-	-	-	286,235
0021	Instructional Leadership	-	-	-	367,885
0023	School Leadership	-	-	-	239,006
0031	Guidance, Counseling, & Evaluation Services	-	-	-	41,208
0034	Student (Pupil) Transportation	-	-	-	21,439
0035	Food Service	-	-	-	108,534
0036	Extracurricular Activities	-	-	-	26,298
0041	General Administration	-	-	-	82,280
0051	Facilities Maintenance and Operations	-	-	-	16,232
0052	Security and Monitoring Services	-	-	-	146,126
0053	Data Processing Services	-	-	-	65,534
0061	Community Services	-	-	-	11,493
0093	Payments for Shared Service Arrangements	-	-	-	178,808
	Total Expenditures	-	-	-	2,748,063
1200	Net Change in fund Balances	-	-	3,452	8,421
0100	Fund Balances - Beginning	16,966	-	78,998	130,705
3000	Fund Balances - Ending	$ 16,966	$ -	$ 82,450	$ 139,126

EXHIBIT J-2

HEARNE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance With Final Budget Positive or (Negative)
	REVENUES				
5700	Total Local and Intermediate Sources	$ 29,000	$ 37,000	$ 36,489	$ (511)
5800	State Program Revenues	21,000	6,000	3,300	(2,700)
5900	Federal Program Revenues	721,327	682,268	656,880	(25,388)
5020	**Total Revenues**	771,327	725,268	696,669	(28,599)
	EXPENDITURES				
0035	Food Service	771,327	814,418	797,526	16,892
6030	**Total Expenditures**	771,327	814,418	797,526	16,892
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(89,150)	(100,857)	(11,707)
	Other Financing Sources and (Uses)				
7915	Transfer In	-	55,557	55,557	-
	Total Other Financing Sources and (Uses)	-	55,557	55,557	-
1200	Net Change in Fund Balances	-	(33,593)	(45,300)	(11,707)
0100	**Fund Balance - Beginning**	47,718	47,718	47,718	-
3000	**Fund Balance - Ending**	$ 47,718	$ 14,125	$ 2,418	$ (11,707)

*Note: The school breakfast and lunch program is a subsection of the general fund. It is presented here as if it were a separate fund at the request of the Texas Education Agency.

EXHIBIT J-3

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

Data Control Codes		1 Budgeted Amounts Original	2 Budgeted Amounts Final	3 Actual	Variance with Final Budget Positive (Negative)
	REVENUES				
5700	Local and Intermediate Sources	$ 882,764	$ 867,500	$ 945,671	$ 78,171
5800	State Program Revenues	-	12,000	40,860	28,860
5020	**Total Revenues**	882,764	879,500	986,531	107,031
	EXPENDITURES				
0071	Principal on Long-Term Debt	663,500	660,000	660,000	-
0072	Interest on Long-Term Debt	219,500	219,500	218,000	1,500
6030	**Total Expenditures**	883,000	879,500	878,000	1,500
1200	Net Change in Fund Balance	(236)	-	108,531	108,531
0100	**Fund Balance - Beginning**	889,935	889,935	889,935	-
3000	**Fund Balance - Ending**	$ 889,699	$ 889,935	$ 998,466	$ 108,531

HEARNE INDEPENDENT SCHOOL DISTRICT

OTHER INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements.

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2023

	1	2	3
Year Ended August 31,	Tax Rates Maintenance	Tax Rates Debt Service	Assessed/Appraised Value for School Tax Purposes*
2013 and Prior Years	$ Various	$ Various	$ Various
2014	1.0400	0.2300	458,969,253
2015	1.0400	0.2300	451,140,810
2016	1.0400	0.2300	388,057,087
2017	1.0400	0.2300	370,187,323
2018	1.0400	0.2300	384,676,693
2019	1.0400	0.2200	399,498,254
2020	0.9700	0.2077	478,467,776
2021	0.8747	0.1500	603,317,459
2022	0.8747	0.1510	561,145,462
2023 (School Year Under Audit)*	0.8546	0.1164	763,989,804
1000 Totals			

9000 - Portion of Row 1000 for Taxes Paid into Tax Incremental Zone Under Chapter 311, Tax Code
8000 - Taxes Refunded under Section 26.115 of the Tax Code provided by Section 11.42(f)

EXHIBIT J-4

10 Beginning Balance 9/1/22	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/23
$ 163,020	$ -	$ 4,897	$ 1,083	$ (2,839)	$ 154,201
25,703	-	1,988	440	(252)	23,023
30,355	-	3,788	838	(262)	25,467
28,437	-	4,027	890	(381)	23,139
34,154	-	5,008	1,108	(517)	27,521
53,653	-	7,966	1,762	(708)	43,217
80,080	-	9,051	1,915	(857)	68,257
96,251	-	12,573	2,692	(1,122)	79,864
111,222	-	17,546	3,009	(1,340)	89,327
184,532	-	58,574	10,112	(2,893)	112,953
-	7,418,341	6,370,995	867,755	-	179,591
$ 807,407	$ 7,418,341	$ 6,496,414	$ 891,603	$ (11,171)	$ 826,560
		$ -			
		$ 908			

EXHIBIT J-4

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED STATE PROGRAMS
AS OF AUGUST 31, 2023

Data Control Codes		Responses
	Section A: Compensatory Education Programs	
AP1	Did your LEA expend any state compensatory education program state allotment funds during the District's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the District's fiscal year.	$ 1,103,879
AP4	List the actual direct program expenditures for state compensatory education during the LEA's fiscal year (PICs 24, 26, 28, 29, 30, 34)	$ 1,034,101
	Section B: Bilingual Education Programs	
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	$ 83,925
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	$ 144,669

EXHIBIT L-1

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2023

Data Control Codes		Responses
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any debt agreement at fiscal year end?	No
SF3	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF4	Was the school district issued a warrant hold?	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	$ -

COMPLIANCE SECTION

Armstrong, Vaughan & Associates, P. C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Board of Trustees
Hearne Independent School District
Hearne, Texas

We have audited, 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, the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Hearne Independent School District as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise Hearne Independent School District's basic financial statements, and have issued our report thereon dated December 22, 2023.

Report on Internal Control over Financial Reporting

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

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

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

941 West Byrd Blvd., Suite 101 • Universal City, Texas 78148
Phone: 210-658-6229 • Fax: 210-659-7611 • Email: info@avacpa.com • www.avacpa.com

Report on Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

December 22, 2023

Armstrong, Vaughan & Associates, P. C.
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

Board of Trustees
Hearne Independent School District
Hearne, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of Hearne Independent School District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Hearne Independent School District's compliance with the compliance requirements referred to above.

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Responsibilities of Management for Compliance

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

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

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

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

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

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

Respectfully submitted,

Armstrong, Vaughan & Associates, P.C.

Armstrong, Vaughan & Associates, P.C.

December 22, 2023

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued:	Unmodified	
Internal control over financial reporting:		
One or more material weaknesses identified	____ Yes	_X_ No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	_X_ None reported
Noncompliance material to financial Statements noted?	____ Yes	_X_ No

2. Federal Awards

Internal control over major programs:		
One or more material weaknesses identified	____ Yes	_X_ No
One or more significant deficiencies identified that are not considered to be material weaknesses?	____ Yes	_X_ None Reported
Type of auditor's report issued on compliance for major programs:	Unmodified	
Any audit findings disclosed that are required to be reported in accordance with CFR Part 200 of the Uniform Guidance?	____ Yes	_X_ No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.425D, 84.425U	Elementary and Secondary School Emergency Relief (ESSER)
84.287C	21st Century Learning Grant
10.555, 10.553, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between Type A and type B Programs:	$750,000	
Auditee qualified as low-risk auditee?	_X_ Yes	____ No

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2023

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

D. Prior Audit Findings Related to Federal Awards

NONE

EXHIBIT K-1

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

(1)	(2)	(3)	(4)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through Texas Education Agency:			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	23610101198905	$ 379,432
*School Action Fund	84.010A	236101627110016	147,973
*School Action Fund	84.010A	226101517110019	86,464
21st Century Learning Grant	84.287C	236950307110027	876,460
Elementary & Secondary School Emergency Relief			
CRRSA	84.425D	21521001198905	398,477
American Rescue Plan	84.425U	21528001198905	1,565,247
TCLAS - ESSER III	84.425U	21528042198905	80,453
TCLAS - High Quality After School	84.425U	215280587110068	154,880
ESEA, Title II Part A, Teacher Leadership	84.367A	226945797110010	99,669
ESEA, Title II Part A, Teacher/Principal Training	84.367A	23694501198905	53,187
ESEA, Title IV Part A, Subpart 1	84.424A	23680101198905	36,528
ESEA, Title VI Part B, Rural & Low Income	84.358B	23680101198905	24,816
LEP Summer School	84.369A	69552102	2,918
Total Passed Through Texas Education Agency			3,906,504
Passed Through Education Service Center, Region 6:			
ESEA, Title III Part A, English Language Acquisition	84.365A	198-905	11,339
Total Passed Through Education Service Center, Region 6			11,339
TOTAL U.S. DEPARTMENT OF EDUCATION			3,917,843
Passed Through Texas Department of Agriculture:			
*School Breakfast Program	10.553	71402301	163,368
*National School Lunch Program - Cash Assistance	10.555	71302301	441,745
*Supply Chain Assistance Grant	10.555	198-905	34,525
*National School Lunch Program - Non-Cash Assistance	10.555	198-905	51,767
*Summer Food Service Program for Children	10.559	198-905	32,197
*Equipment Grant	10.579	198-905	32,817
Total Passed Through the Texas Department of Agriculture			756,419
Total Child Nutrition Cluster			756,419
TOTAL U.S. DEPARTMENT OF AGRICULTURE			756,419
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 4,674,262

*Indicates clustered programs under the Uniform Guidance Compliance Supplement

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE YEAR ENDED AUGUST 31, 2023

CLUSTER TOTALS		
ESEA, Title I, Part A		$ 613,869
Child Nutrition Cluster		$ 756,419
PROGRAM TOTALS		
Elementary & Secondary School Emergency Relief	84.425	$ 2,199,057
ESEA, Title II, Part A	84.367A	$ 152,856
National School Lunch	10.555	$ 528,037

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

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's Financial Accountability System Resource Guide. Special revenue funds are used to account for resources restricted, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.

2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in the General Fund or Special Revenue Fund, which are Governmental Fund types. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

   The modified accrual basis of accounting is used for the Governmental Fund types and Fiduciary Funds. This basis of accounting recognizes revenue in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

   Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as deferred revenue until earned.

3. The District has not elected to use the 10% de minimis indirect cost rate as allowed by Uniform Guidance.

4. Reconciliation of the Schedule of Expenditures of Federal Awards to Exhibit C-2 is as follows:

Federal Program Revenues and Expenditures:		
General Fund	$	1,287,696
Special Revenue Fund		3,753,528
		5,041,224
Less: SHARS		(349,848)
Payment in lieu of taxes		(17,114)
Total per Schedule of Expenditures of Federal Awards (See Exhibit K-1)	$	4,674,262

HEARNE INDEPENDENT SCHOOL DISTRICT

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APPENDIX D

FORMS OF BOND COUNSEL'S OPINIONS

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[Delivery Date]

$16,050,000
HEARNE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Robertson County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024A

WE HAVE ACTED as Bond Counsel for the Hearne Independent School District (the "District") in connection with issuance of the captioned bonds (the "Bonds") for the 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 of interest on the Bonds from gross income for federal income tax purposes. In rendering the opinion herein, we have relied upon a transcript of certain certified proceedings pertaining to the issuance of the Bonds as described in the District's order authorizing the Bonds (the "Order"). The transcript contains certified copies of certain proceedings of the District and certain certifications and representations, other material facts within the knowledge and control of the District, an opinion of the Attorney General of Texas to the effect that the initial Bond is a valid and binding obligation of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

THE BONDS are being issued to provide funds to be used for the (1) construction, renovation, acquisition, and equipment of school buildings and the purchase of necessary sites for school buildings, and (2) payment of the costs of issuance of the Bonds.

BASED ON SUCH EXAMINATION, our opinion is as follows:

The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; and constitute valid and legally binding obligations of the District in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases.

The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limits as to rate or amount, upon taxable property located within the District, except to the extent the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, in assuming continuing compliance after the date hereof by the District with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes; however such interest is taken into account in determining the “adjusted financial statement income” (as defined in Section 56A of the Code) of “applicable corporations” (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

WE EXPRESS NO FURTHER OPINION with respect to any federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earning income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or have paid or incurred certain expenses allocable to, tax-exempt obligations.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINION IS BASED on existing law, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinion 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 opinion is not a guarantee of result and is not binding on the Internal Revenue Service; rather, such opinion represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above.

THE INTERNAL REVENUE SERVICE HAS AN ONGOING AUDIT PROGRAM to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the District as the taxpayer, and

Owners of the Bonds would have no right to participate in the audit process. We observe that the District 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.

THIS LEGAL OPINION expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully,

[Delivery Date]

$2,200,000
HEARNE INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Robertson County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2024B

WE HAVE ACTED as Bond Counsel for the Hearne Independent School District (the "District") in connection with issuance of the captioned bonds (the "Bonds") for the 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 of interest on the Bonds from gross income for federal income tax purposes. In rendering the opinion herein, we have relied upon a transcript of certain certified proceedings pertaining to the issuance of the Bonds including the escrow deposit letter between the District and U.S. Bank Trust Company, N.A., Houston, Texas, as Escrow Agent (the "Escrow Agreement"), the certificate of the Financial Advisor to the District with respect to the sufficiency of certain deposits of funds to accomplish the refunding purposes of the Bonds (the "Sufficiency Certificate") all as described in the District's order authorizing the Bonds (the "Order"). The transcript contains certified copies of certain proceedings of the District and certain certifications and representations, other material facts within the knowledge and control of the District, an opinion of the Attorney General of Texas to the effect that the initial Bonds are valid and binding obligations of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

THE BONDS are being issued to provide funds to be used (i) to refund those certain outstanding obligations of the District (the "Refunded Obligations"), and (ii) to pay for costs of issuance of the Bonds.

BASED ON SUCH EXAMINATION, our opinion is as follows:

The Escrow Agreement has been duly authorized, executed and delivered by the District and constitutes a binding and enforceable agreement in accordance with its terms. The Refunded Obligations, as defined in the Order, being refunded by the Bonds are outstanding under the order authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Fund and the cash and investments, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. The Refunded Obligations being refunded, discharged, paid, and retired with certain of the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement, and in accordance with the provisions of Chapter 1207, Texas Government Code, as amended. In rendering this opinion, we have relied upon the verifications contained in the Sufficiency Certificate as to the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the principal of and interest on the Refunded Obligations.

The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; and constitute valid and legally binding obligations of the District in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases.

The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limits as to rate or amount, upon taxable property located within the District, except to the extent the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, which taxes have been pledged irrevocably to pay the principal of and the interest on the Bonds.

Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, in assuming continuing compliance after the date hereof by the District with the provisions of the Order relating to sections 141 through 150 of the Code, interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, and such interest will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals for federal income tax purposes; however such interest is taken into account in determining the “adjusted financial statement income” (as defined in Section 56A of the Code) of “applicable corporations” (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

WE EXPRESS NO FURTHER OPINION with respect to any federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, "S" corporations with subchapter "C" earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earning income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or have paid or incurred certain expenses allocable to, tax-exempt obligations.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINION IS BASED on existing law, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinion 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 opinion is not a guarantee of result and is not binding on the Internal Revenue Service; rather, such opinion represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above.

THE INTERNAL REVENUE SERVICE HAS AN ONGOING AUDIT PROGRAM to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the District as the taxpayer, and Owners of the Bonds would have no right to participate in the audit process. We observe that the District 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.

THIS LEGAL OPINION expresses the professional judgment of this firm as to the legal issues explicitly addressed therein. In rendering a legal opinion, we do 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 our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully,

APPENDIX E

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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The following is incorporated into the offering document to which it is attached.

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.

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.

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

[1] Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the SLB approved transfers of $600 million per year directly to the ASF for fiscal biennium 2024-25.
[2] The distribution rate approved by the SBOE for fiscal biennium 2024-25 was based on a number of assumptions, including a mid- to long-term expected return rate for the Fund of 6.35% and a rate of inflation measured by the consumer price index of 2.70% according to the policy adopted by the SBOE in June 2022.

PSF Corporation Strategic Asset Allocation

The PSFC Board sets the asset allocation policy for the Fund, including determining the available asset classes for investment and approving target percentages and ranges for allocation to each asset class, with the goal of delivering a long-term risk adjusted return through all economic and market environments. Effective January 1, 2023, the IPS includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE and the SLB). The IPS provides that the Fund's investment objectives are as follows:

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

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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.

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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	7,896.5	6,402.1	1,494.4	23.3%
Total Domestic Equity	10,871.6	9,260.5	1,611.1	17.4%
International Equity	7,945.5	7,197.9	747.6	10.4%
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	869.7	1,190.9	(321.2)	-27.0%
TOTAL FIXED INCOME	8,602.5	9,341.1	(738.6)	-7.9%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,175.8	2,932.3	243.5	8.3%
Real Estate	6,525.2	6,286.9	238.3	3.8%
Private Equity	8,400.7	7,933.1	467.6	5.9%
Emerging Manager Program	134.5	29.9	104.6	349.8%
Real Return	1,663.7	1,620.3	43.4	2.7%
Real Assets	4,712.1	4,341.3	370.8	8.5%
TOT ALT INVESTMENTS	24,612.0	23,143.8	1,468.2	6.3%
UNALLOCATED CASH	348.2	231.7	116.5	50.3%
TOTAL PSF(CORP) INVESTMENTS	$ 52,379.8	$ 49,175.0	$ 3,204.8	6.5%

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

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

Investment Schedule - PSF(SLB)[1]

Fair Value (in millions) August 31, 2023

	As of 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 bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings. The SDBGP Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at https://tea.texas.gov/finance-and- grants/state-funding/facilities-funding-and-standards/bond-guarantee-program.

The Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at https://tea.texas.gov/finance-and-grants/state-funding/facilities-funding-and- standards/bond-guarantee-program.

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

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2024 fiscal year, the ratio is 7.69%. At February 26, 2024, there were 186 active open-enrollment charter schools in the State and there were 1,128 charter school campuses authorized under such charters, though as of such date, 212 of such campuses are not currently serving students for various reasons; therefore, there are 916 charter school campuses actively serving students in Texas. Section

12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. The Charter District Bond Guarantee Program Capacity (the "CDBGP Capacity") is made available from the capacity of the Guarantee Program but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

Date	Multiplier
Prior to May 2010	2.50
May 2010	3.00
September 2015	3.25
February 2017	3.50
September 2017	3.75
February 2018 (current)	3.50

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

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of December 31, 2023 the cost value of the Guarantee Program was $44,034,322,531 (unaudited), thereby producing an IRS Limit of $220,171,612,655 in principal amount of guaranteed bonds outstanding.

As of December 31, 2023, the estimated State Capacity Limit is $154,120,128,859, which is lower than the IRS Limit, making the State Capacity Limit the current Capacity Limit for the Fund.

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased sharply. In addition, in recent years a number of factors have caused an increase in the amount of bonds issued by school districts in the State. See the table "Permanent School Fund Guaranteed Bonds" below. Effective March 1, 2023, the Act provides that the SBOE may establish a percentage of the Capacity Limit to be reserved from use in guaranteeing bonds (the "Capacity Reserve"). The SDBGP Rules provide for a maximum Capacity Reserve for the overall Guarantee Program of 5% and provide that the amount of the Capacity Reserve may be increased or decreased by a majority vote of the SBOE based on changes in the cost value, asset allocation, and risk in the portfolio, or may be increased or decreased by the Education Commissioner as necessary to prudently manage fund capacity and preserve the AAA credit rating of the Guarantee Program (subject to ratification or rejection by the SBOE at the next meeting for which an item can be posted). The CDBGP Rules provide for an additional reserve of CDBGP Capacity determined by calculating an equal percentage as established by the SBOE for the Capacity Reserve, applied to the CDBGP Capacity. Effective March 1, 2023, the Capacity Reserve is 0.25%. The Capacity Reserve is noted in the monthly updates with respect to the capacity of the Guarantee Program on the PSF Corporation's web site at https://texaspsf.org/monthly-disclosures/, which are also filed with the MSRB.

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

No representation is made as to how the capacity will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. If the amount of guaranteed bonds approaches the State Capacity Limit, the SBOE or Education Commissioner may increase the State Capacity Limit multiplier as discussed above.

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.69% in February 2024. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At January 31, 2024, the Charter District Reserve Fund contained $97,636,048, which represented approximately 2.32% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides $60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Infectious Disease Outbreak

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency's essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event. Circumstances regarding the COVID-19 pandemic continue to evolve; for additional information on these events in the State, reference is made to the website of the Governor, https://gov.texas.gov/, and, with respect to public school events, the website of TEA, https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and- guidance.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of January 2024, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[1]	Market Value[1]
2019	$35,288,344,219	$46,464,447,981
2020	36,642,000,738	46,764,059,745
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023[2]	43,915,792,841	59,020,536,667

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

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

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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]

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	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]

Portfolio	Return	Benchmark Return[2]
Total PSF(CORP) Portfolio	6.14	4.38
Domestic Large Cap Equities	16.09	15.94
Domestic Small/Mid Cap Equities	9.31	9.14
International Equities	12.38	11.89
Emerging Market Equity	2.48	1.25
Fixed Income	(1.30)	(1.19)
U.S. Treasuries	(9.21)	(9.69)
Absolute Return	7.59	3.58
Real Estate	(1.96)	(3.13)
Private Equity	4.55	0.20
Real Return	(5.51)	(5.88)
Emerging Market Debt	12.68	11.34
High Yield	7.80	7.19
Emerging Manager Program	33.35	0.97
Natural Resources	5.70	3.67
Infrastructure	14.22	3.67

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

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

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

Other Events and Disclosures

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

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

As of August 31, 2023, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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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APPENDIX F

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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ASSURED GUARANTY

MUNICIPAL BOND INSURANCE POLICY

ISSUER: Policy No.: -N

BONDS: $ in aggregate principal amount of Effective Date:

Premium: $

ASSURED GUARANTY INC. ("AG"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AG, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AG shall have received Notice of Nonpayment, AG will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AG, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AG. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AG is incomplete, it shall be deemed not to have been received by AG for purposes of the preceding sentence and AG shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AG shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AG hereunder. Payment by AG to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AG under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AG shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AG which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AG may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AG pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AG and shall not be deemed received until received by both and (b) all payments required to be made by AG under this Policy may be made directly by AG or by the Insurer's Fiscal Agent on behalf of AG. The Insurer's Fiscal Agent is the agent of AG only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AG to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AG agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AG to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AG, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY INC.

By ________________________________
Authorized Officer

1633 Broadway, New York, N.Y. 10019 (212) 974-0100

Form 500 (8/24)

Hearne
Independent School District

Mixed Sources
Product group from well managed forests, controlled sources and recycled wood or fiber.

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