OFFICIAL STATEMENT DATED FEBRUARY 13, 2024

NEW ISSUE - Book-Entry-Only

Ratings: S&P "AAA" (PSF)
(see "OTHER INFORMATION-Ratings,"
"THE PERMANENT SCHOOL FUND
GUARANTEE PROGRAM" herein and
"APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto)

In the opinion of Special Tax Counsel (as defined below), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

THE BONDS ARE NOT DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

$9,940,000
COVINGTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hill County, Texas)
Unlimited Tax School Building Bonds, Series 2024

Dated Date: February 1, 2024
Interest Accrues from Date of Delivery (defined below) **Due: February 15, as shown on page ii herein**

This Official Statement is provided to furnish information in connection with the offering by the Covington Independent School District (the "District") of its $9,940,000 Unlimited Tax School Building Bonds, Series 2024 (the "Bonds") being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), including, particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on November 7, 2023 authorizing the issuance of unlimited tax bonds and a bond order (the "Bond Order") adopted by the Board of Trustees of the District (the "Board") on February 13, 2024. The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. A**n application has been filed by the District with, and conditional approval has been received from, the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund Guarantee Program (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

Interest on the Bonds will accrue from the Date of Delivery (defined below), and will be payable on February 15, 2025, and semiannually thereafter on August 15 and February 15 of each year until stated maturity or prior redemption. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity (see "THE BONDS – General Description").

The Bonds are subject to optional redemption as described herein under "THE BONDS – Redemption Provisions." Additionally, the Bonds issued as term bonds (the "Term Bonds") are subject to mandatory sinking fund redemption as described herein (see "THE BONDS–Redemption Provisions" herein).

The District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but use of such system could be discontinued. The principal amount of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by BOKF, NA, Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer of the Bonds (see "BOOK-ENTRY-ONLY SYSTEM").

Proceeds from the sale of the Bonds will be used for (i) the construction, renovation, expansion, and equipment of school facilities, and (ii) the payment of costs of issuing the Bonds (see "THE BONDS – Purpose").

CUSIP PREFIX: 223525
MATURITY DATE, PRINCIPAL AMOUNT, INTEREST RATE, INITIAL YIELD & 9 DIGIT CUSIP – page ii

The Bonds are offered for delivery when, as and if issued and accepted by the underwriter named below (the "Underwriter"), subject to the approving opinion of the Attorney General of the State and the opinions of Leon Alcala, PLLC, Austin, Texas, Bond Counsel, and Jackson Walker LLP, Houston, Texas, Special Tax Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" and "APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION" hereto). Certain legal matters will be passed upon for the Underwriter by its counsel, Greenberg Traurig, LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about February 29, 2024 (the "Date of Delivery").

Raymond James

MATURITY SCHEDULE

$9,940,000

COVINGTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hill County, Texas)
Unlimited Tax School Building Bonds, Series 2024

$3,280,000 Serial Bonds

Maturity Date (2/15)[a]	Principal Amount	Interest Rate	Initial Yield[b]	CUSIP No. 223525[c]
2026	$165,000	5.000%	3.020%	DN3
2027	175,000	5.000	2.880	DP8
2028	185,000	5.000	2.790	DQ6
2029	195,000	5.000	2.780	DR4
2030	205,000	5.000	2.790	DS2
2031	215,000	5.000	2.800	DT0
2032	225,000	5.000	2.820	DU7
2033	235,000	5.000	2.840	DV5
2034	245,000	5.000	2.850	DW3
2035	260,000	5.000	2.940	DX1
2036	275,000	5.000	3.030	DY9
2037	285,000	5.000	3.130	DZ6
2038	300,000	5.000	3.280	EA0
2039	315,000	5.000	3.360	EB8

$6,660,000 Term Bonds

$1,800,000, 4.000% Term Bonds due February 15, 2044, Yield 4.050%, CUSIP 223525EG7[a][b][c]

$2,195,000, 4.000% Term Bonds due February 15, 2049, Yield 4.220%, CUSIP 223525EH5[a][b][c]

$2,665,000, 4.125% Term Bonds due February 15, 2054, Yield 4.300%, CUSIP 223525EJ1[a][b][c]

(Interest Accrues from Date of Delivery)

(a) The Bonds maturing on and after February 15, 2035 are subject to redemption prior to maturity, at the option of the District, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Redemption Provisions"). The Term Bonds are subject to mandatory sinking fund redemption as described herein (see "THE BONDS- Redemption Provisions").

(b) The initial yields are established by and are the sole responsibility of the Underwriter and may subsequently be changed. Yield on callable Bonds reflects the lesser of yield to the first optional redemption date and yield to maturity.

(c) CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc., on behalf of The American Bankers Association and are included solely for convenience of the registered owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the District, the Financial Advisor (as defined herein), nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

[*Remainder of page intentionally left blank*]

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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 Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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

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

The agreements of the District and others related to the Bonds are contained solely in the contracts and other documents described herein. Neither this Official Statement nor any other statement made in connection with the issuance of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. See "OTHER INFORMATION – Forward-Looking Statements" herein.

References to website 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 websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for any purpose.

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The cover page hereof, "Official Statement Summary," this Table of Contents, Schedule I and appendices included herein and any addenda, supplement or amendment hereto, are part of this Official Statement.

OFFICIAL STATEMENT SUMMARY

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

The District	The Covington Independent School District (the "District") is a political subdivision of the State of Texas (the "State") located in Hill County, Texas. The District is governed by a seven-member Board of Trustees (the "Board"). Board trustees serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. The District is located 35 miles south of Fort Worth, Texas and 30 miles north of Waco, Texas. The District serves an estimated population of 1,551.
Authority for Issuance	The District is issuing its $9,940,000 Unlimited Tax School Building Bonds, Series 2024 (the "Bonds") in accordance with the Constitution and general laws of the State, including, particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on November 7, 2023 authorizing the issuance of unlimited tax bonds and a bond order (the "Bond Order") adopted by the Board on February 13, 2024.
The Bonds	The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "THE BONDS – General Description").
Payment of Interest	Interest on the Bonds will accrue from the Date of Delivery (shown on the cover page) and will be payable beginning on February 15, 2025, and semiannually thereafter on August 15 and February 15 of each year until stated maturity or prior redemption (see "THE BONDS – General Description").
Security	The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Security"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State. Additionally, an application has been filed with, and the District has received conditional approval from, the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Optional Redemption Provisions	The Bonds maturing on and after February 15, 2035, are subject to redemption prior to maturity, at the option of the District, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Redemption Provisions").
Mandatory Sinking Fund Redemption	The Bonds issued as Term Bonds (defined herein) are subject to mandatory sinking fund redemption as described herein (see "THE BONDS –Redemption Provisions" herein).
Purpose of the Bonds	Proceeds from the sale of the Bonds will be used for (i) the construction, renovation, expansion, and equipment of school facilities, and (ii) the payment of costs of issuance related to the Bonds (see "THE BONDS – Purpose").
Tax Matters	In the opinion of Special Tax Counsel, under existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein.

Not Qualified Tax-Exempt Obligations	**The District has not designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.**
Permanent School Fund	An application has been filed by the District with, and conditional approval has been received from, the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund Guarantee Program (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Ratings	The Bonds are rated "AAA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State "AAA" (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER INFORMATION - Ratings"). The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is "A" by S&P. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, by either of them, may have an adverse effect on the market price of the Bonds. See "OTHER INFORMATION – Ratings."
Book-Entry-Only System	The definitive 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. Beneficial ownership of the Bonds may be acquired in denominations of $5,000, or integral multiples thereof, of principal amount. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal amount of the Bonds at maturity or amounts due upon a prior redemption date, and interest on the Bonds will be payable by the Paying Agent/Registrar (defined below) 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 "BOOK-ENTRY-ONLY SYSTEM").
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is BOKF, NA, Dallas, Texas (see "TRANSFER, REGISTRATION AND EXCHANGE – Paying Agent/Registrar").
Continuing Disclosure of Information	Pursuant to the Bond Order, the District is obligated to provide certain updated financial information and operating data annually, and to provide timely notice of certain specified events which will be available to investors as described in the section captioned "CONTINUING DISCLOSURE OF INFORMATION." Also see "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.
Payment Record	The District has never defaulted on the payment of its bonded indebtedness.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of Texas and the rendering of opinions in substantially the forms attached hereto as "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" and "APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION" by Bond Counsel and Special Tax Counsel, respectively (each as defined herein).

COVINGTON INDEPENDENT SCHOOL DISTRICT

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2020	1,508	$104,612,773	$ 69,372	$ 326,000	0.31%	$ 216
2021	1,516	105,356,474	69,496	220,000	0.21%	145
2022	1,561	122,303,940	78,350	111,000	0.09%	71
2023	1,584	144,539,490	91,250	0	0.00%	0
2024	1,551	180,652,333	116,475	9,940,000[3]	5.50%	6,409

[1] Source: Municipal Advisory Council of Texas
[2] As reported by Hill County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
[3] Includes the Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

For Fiscal Year Ended August 31,

	2023	2022	2021	2020	2019
Beginning Balance	$2,456,281	$1,604,769	$1,265,927	$ 827,217	$ 692,263
Total Revenue	5,356,462	4,583,755	4,465,873	4,405,788	3,841,502
Total Expenditures	5,061,289	3,802,243	4,097,887	3,943,224	3,684,890
Excess/(Deficiency) of Revenues	295,173	781,512	367,986	462,564	156,612
Net Transfers/Adjustments	244,359	70,000	(29,144)	(23,854)	(21,658)
Ending Balance	$2,995,813	$2,456,281	$1,604,769	$1,265,927	$ 827,217

Source: The District's audited financial statements.

For additional information regarding the District, please contact:

Chris Heskett, Ed.D.
Covington Independent School District
501 North Main Street
Covington, Texas 76636
(254) 854-2215
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or

Jake Lawrence
Government Capital Securities Corporation
559 Silicon Drive, Suite 102
Southlake, Texas 76092
(817) 722-0220
jlawrence@govcapsecurities.com

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Board of Trustees	Length of Service	Term Expires	Occupation
Freedom Jay, President	4 Years	May, 2025	Accounts Payable & Receivable Clerk
Kevin Ray, Vice President	5 Years	May, 2024	Firefighter
Georgia Whittington, Secretary	11 Years	May, 2026	Housewife
Andy Lopez, Member	20 Years	May, 2025	Truck Driver
Cody Nickell, Member	2 Years	May, 2024	President of Construction
Joe Reitz, Member	2 Years	May, 2024	Construction Foreman
J.D. Kaye, Member	< 1 Year	May, 2026	Way Mechanical/Operations Manager

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service Within District	Total Industry Experience
Chris Heskett, Ed.D.	Superintendent	6 Years	28 Years
Pam Frazier	Business Manager	35 Years	35 Years
Lisa Nivens	Superintendent Secretary	22 Years	22 Years

CONSULTANTS AND ADVISORS

Auditors (Certified Public Accountants)..... Cameron L. Gulley, CPA
Eastland, Texas

Bond Counsel ..... Leon Alcala, PLLC
Austin, Texas

Financial Advisor.....Government Capital Securities Corporation
Southlake, Texas

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OFFICIAL STATEMENT
RELATING TO

$9,940,000
COVINGTON INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Hill County, Texas)

Unlimited Tax School Building Bonds, Series 2024

INTRODUCTION

This Official Statement, including Appendices A, B, C, D and E, has been provided by the Covington Independent School District (the "District"), in connection with the offering by the District of its $9,940,000 Unlimited Tax School Building Bonds, Series 2024 (the "Bonds").

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

There follows in this Official Statement descriptions of the Bonds and the Bond Order (as defined herein), and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District's Financial Advisor, Government Capital Securities Corporation, 559 Silicon Drive, Suite 102, Southlake, Texas 76092.

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

THE BONDS

Authorization

The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas ("State"), including, particularly, Chapter 45, Texas Education Code, as amended, an election held in the District on November 7, 2023 authorizing the issuance of unlimited tax bonds and a bond order (the "Bond Order") adopted by the Board on February 13, 2024.

Purpose

Proceeds from the sale of the Bonds will be used for (i) the construction, renovation, expansion, and equipment of school facilities, and (ii) the payment of costs of issuance related to the Bonds.

General Description

Interest on the Bonds will accrue from the Date of Delivery shown on the cover page and will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent/registrar (the "Paying Agent/Registrar") for the Bonds is initially BOKF, NA, Dallas, Texas.

The Bonds are to mature on the dates and in the principal amounts shown on page ii hereof. The Bonds will be issued as fully registered obligations in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the Date of Delivery, at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof commencing on February 15, 2025, and semiannually thereafter on each succeeding August 15 and February 15 until stated maturity or prior redemption.

Initially, the Bonds will be 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. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal amount of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" for a more complete description of such system.

Security

The Bonds are direct obligations of the District and are payable as to principal amount and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, on all taxable property within the District, as provided in the Bond Order. Additionally, the District has applied for and received from the Texas Education Agency conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has applied for and received conditional approval from the State Commissioner of Education (the "Education Commissioner") for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code, as amended). Subject to satisfying certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State.

In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," herein. The Permanent School Fund Guarantee will terminate with respect to Bonds that are defeased (see "– Defeasance of Bonds" below).

Redemption Provisions

Optional Redemption…The Bonds maturing on and after February 15, 2035 are subject to redemption prior to maturity, at the option of the District, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2034 or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

Mandatory Sinking Fund Redemption…The Term Bonds maturing on February 15, 2044, February 15, 2049 and February 15, 2054 are subject to mandatory sinking fund redemption in the following amounts (subject to reduction as provided below), on the following dates, in each case at the redemption price equal to the principal amount of the Term Bonds or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption:

$1,800,000 Term Bonds Maturing February 15, 2044

Redemption Date (February 15)	Principal Amount
2040	$330,000
2041	345,000
2042	360,000
2043	375,000
2044*	390,000

* Final Maturity.

$2,195,000 Term Bonds maturing February 15, 2049

Redemption Date (February 15)	Principal Amount
2045	$405,000
2046	420,000
2047	440,000
2048	455,000
2049*	475,000

* Final Maturity.

$2,665,000 Term Bonds maturing February 15, 2054

Redemption Date (February 15)	Principal Amount
2050	$485,000
2051	510,000
2052	535,000
2053	555,000
2054*	580,000

* Final Maturity.

The particular Term Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, not later than the 45th day before the Term Bonds are to be mandatorily redeemed. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Bonds that have been optionally redeemed on or before the 45th day before the applicable mandatory redemption date and which have not been made the basis for a previous reduction.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the District shall select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the Paying Agent/Registrar, at the direction of the District, shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND ANY OTHER CONDITION TO REDEMPTION BEING SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE, IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

The District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem 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. Any Bonds subject to conditional redemption where such redemption has been rescinded shall remain outstanding.

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

Legality

The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State and the opinions of Leon Alcala, PLLC, Austin, Texas, Bond Counsel, and Jackson Walker LLP, Houston, Texas, Special Tax Counsel (see "OTHER INFORMATION – Legal Matters," "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" and "APPENDIX D – FORM OF SPECIAL TAX COUNSEL'S OPINION").

Payment Record

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

Defeasance of Bonds

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

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

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

Amendments to Bond Order

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinions of the District's Bond Counsel and Special Tax Counsel.

Sources and Uses of Funds

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

Sources:	
Principal Amount	$ 9,940,000.00
Net Original Issue Premium	286,184.35
Total Sources of Funds	$ 10,226,184.35
Uses:	
Deposit to the Project Fund	$ 9,970,000.00
Costs of Issuance [(1)]	180,052.50
Underwriter's Discount	75,445.32
Additional Proceeds	686.53
Total Uses of Funds	$ 10,226,184.35

[(1)] Includes legal fees of the District, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, contingency, and other costs of issuance.

TRANSFER, REGISTRATION AND EXCHANGE

Paying Agent/Registrar

BOKF, NA, Dallas, Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Bond 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 while any Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State, or any 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 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.

Registration if Book-Entry-Only System Should be Discontinued

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment must be acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner. New Bonds registered and delivered in an

exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Interest Payment

The record date ("Record Date") for determining the person to whom the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the month next preceding such interest payment date. In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Limitation on Transfer of Bonds

The Paying Agent/Registrar shall not be required to make any transfer or exchange any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar of satisfactory evidence to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them, (c) upon paying all expenses and charges in connection therewith and (d) upon satisfying any other reasonable requirements imposed by the District and the Paying Agent/Registrar.

REGISTERED OWNERS' REMEDIES

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or Bond Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon periodically. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 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. 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 United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. (See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.)

The opinion of Bond Counsel will be qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

BOOK-ENTRY-ONLY SYSTEM

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

Neither the District nor the Underwriter can or do give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants (defined herein), (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 (defined herein), 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 have been issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully-registered certificate has been issued for each stated maturity of the Bonds in the aggregate principal amount of each such maturity and has been 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" and, together with the Direct Participants, the "DTC Participants"). 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 transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the Book-Entry-Only System for the Bonds is discontinued.

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

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

the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. will consent or vote with respect to the 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by DTC Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant and not of DTC, the Paying Agent or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, is the responsibility of the District, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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 DTC Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

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

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature") from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support

and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of article VIII, section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, Morath, 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 for school districts is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: (i) a maintenance and operations ("M&O") tax to pay current expenses and (ii) an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts are prohibited from levying an M&O tax rate for the purpose of creating a surplus in M&O tax revenues to pay the district's debt service. School districts are required to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed $0.50 per $100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount. See "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein. Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

2023 Legislative Sessions

The regular session of the 88th Texas Legislature (the "88th Regular Session") began on January 10, 2023 and adjourned on May 29, 2023. The Texas Legislature (the "Legislature") meets in regular session in odd numbered years for 140 days. During the 88th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Legislation enacted by the Legislature fully-funded the Foundation School Program for the 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 either the first, second, third or fourth called special sessions of the 88th Texas Legislature.

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

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

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

Local Funding for School Districts

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

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

Maximum Compressed Tax Rate. The "Maximum Compressed Tax Rate" or the "MCR" is the tax rate per $100 of assessed 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 and voters approved such reduction, establishing $0.6880 as the maximum rate and $0.6192 as the floor. See "- 2023 Legislative Sessions."

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

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

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

State Funding for School Districts

State funding for school districts is provided through the two-tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district's Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide "Tier One" funding or "Tier Two" funding, respectively, to fund the difference between the school district's entitlements and the calculated M&O revenues generated by the school district's respective M&O tax rates.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district to increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as amended (see "– Local Revenue Level In Excess of Entitlement")), and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

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

Tier One. Tier One funding is the basic level of programmatic funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally

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

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

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

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.016. For the 2024-2025 State fiscal biennium, school districts are guaranteed a yield of $126.21 per student in WADA in 2024 and $129.52 per student in WADA in 2025 for each Golden Penny levied. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2024-2025 State fiscal biennium, school districts are guaranteed a yield of $49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been $35 since the program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Education Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Education Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2024-2025 State fiscal biennium, the Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the Legislature did appropriate funds for new IFA awards will continue to be funded.

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) $40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of $60 million more than the EDA to which school districts would have been entitled to if the EDA Yield were $35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first $0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to

pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

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

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

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

Furthermore, "property-wealthy" school districts that received additional State funds under the Finance System prior to the enactment of certain legislation passed during the 86th Texas Legislature are entitled to an equalized wealth transition grant on an annual basis, which will be phased out in the 2023-2024 school year, in an amount equal to the amount of additional revenue such school district would have received under former Texas Education Code Sections 41.002(e) through (g), as those sections existed on January 1, 2019. Additionally, school districts and open-enrollment charter schools may be entitled to receive an allotment in the form of a formula transition grant, but they will not be entitled to an allotment beginning with the 2024-2025 school year. This grant is meant to ensure a smooth transition into the funding formulas enacted by the 86th Texas Legislature. Furthermore, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year exceeds $400 million, the Education Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

Local Revenue Level in Excess of Entitlement

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

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

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2023-2024 school year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's local revenue levels must be tested for each future school year and, if local revenues exceed the district's entitlements, the district must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's local revenues should exceed its entitlements in future school years, it will be required to exercise one or more of the permitted options to reduce local revenues.

If the District were to consolidate (or consolidate its tax base for all purposes) with a district not designated as an excess local revenue 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 an annexing district.

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 August 16, 1958 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 "– Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein. For the State fiscal year ending in 2024 (the 2023-2024 school year), the SCP was set at $0.6880 (after the effect of SB2), but the District's local compressed percentage was lower than the SCP, resulting in a MCR of $0.6192 per $100 of taxable value. For detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State 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 "– Public Hearing and Voter-Approval Tax Rate" herein.

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of $0.50 per $100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of $0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school

district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the $0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than $0.50 per $100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of $0.45 per $100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as "new money bonds" and are subject to the 50-cent Test. The District has not utilized projected values or State assistance to satisfy the 50-cent 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) of the Texas Education Code, and if such failure to comply was not in good faith. Section 44.004(e) of the Texas Education Code further provides the action to enjoin the collection of taxes must be filed before the date the school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in

which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district's certified estimate of taxable value. A school district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Hill County Appraisal District (the "Appraisal District"). Except as 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 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 (see "- District and Taxpayer Remedies").

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 (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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.

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

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 "– District and Taxpayer Remedies").

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a $100,000 exemption of the appraised value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons 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 discussion of legislation passed during the second called special session and the November 7, 2023 State-wide election at which voters passed an amendment to the Texas Constitution to increase the general residential homestead exemption for school districts from $40,000 to $100,000.

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.

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.

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.

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. For more information on the exemption, reference is made to Section 11.35 of the Property 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. During the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts"). This program expired by its terms on December 31, 2022.

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

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

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 $57,216,456 for the 2023 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and generally become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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.

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Hill County. The Appraisal District is governed by a board of six directors. Five voting directors are appointed by the taxing units of the Appraisal

District. The Hill County Tax Assessor/Collector, if not appointed by the taxing units as a voting member, serves as a sixth, non-voting member of the board of directors of the Appraisal District.

The District has not granted an additional exemption to the market value of the residence homestead of persons 65 years of age or older over the State-mandated exemption. For the 2023 tax year, the District grants a State mandated $100,000 general homestead exemption and a State mandated additional $10,000 residence homestead exemption for persons 65 years of age or older or the disabled. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Sessions" for a discussion of legislation passed during the second called special session and the November 7, 2023 State-wide election at which voters passed an amendment to the Texas Constitution to increase the general residential homestead exemption for school districts from $40,000 to $100,000.

The District has not granted optional exemption of the market value of general residence homesteads or homesteads of those 65 years of age or older or the disabled.

The District does not levy its Interest and Sinking Fund tax rate against the exempt value of residence homesteads for the payment of debt.

The District does not tax non-business personal property.

The District has not allowed the 'freeport' tax exemption permitted by Article VIII, Section I-j of the Texas Constitution.

The Board has approved an additional penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code.

The District has executed value limitation agreements (each, a "Chapter 313 Agreement") previously authorized under Chapter 313, Texas Tax Code ("Chapter 313"). Under Chapter 313, Texas school districts could grant value limitation agreements that limit the taxable value of certain qualified investments for maintenance and operations tax purposes**. Chapter 313 Agreements do not impact school district interest and sinking fund taxes used to pay bonded indebtedness.**

- The District has entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to $26,000,000, beginning tax year 2027 and extending through tax year 2036, with High Noon Solar Project, LLC.

- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to $15,000,000, beginning tax year 2028 and extending through tax year 2037, with Midpoint Solar, LLC.

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

RESPONSE TO COVID-19

In March 2020, the World Health Organization and the President of the United States (the "President") separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On April 10, 2023, the President signed a resolution terminating the national emergency related to COVID-19, and on May 5, 2023, the World Health Organization declared COVID-19 no longer represented a global health emergency. There are currently no COVID-19 related operating limits imposed by executive order of the Governor of the State (the "Governor") for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed in order to mitigate the effects of COVID-19. The District has not experienced any decrease in property values or unusual tax delinquencies as a result of COVID-19, and the District's operations and financial position are not currently impacted as a result of COVID-19. However, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

For a discussion of the impact of COVID-19 on the PSF, see "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak."

CYBERSECURITY

The District, like other school districts in the State, utilizes technology in conducting its operations. As a user of technology, the District potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the District may be the target of a cyber-attack on its technology systems that could result in adverse

consequences to the District. The District employs a multi-layered approach to combating cybersecurity threats. While the District deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the District's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the District to litigation and other legal risks, which could cause the District to incur other costs related to such legal claims or proceedings.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency 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 (Texas Government Code, Chapter 2256, as amended), 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 District has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The District has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Current Investments

As of November 13, 2023, the District's investable funds amounted to $3,328,001. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Local Investment	37.23%	$1,238,918	$1,238,918
Texpool[(1)]	59.45%	$1,978,623	$1,978,623
Certificate of Deposit	3.32%	$ 110,460	$ 110,460
Total	100.00%	$3,328,001	$3,328,001

Source: District records.

[(1)] The investment pools in which the District invests were created for Texas government entities. Such investment pools operate as money-market equivalents.

No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to another instrument, index or commodity.

Accounting Policies

Accounting practices for Texas public school districts are regulated and prescribed through an accounting manual provided by the TEA. The TEA requires an annual audit of school district financial statements by independent accountants. The auditor's report is submitted annually to the TEA for review. The annual budgets of school districts are also submitted to the TEA for review and approval. Moreover, the TEA reviews the past year's budget to determine performance in meeting stated goals.

EMPLOYEE BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit for the year ended August 31, 2023, the State contributed $225,762 to TRS on behalf of the District, District employees paid $409,325 and other contributions into the Plan made from the District for salaries above the statutory minimum were $219,308. For more detailed information concerning the Plan, see Note III, I to the District's audited financial statements attached hereto as APPENDIX B.

Government Accounting Standards Board (GASB) Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability in the TRS pension plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. As of August 31, 2023, the District's proportionate share of the TRS net pension liability and deferred outflow for the contributions made by the District subsequent to the measurement date were $2,442,414 and $1,118,996, respectively. The changes related to pensions in the Statement of Net Position to implement GASB Statement Nos. 68 and 71 are reflected in the Statement of Activities, a government-wide financial statement. The changes related to pensions affect only the government-wide financial statement and do not affect the General Fund balance. To date, the District has met all funding requirements of the TRS pension plan.

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Plan"), a cost-sharing multiple-employer defined post employment benefits other than pensions ("OPEB") health care plan. The TRS-Care Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. The TRS-Care Plan is administered through a trust by the TRS Board of Trustees. Contribution rates are legally established in state statute by the 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 the TRS-Care Plan is provided by retiree premium contributions and contributions from the State, active employees, and school districts based upon public school district payroll. For the year ended August 31, 2023, the State contributed $54,177 to the TRS Care Plan on behalf of the District, District employees paid $30,188 and the District contributed $45,175. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Plan, see Note III, J to the District's audited financial statements attached hereto as APPENDIX B.

GASB Statement No. 75 requires reporting entities, such as the District, to recognize their proportionate share of the net OPEB liability in the TRS-Care Plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. As of August 31, 202, the District's proportionate share of the net OPEB liability and deferred outflow for the contributions made by the District subsequent to the measurement date were $1,316,957 and $732,801, respectively. The changes related to the OPEB affect only the government-wide financial statements and do not affect the General Fund balance. The calculation of OPEB contributions is unaffected by the change. Such reporting began with the District's fiscal year ended August 31, 2018. To date, the District has met all funding requirements of the TRS-Care Plan.

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

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

In the opinion of Jackson Walker LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of Underwriter, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial owners of the Bonds should consult their own tax advisors

with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of beneficial owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

CONTINUING DISCLOSURE OF INFORMATION

The District is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the District who are not an "obligated person" (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal amount exceeding $10,000,000. This exception allows the District not to file annual updates to all financial and operating data that is included in this Official Statement.

The District in the Bond Order has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB"

Annual Reports

The District will 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 District of the general type included in APPENDIX B to this official statement, which is customarily prepared by the District and publicly available. The District will update and provide this information within six months after the end of each fiscal year ending in and after 2024.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements for the District, if the District commissions an audit and it is completed by the required time. If audited financial statements are not provided by that time, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the District's annual financial statements or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

Notices of Certain Events

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

For these purposes, (A) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, (B) as used in clauses (15) and (16) in the immediately preceding paragraph, "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12, and (C) the District intends the words used in clauses (15) and (16) and the definition of financial obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release.

Availability of Information from MSRB

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.emma.msrb.org.

Limitations, Disclaimers and Amendments

The District has agreed to update information and to provide notices of certain 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, 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. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal securities laws.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) 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 (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent 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 beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case 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 giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must 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 information and data provided.

AUDITED FINANCIAL STATEMENTS

The report of Cameron L. Gulley, CPA relating to the District's audited financial statements for the fiscal year ended August 31, 2023 is included in this Official Statement in APPENDIX B; however, Cameron L. Gulley, CPA has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement and has not been asked to consent to inclusion of its report, or otherwise be associated with this Official Statement.

OTHER INFORMATION

Ratings

The Bonds are rated "AAA" by S&P Global Ratings, a division of S&P Global ("S&P"), based upon the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State "AAA." The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is "A" by S&P.

An explanation of the significance of such ratings may be obtained from S&P. The ratings reflects only the view of S&P, and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Litigation

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

Registration and Qualification of Bonds for Sale

The Bonds have not been registered under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes

no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Matters

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver his opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District. Special Tax Counsel will issue its opinion, subject to the qualifications set forth herein under "TAX MATTERS," that 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. The forms of Bond Counsel's and Special Tax Counsel's opinions are attached hereto as APPENDIX C and APPENDIX D, respectively. The legal fee to be paid to Bond Counsel and Special Tax Counsel is contingent upon the sale and delivery of the Bonds.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, has reviewed the information under the captions "THE BONDS" (except under the subcaptions "Sources and Uses of Funds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" (except "Possible Effects of Changes in Law on District Bonds"), "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (except the last sentence under the subcaption "I&S Tax Rate Limitations" and the entirety of the subcaption "Public Hearing and Voter-Approval Tax Rate"), "CONTINUING DISCLOSURE OF INFORMATION" (except any information or omission relating to the District's compliance with prior continuing disclosure undertakings), "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas", "OTHER INFORMATION – Registration and Qualification of Bonds for Sale", and "OTHER INFORMATION – Legal Matters" (insofar as such section relates to the legal opinion of Bond Counsel) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

Special Tax Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Special Tax Counsel, has reviewed the information under the caption "TAX MATTERS" and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such caption is an accurate description of the laws and legal issues addressed therein.

Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinions to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering legal opinions, the attorneys do not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of such opinions guarantee the outcome of any legal dispute that may arise from the transaction.

Financial Advisor

In its role as Financial Advisor, Government Capital Securities Corporation has relied on the District for certain information concerning the District and the Bonds. The fee of the Financial Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. 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.

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

Underwriting

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price of $10,150,739.03 (representing the par amount of the Bonds plus a net reoffering premium of $286,184.35, less an underwriting discount of $75,445.32). The Underwriter's obligations are subject to certain conditions precedent, and it will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

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

The Underwriter and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. The Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

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

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. The District's actual results could differ materially from those discussed in such forward-looking statements.

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

Concluding Statement

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 documents for further information. Reference is made to original documents in all respects.

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the District.

In the Bond Order, the Board approved, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriter's use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of the Rule.

/s/ *Freedom Jay*
President, Board of Trustees

ATTEST:

/s/ *Georgia Whittington*
Secretary, Board of Trustees

APPENDIX A

SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

The Tax Code as it Applies to the District

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Hill County. The Appraisal District is governed by a board of six directors. Five voting directors are appointed by the taxing units of the Appraisal District. The Hill County Tax Assessor/Collector, if not appointed by the taxing units as a voting member, serves as a sixth, non-voting member of the board of directors of the Appraisal District.

The District has not granted an additional exemption to the market value of the residence homestead of persons 65 years of age or older over the State-mandated exemption. For the 2023 tax year, the District grants a State mandated $100,000 general homestead exemption and a State mandated $10,000 residence homestead exemption for persons 65 years of age or older or the disabled. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2023 Legislative Sessions" for a discussion of legislation passed during the second called special session and the November 7, 2023 State-wide election at which voters passed an amendment to the Texas Constitution to increase the general residential homestead exemption for school districts from $40,000 to $100,000.

The District has not granted optional exemption of the market value of general residence homesteads or homesteads of those 65 years of age or older or the disabled.

The District does not levy its Interest and Sinking Fund tax rate against the exempt value of residence homesteads for the payment of debt.

The District does not tax non-business personal property.

The District has not allowed the 'freeport' tax exemption permitted by Article VIII, Section I-j of the Texas Constitution.

The Board has approved an additional penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code.

The District has executed value limitation agreements (each, a "Chapter 313 Agreement") previously authorized under Chapter 313, Texas Tax Code ("Chapter 313"). Under Chapter 313, Texas school districts could grant value limitation agreements that limit the taxable value of certain qualified investments for maintenance and operations tax purposes. **Chapter 313 Agreements do not impact school district interest and sinking fund taxes used to pay bonded indebtedness.**

- The District has entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to $26,000,000, beginning tax year 2027 and extending through tax year 2036, with High Noon Solar Project, LLC.
- The District has also entered into a Chapter 313 Agreement limiting the taxable appraised value for maintenance and operations purposes to $15,000,000, beginning tax year 2028 and extending through tax year 2037, with Midpoint Solar, LLC.

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

TABLE 1 - VALUATION, EXEMPTIONS, AND TAX SUPPORTED DEBT

	District Direct Debt
2023/24 Certified Net Taxable Assessed Valuation[(1)]	$180,652,333
Outstanding Debt	0
Plus: The Bonds	9,940,000
Total Direct Debt	$9,940,000
As a % of 2023/24 Certified Taxable Assessed Valuation	5.50%

[(1)] Provided by Hill County Appraisal District.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY[1]

	Tax Year 2023	Tax Year 2022	Tax Year 2021	Tax Year 2020	Tax Year 2019
Gross Value	$422,243,220	$327,949,096	$263,519,560	$216,858,163	$206,302,309
Less Exemptions	241,590,887	183,409,606	141,215,620	111,501,689	101,689,536
Net Taxable Value	$180,652,333	$144,539,490	$122,303,940	$105,356,474	$104,612,773

[1] Provided by Hill County Appraisal District.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population[1]	Taxable Assessed Valuation[2]	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2020	1,508	$104,612,773	$ 69,372	$ 326,000	0.31%	$ 216
2021	1,516	105,356,474	69,496	220,000	0.21%	145
2022	1,561	122,303,940	78,350	111,000	0.09%	71
2023	1,584	144,539,490	91,250	0	0.00%	0
2024	1,551	180,652,333	116,475	9,940,000[3]	5.50%	6,409

[1] Source: Municipal Advisory Council of Texas.
[2] As reported by Hill County Appraisal District on the District's annual State Property Tax Reports and such values are subject to change during ensuing year.
[3] Includes the Bonds.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 8/31	Tax Year	Taxable Assessed Valuation[1]	Tax Rate	Tax Levy[2][3]	Percent Collected	
					Current	Total
2020	2019	$104,612,773	$1.2786	$1,240,098	97.90%	101.43%
2021	2020	105,356,474	1.1550	1,146,371	97.80%	102.32%
2022	2021	122,303,940	1.0685	1,232,267	97.51%	101.05%
2023	2022	144,539,490	1.0218	1,410,881	96.51%	99.10%
2024	2023	180,652,333	0.7575	1,097,491	(In process of collection)	

[1] Net of exemptions. Assessed valuations do not include adjustments in supplemental rolls made after the end of each fiscal year.
[2] Excludes penalties and interest.
[3] Source: Municipal Advisory Council of Texas.

TABLE 5 - TEN LARGEST TAXPAYERS

Taxpayers	Type of Property	2023/24 Net Taxable Assessed Valuations	% of Total 2023/24 Assessed Valuation
1. OneOK Arbuckle II Pipeline LLC	Oil & Gas Pipeline	$ 4,651,490	2.57%
2. Diversified Production LLC	Oil & Gas	3,646,485	2.02%
3. Energy Transfer Fuel LP (Pipe)	Oil & Gas Pipeline	3,566,630	1.97%
4. Permian Express Partners	Oil & Gas Pipeline	3,565,040	1.97%
5. Enlink North Texas Gathering LP	Transportation Pipelines	2,151,490	1.19%
6. McGhee Ranch LLC	Ranch	1,809,970	1.00%
7. NTU Pipeline LLC	Oil & Gas Pipeline	1,496,680	0.83%
8. West Texas Gulf PL	Oil & Gas Pipeline	1,413,900	0.78%
9. Javelin Energy Partners Management LLC	Oil & Gas	1,176,019	0.65%
10. James G. & Tina M. Wetzel	Individual Residence	1,164,295	0.64%
Total		$24,641,999	13.62%

Table 6 - Estimated Overlapping Debt

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

Taxing Jurisdiction	As Of	Total Debt[a]	Estimated % Overlapping	Overlapping Debt
Hill Co	11/30/23	$ 3,470,000	4.19%	$ 145,393
Estimated (Net) Overlapping Debt				$ 145,393
Covington ISD[b]		9,940,000		9,940,000
Total Direct & Estimated Overlapping Debt				$10,085,393
As a % of Certified 2023/24 Taxable Assessed Valuation				5.58%

(1) Gross Debt
(2) Includes the Bonds.

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DEBT INFORMATION

TABLE 7 - TAX SUPPORTED DEBT SERVICE REQUIREMENTS

FISCAL YEAR ENDED 8/31	PLUS: THE BONDS PRINCIPAL	INTEREST	TOTAL DEBT SERVICE
2025	$ -	$ 633,729.55	$ 633,729.55
2026	165,000	429,606.26	594,606.26
2027	175,000	421,106.26	596,106.26
2028	185,000	412,106.26	597,106.26
2029	195,000	402,606.26	597,606.26
2030	205,000	392,606.26	597,606.26
2031	215,000	382,106.26	597,106.26
2032	225,000	371,106.26	596,106.26
2033	235,000	359,606.26	594,606.26
2034	245,000	347,606.26	592,606.26
2035	260,000	334,981.26	592,981.26
2036	275,000	321,606.26	596,606.26
2037	285,000	307,606.26	592,606.26
2038	300,000	292,981.26	592,981.26
2039	315,000	277,606.26	592,606.26
2040	330,000	263,131.26	593,131.26
2041	345,000	249,631.26	594,631.26
2042	360,000	235,531.26	595,531.26
2043	375,000	220,831.26	595,831.26
2044	390,000	205,531.26	595,531.26
2045	405,000	189,631.26	594,631.26
2046	420,000	173,131.26	593,131.26
2047	440,000	155,931.26	595,931.26
2048	455,000	138,031.26	593,031.26
2049	475,000	119,431.26	594,431.26
2050	485,000	99,928.13	584,928.13
2051	510,000	79,406.25	589,406.25
2052	535,000	57,853.13	592,853.13
2053	555,000	35,371.88	590,371.88
2054	580,000	11,962.50	591,962.50
	$9,940,000	$7,922,301.68	$17,862,301.68

Average Annual Debt Service Requirements $594,410.06
Maximum Annual Debt Service Requirement..... $633,729.55

TABLE 8 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

After the issuance of the Bonds, the District will have no authorized but unissued unlimited tax bonds. The District does not anticipate issuing additional debt this fiscal year.

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TABLE 9 – SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY

For Fiscal Year Ended August 31st

	2023	2022	2021	2020	2019
REVENUES:					
Total Local and Intermediate Sources	$ 2,092,837	$ 1,408,592	$ 1,529,991	$ 1,324,584	$ 1,357,393
State Program Revenues	3,257,888	3,152,232	2,912,810	3,027,099	2,390,209
Federal Program Revenues	5,737	22,931	23,072	54,105	93,900
Total Revenues	$ 5,356,462	$ 4,583,755	$ 4,465,973	$ 4,405,788	$ 3,841,502
EXPENDITURES:					
Current:					
Instruction	$ 2,210,925	$ 1,805,655	$ 1,978,682	$ 1,993,246	$ 1,727,212
Instructional Resources and Media Services	85,484	74,519	70,100	70,538	64,147
Curriculum and Instructional Staff Development	9,649	8,439	8,367	10,109	7,024
School Leadership	349,309	297,907	347,865	331,754	369,871
Guidance, Counseling & Evaluation Services	78,556	72,838	95,0088	94,953	77,447
Health Services	53,000	52,554	49,772	37,711	31,857
Student (Pupil) Transportation	102,218	191,013	73,407	64,855	89,541
Extracurricular Activities	142,058	144,771	118,457	110,294	130,325
General Administration	606,928	446,274	459,887	388,486	399,316
Facilities Maintenance and Operations	1,056,045	524,847	546,176	580,105	479,166
Security and Monitoring Services	104,712	3,778	3,278	25,774	778
Data Processing Services	28,967	31.223	10,223	19,274	20,264
Debt Service:					
Principal on Long-Term Liabilities	61,564	37,729	36,414	35,149	55,573
Interest on Long-Term Liabilities	3,910	2,746	4,060	5,326	7,285
Capital Outlay:					
Facilities Acquisition and Construction	-	55,555	162,788	-	-
Intergovernmental:					
Payments to Fiscal Agent/Member Districts of SSA	116,814	10,885	133,323	138,577	189,686
Other Intergovernmental Charges	51,510	41,510	-	37,073	35,398
Total Expenditures	$ 5,061,289	$ 3,802,243	$ 4,097,887	$ 3,943,224	$ 3,684,890
Excess (Deficiency) of Revenues Over (Under) Expenditures	295,173	781,512	367,986	462,564	156,612
OTHER FINANCING SOURCES (USES):					
Non-Current Loans	-	70,000	-	-	-
Sale of Real and Personal Property	-	-	-	5,800	-
Transfers In	244,359	-	-	-	-
Transfers Out (Use)	-	-	(29,144)	(29,654)	(21,658)
Total Other Financing Sources (Uses)	244,359	70,000	(29,144)	(23,854)	(21,658)
Net Change in Fund Balances	539,532	851,512	338,842	438,710	134,954
Fund Balance - September 1 (Beginning)	2,456,281	1,604,769	1,265,927	827,217	692,263
Increase (Decrease) in Fund Balance	-	-	-	-	-
Fund Balance – August (Ending)	$ 2,995,813	$ 2,456,281	$ 1,604,769	$ 1,265,927	$ 827,217

Source: The District's audited financial statements.

TABLE 10 - GENERAL OPERATING FUND COMPARATIVE BALANCE SHEET[1]

For Fiscal Year Ended August 31st

	2023	2022	2021	2020	2019
ASSETS					
Cash and Cash Equivalents	$2,776,390	$2,575,475	$1,548,098	$1,293,623	$ 716,184
Property Taxes - Delinquent	93,716	61,598	60,486	63,855	71,553
Allowance for Uncollectible Taxes	(21,756)	(16,093)	(15,674)	(15,807)	(15,773)
Due from Other Governments	380,041	169,122	190,100	219,526	184,213
Due from Other Funds	7,198	16,789	12,533	24,357	99,858
Prepayments	13,202	-	-	-	-
Total Assets	$3,248,791	$2,806,891	$1,795,543	$1,585,554	$1,056,035
LIABILITIES					
Accounts Payable	$ 27,331	$ 23,368	$ 41,670	$ 34,429	$ 33,580
Payroll Deductions and Withholdings Payable	-	2,781	-	-	-
Accrued Wages Payable	136,523	94,414	75,285	150,954	110,030
Due to Other Funds	-	9,280	9,280	9,280	9,023
Due to Other Governments	1,474	-	-	55,627	-
Accrued Expenditures	15,690	25,262	19,727	21,289	20,405
Unearned Revenue	-	-	-	-	-
Total Liabilities	$ 181,018	$ 155,105	$ 145,962	$ 271,579	$ 173,038
DEFERRED INFLOWS OF RESOURCES					
Unavailable Revenue – Property Taxes	71,960	45,505	44,812	48,048	55,780
Deferred Inflow of Resources – Chapter 313 Fees	-	150,000	-	-	-
Total Deferred Inflows of Resources	71,960	195,505	44,812	48,048	55,780
FUND BALANCES					
Nonspendable Fund Balance:					
Prepaid Items	13,202	-	-	-	-
Committed Fund Balance:					
Construction	280,000	280,000	280,000	-	-
Unassigned Fund Balance	2,702,611	2,176,281	1,324,769	1,265,927	827,217
Total Fund Balances	$2,995,813	$2,456,281	$1,604,769	$1,265,927	$ 827,217
Total Liabilities, Deferred Inflows & Fund Balances	$3,248,791	$2,806,891	$1,795,543	$1,585,554	$1,056,035

[1] Source: The District's audited financial reports.

TABLE 11 - CURRENT INVESTMENTS

As of November 13, 2023, the District's investable funds amounted to $3,328,001. The following summary itemizes the District's investment portfolio by type of security:

	Percent	Book Value	Market Value
Local Investment	37.23%	$1,238,918	$1,238,918
Texpool[1]	59.45%	$1,978,623	$1,978,623
Certificate of Deposit	3.32%	$ 110,460	$ 110,460
Total	100.00%	$3,328,001	$3,328,001

[1] The investment pools in which the District invests were created for Texas government entities. Such investment pools operate as money-market equivalents.

No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to another instrument, index or commodity.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Covington Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2023.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

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COVINGTON INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL AND COMPLIANCE REPORT

FOR THE YEAR ENDED AUGUST 31, 2023

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COVINGTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2023

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CERTIFICATE OF BOARD

Covington Independent School District	Hill	109-903
Name of School District	County	Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and ___approved - ___disapproved for the year ended August 31, 2023, at a meeting of the board of school trustees of such school district on the _____ day of _____, 2024.

_____ _____

Signature of Board Secretary Signature of Board President

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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Cameron L. Gulley
CERTIFIED PUBLIC ACCOUNTANT

P. O. Box 163
Eastland, Texas 76448
(325)669-9795
cgulley@txol.net

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Covington Independent School District
501 N. Main Street
Covington, Texas 76636

Report on the Audit of the Financial Statements

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

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the 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 account principles generally accepted in the United States of America.

Basis for Opinions
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Financial Statements section of my report. I am required to be independent of the District and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements related to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Change in Accounting Principle
As described in Note I.E.3. to the financial statements, the District adopted new accounting pronouncement, GASB Statement No.96, *Subscription-Based Information Technology Arrangements* during the year. My opinion is not modified with respect to this matter.

Responsibility of Management for the Financial Statements
The 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements
My 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 my opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit with conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

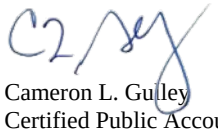
I am required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that I identify during the audit.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, 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. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information
My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining statements, the required TEA schedules and the schedule of expenditures of federal awards, as required by Title I U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining statements, the required TEA schedules and the schedule of expenditures of federal awards listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, I have also issued my report dated January 11, 2024, on my consideration of the District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.



Cameron L. Gulley
Certified Public Accountant
Eastland, Texas

January 11, 2024

COVINGTON INDEPENDENT SCHOOL DISTRICT

501 N. MAIN STREET
COVINGTON, TEXAS 76636
Phone: (254) 854-2215 • Fax: (254) 854-2272

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Covington Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2023. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 - 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 20) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

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

> Governmental activities - All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these services.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's fund type - governmental - use the following accounting approaches.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. . All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 18 and 19. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities increased from $3,127,803 to $3,834,266. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - increased from ($1,806,681) to ($1,166,659). Current and other assets decreased by $55 thousand due to reductions in cash partially offset by increases in state receivables. Capital assets increased by $371 thousand due to asset additions in excess of depreciation expense. Long-term liabilities increased by $599 thousand due to the effects of net pension (NPL) and other post-employment benefit (OPEB) liabilities offset by principal retired on outstanding debt. Other liabilities increased by $33 thousand due to increased accrued payroll liabilities. Deferred resource outflows related to NPL and OPEB liabilities increased by $576 thousand and deferred resource inflows related to NPL and OPEB decreased by $447 thousand.

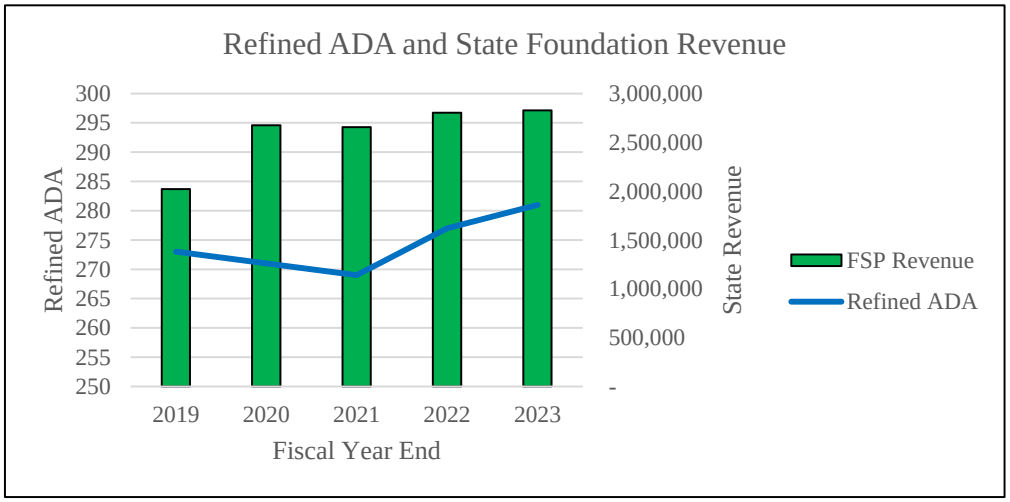
Total revenues increased by $417 thousand for the year. Operating grants and contributions decreased by $187 thousand due to federal grant funding. Charges for services increased $276 thousand due to shared service fees from other districts and extracurricular activity revenues. Property tax revenues increased $174 thousand due to valuation increases partially offset by tax rate reductions. State aid-formula grants increased by $82 thousand due state foundation revenues. Other revenues increased by $73 thousand due to investment income.

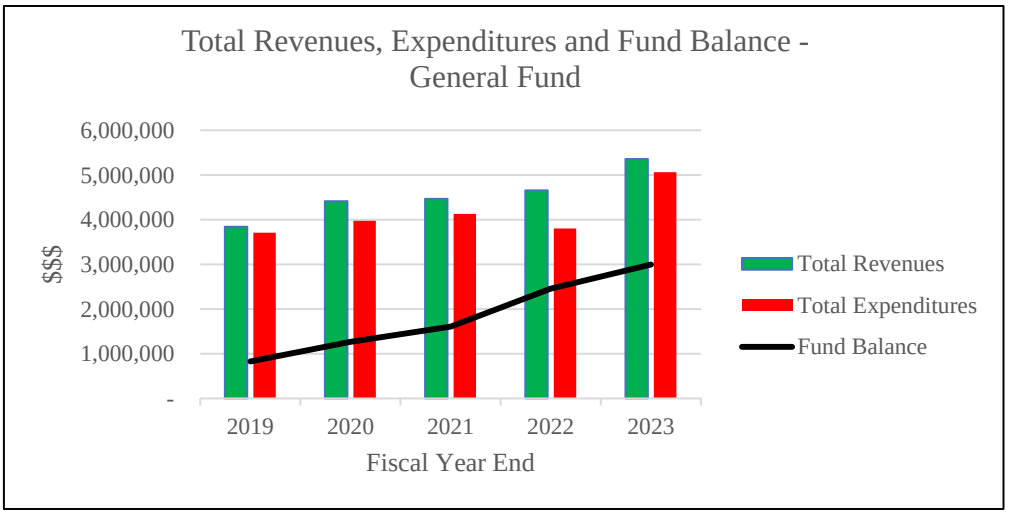
Total expenses increased by $775 thousand for the year. Excluding the effects of NPL and OPEB expense accruals, expenses increased $632 thousand for the year. Most of the variances by category were due to payroll-related costs. Total payroll increased for the year by $502 thousand; contract services increased by $92 thousand; supplies decreased by $38 thousand; other operating expenses increased by $48 thousand; depreciation expense increased by $30 thousand; and interest expense decreased by $2 thousand. Expense increases related to NPL and OPEB totaled $143 thousand.

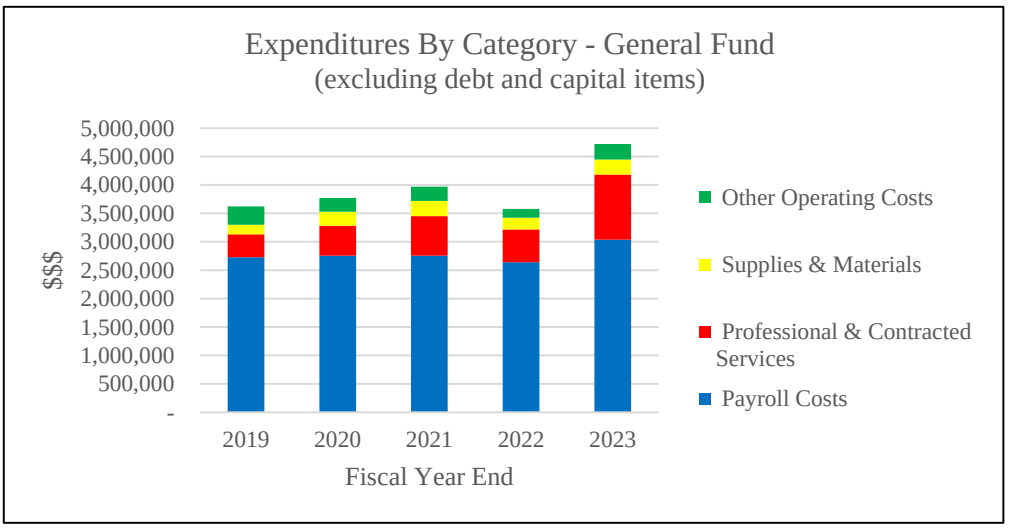
Table I Net Position			
	Governmental Activities 2023	Governmental Activities 2022	Variance Increase/ (Decrease)
Current and other assets	$ 3,877,081	$ 3,932,550	$ (55,469)
Capital assets	4,505,207	4,133,981	371,226
Deferred resource outflows for TRS	1,851,797	1,276,045	575,752
Total assets and deferred resource outflows	10,234,085	9,342,576	891,509
Long-term liabilities	3,806,860	3,207,491	599,369
Other liabilities	208,889	176,208	32,681
Deferred resource inflows for TRS	2,384,070	2,831,074	(447,004)
Total liabilities and deferred resource inflows	6,399,819	6,214,773	185,046
Net position:			
Net investment in capital assets	4,457,718	3,904,361	553,357
Restricted for debt service	0	244,217	(244,217)
Restricted for other purposes	543,207	785,906	(242,699)
Unrestricted	(1,166,659)	(1,806,681)	640,022
Total net position	$ 3,834,266	$ 3,127,803	$ 706,463

Table II Changes in Net Position			
	Governmental Activities 2023	Governmental Activities 2022	Variance Favorable/ (Unfavorable)
Revenues:			
Program Revenues:			
Charges for services	$ 3,174,681	$ 2,898,640	$ 276,041
Operating grants and contributions	1,889,395	2,076,956	(187,561)
General Revenues:			
Property taxes	1,420,498	1,246,054	174,444
State aid - formula grants	3,050,243	2,968,725	81,518
Other	80,748	8,038	72,710
Total Revenues	9,615,565	9,198,413	417,152
Expenses:			
Instruction, curriculum and media services	4,339,815	3,998,537	(341,278)
Instructional and school leadership	327,102	270,942	(56,160)
Student support services	1,144,815	1,089,910	(54,905)
Child nutrition	294,881	269,454	(25,427)
Extracurricular activities	253,392	212,974	(40,418)
General administration	1,124,943	917,402	(207,541)
Plant maintenance, security & data processing	852,176	826,433	(25,743)
Debt service	(4,823)	(2,396)	2,427
Payments to fiscal agent/member districts of SSA	525,651	509,734	(15,917)
Other intergovernmental charges	51,150	41,510	(9,640)
Total Expenses	8,909,102	8,134,500	(774,602)
Increase (Decrease) in Net Position	706,463	1,063,913	(357,450)
Net Position - beginning of year	3,127,803	2,063,890	1,063,913
Net Position - end of year	$ 3,834,266	$ 3,127,803	$ 706,463

The following charts depict trend information for the past five years.







THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of $3,596,756, an increase of $39,060 in the District's Governmental Funds from last year's fund balance of $3,557,696. The primary reasons for the net increase are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 and 75 whose impacts are only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District's budget several times during the year. Most budget amendments were to re-allocate existing budgetary balances across functions. A budget amendment for $150 thousand in general administration was for legal fees attributable to tax limitation agreement applications and another for $431 thousand was for facilities improvements.

The District's General Fund balance of $2,995,813 reported on pages 15 and 42 differs from the General Fund's budgetary fund balance of $2,188,860 reported in the budgetary comparison schedule on page 42 due to both revenues and expenditures being more favorable than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2023, the District had $8,616,237 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Additions for the year were as follows:

Building improvements - SSA roof	$	188,422
Security improvements		117,421
Gym improvements		102,247
Vehicles - used bus and new suburban		65,325
Administration office improvements		108,153
Cafeteria equipment		18,764
Other improvements		47,120
Total asset additions	$	647,452

Debt

The District had one long-term debt instrument outstanding at year-end in the form of notes payable. During the year, the District paid off one long-term debt instrument. Following is a summary of outstanding debt balances for the past two years:

	2023	2022
Bonds payable	$ 0	$ 111,000
Notes payable	47,489	109,053
Total outstanding debt	$ 47,489	$ 220,053

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District should continue to maintain its financial health. A budget adopted for 2023-24 reflected tax rates at $0.7575 for maintenance and operations. Property valuations continued to increase by approximately 18% from 2022-23. General fund revenues and expenditures were budgeted at approximately $5.0 million for break-even budget. Therefore, the District expects that its general fund balance will be approximately $3 million at August 31, 2024.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's business office at: Covington Independent School District, 501 N. Main Street, Covington, Texas 76636.

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BASIC FINANCIAL STATEMENTS

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EXHIBIT A-1

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

Data Control Codes		Primary Government: Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	$ 3,375,522
1220	Property Taxes - Delinquent	93,716
1230	Allowance for Uncollectible Taxes	(21,756)
1240	Due from Other Governments	416,397
1410	Prepayments	13,202
	Capital Assets:	
1510	Land	153,050
1520	Buildings, Net	3,820,461
1530	Furniture and Equipment, Net	425,823
1560	Library Books and Media, Net	14,613
1590	Infrastructure, Net	91,260
1000	Total Assets	8,382,288
DEFERRED OUTFLOWS OF RESOURCES		
1705	Deferred Outflow Related to TRS Pension	1,118,996
1706	Deferred Outflow Related to TRS OPEB	732,801
1700	Total Deferred Outflows of Resources	1,851,797
LIABILITIES		
2110	Accounts Payable	45,221
2140	Interest Payable	524
2160	Accrued Wages Payable	145,656
2180	Due to Other Governments	1,474
2200	Accrued Expenses	16,014
	Noncurrent Liabilities:	
2501	Due Within One Year: Loans, Note, Leases, etc.	23,324
	Due in More than One Year:	
2502	Bonds, Notes, Loans, Leases, etc.	24,165
2540	Net Pension Liability (District's Share)	2,442,414
2545	Net OPEB Liability (District's Share)	1,316,957
2000	Total Liabilities	4,015,749
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred Inflow Related to TRS Pension	222,941
2606	Deferred Inflow Related to TRS OPEB	2,161,129
2600	Total Deferred Inflows of Resources	2,384,070
NET POSITION		
3200	Net Investment in Capital Assets and Right-to-Use Lease Assets	4,457,718
	Restricted:	
3820	Restricted for Federal and State Programs	53,167
3890	Restricted for Other Purposes	490,040
3900	Unrestricted	(1,166,659)
3000	Total Net Position	$ 3,834,266

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

EXHIBIT B-1

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

Data Control Codes		1	Program Revenues 3	4	Net (Expense) Revenue and Changes in Net Position 6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:					
	GOVERNMENTAL ACTIVITIES:				
11	Instruction	$ 4,209,310	$ 1,529,361	$ 410,550	$ (2,269,399)
12	Instructional Resources and Media Services	81,101	-	747	(80,354)
13	Curriculum and Instructional Staff Development	49,404	-	29,263	(20,141)
21	Instructional Leadership	285	-	-	(285)
23	School Leadership	326,817	-	3,320	(323,497)
31	Guidance, Counseling, and Evaluation Services	973,490	52,737	879,827	(40,926)
33	Health Services	49,396	-	569	(48,827)
34	Student (Pupil) Transportation	121,929	-	348	(121,581)
35	Food Services	294,881	72,651	238,305	16,075
36	Extracurricular Activities	253,392	65,722	609	(187,061)
41	General Administration	1,124,943	900,196	6,913	(217,834)
51	Facilities Maintenance and Operations	724,060	290,331	178,443	(255,286)
52	Security and Monitoring Services	99,149	-	19,576	(79,573)
53	Data Processing Services	28,967	-	-	(28,967)
72	Debt Service - Interest on Long-Term Debt	(4,823)	-	-	4,823
93	Payments Related to Shared Services Arrangements	525,651	263,683	120,925	(141,043)
99	Other Intergovernmental Charges	51,150	-	-	(51,150)
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 8,909,102	$ 3,174,681	$ 1,889,395	(3,845,026)

Data Control Codes		
	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	1,315,406
DT	Property Taxes, Levied for Debt Service	105,092
SF	State Aid - Formula Grants	3,050,243
IE	Investment Earnings	78,693
MI	Miscellaneous Local and Intermediate Revenue	2,055
TR	Total General Revenues	4,551,489
CN	Change in Net Position	706,463
NB	Net Position - Beginning	3,127,803
NE	Net Position - Ending	$ 3,834,266

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

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

Data Control Codes		10 General Fund	SSA IDEA, Part B Formula	SSA Special Education
	ASSETS			
1110	Cash and Cash Equivalents	$ 2,776,390	$ -	$ 482,779
1220	Property Taxes - Delinquent	93,716	-	-
1230	Allowance for Uncollectible Taxes	(21,756)	-	-
1240	Due from Other Governments	380,041	23,124	7,101
1260	Due from Other Funds	7,198	-	23,124
1410	Prepayments	13,202	-	-
1000	Total Assets	$ 3,248,791	$ 23,124	$ 513,004
	LIABILITIES			
2110	Accounts Payable	$ 27,331	$ -	$ 15,766
2160	Accrued Wages Payable	136,523	-	-
2170	Due to Other Funds	-	23,124	7,198
2180	Due to Other Governments	1,474	-	-
2200	Accrued Expenditures	15,690	-	-
2000	Total Liabilities	181,018	23,124	22,964
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	71,960	-	-
2600	Total Deferred Inflows of Resources	71,960	-	-
	FUND BALANCES			
	Nonspendable Fund Balance:			
3430	Prepaid Items	13,202	-	-
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	-	-	-
3490	Other Restricted Fund Balance	-	-	490,040
	Committed Fund Balance:			
3510	Construction	280,000	-	-
3600	Unassigned Fund Balance	2,702,611	-	-
3000	Total Fund Balances	2,995,813	-	490,040
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 3,248,791	$ 23,124	$ 513,004

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

Other Funds	Total Governmental Funds
$ 116,353	$ 3,375,522
-	93,716
-	(21,756)
6,131	416,397
-	30,322
-	13,202
$ 122,484	$ 3,907,403
$ 2,124	$ 45,221
9,133	145,656
-	30,322
-	1,474
324	16,014
11,581	238,687
-	71,960
-	71,960
-	13,202
53,167	53,167
-	490,040
-	280,000
57,736	2,760,347
110,903	3,596,756
$ 122,484	$ 3,907,403

	Total Fund Balances - Governmental Funds	$	3,596,756
1	Capital assets and right-to-use leased assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was $7,968,785 and the accumulated depreciation was ($3,834,804). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		3,913,928
2	Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase net position. Similarly, the principal payments on right-to-use leased assets and subscription-based information technology arrangement assets (SBITA) are not expenses, rather they are decreases in the right-to-use lease liabilities and the SBITA liabilities. These payments must be reclassified and shown as reductions to these liabilities increasing net position.		820,016
3	Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of $1,118,996, a deferred resource inflow in the amount of $222,941, and a net pension liability in the amount of $2,442,414. This resulted in a decrease in net position.		(1,546,359)
4	Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of $732,801, a deferred resource inflow in the amount of $2,161,129, and a net OPEB liability in the amount of $1,316,957. This resulted in a decrease in net position.		(2,745,285)
5	The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(276,226)
6	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		71,436
19	**Net Position of Governmental Activities**	$	3,834,266

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

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

Data Control Codes		10 General Fund	SSA IDEA, Part B Formula	SSA Special Education
	REVENUES:			
5700	Total Local and Intermediate Sources	$ 2,092,837	$ -	$ 2,637,305
5800	State Program Revenues	3,257,888	-	115,975
5900	Federal Program Revenues	5,737	1,115,705	-
5020	Total Revenues	5,356,462	1,115,705	2,753,280
	EXPENDITURES:			
	Current:			
0011	Instruction	2,210,925	207,299	1,761,441
0012	Instructional Resources and Media Services	85,484	-	-
0013	Curriculum and Instructional Staff Development	9,649	29,263	10,492
0021	Instructional Leadership	-	-	285
0023	School Leadership	349,309	-	-
0031	Guidance, Counseling, and Evaluation Services	78,556	879,143	48,909
0033	Health Services	53,000	-	-
0034	Student (Pupil) Transportation	102,218	-	-
0035	Food Services	-	-	-
0036	Extracurricular Activities	142,058	-	-
0041	General Administration	606,928	-	562,937
0051	Facilities Maintenance and Operations	1,056,045	-	335,681
0052	Security and Monitoring Services	104,712	-	-
0053	Data Processing Services	28,967	-	-
	Debt Service:			
0071	Principal on Long-Term Liabilities	61,564	-	-
0072	Interest on Long-Term Liabilities	3,910	-	-
	Intergovernmental:			
0093	Payments to Fiscal Agent/Member Districts of SSA	116,814	-	287,912
0099	Other Intergovernmental Charges	51,150	-	-
6030	Total Expenditures	5,061,289	1,115,705	3,007,657
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	295,173	-	(254,377)
	OTHER FINANCING SOURCES (USES):			
7915	Transfers In	244,359	-	-
8911	Transfers Out (Use)	-	-	-
7080	Total Other Financing Sources (Uses)	244,359	-	-
1200	Net Change in Fund Balances	539,532	-	(254,377)
0100	Fund Balance - September 1 (Beginning)	2,456,281	-	744,417
3000	Fund Balance - August 31 (Ending)	$ 2,995,813	$ -	$ 490,040

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

Other Funds	Total Governmental Funds
$ 238,501	$ 4,968,643
222,055	3,595,918
488,600	1,610,042
949,156	10,174,603
139,557	4,319,222
-	85,484
-	49,404
-	285
-	349,309
-	1,006,608
-	53,000
-	102,218
306,864	306,864
74,077	216,135
-	1,169,865
176,339	1,568,065
19,566	124,278
-	28,967
111,000	172,564
2,564	6,474
120,925	525,651
-	51,150
950,892	10,135,543
(1,736)	39,060
-	244,359
(244,359)	(244,359)
(244,359)	-
(246,095)	39,060
356,998	3,557,696
$ 110,903	$ 3,596,756

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

Total Net Change in Fund Balances - Governmental Funds	$	39,060
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to increase the change net position. Similarly, current year principal payments on right-to-use leased assets and subscription-based information technology arrangements (SIBTA) are also reclassified as reductions to the right-to-use lease liability and the SBITA liability which will result in an increase in the change in net position.		820,016
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.		(276,226)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.		32,357
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by $219,308. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in the change in net position totaling $191,974. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by $121,880. The net result was a decrease in the change in net position.		(94,546)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by $48,866. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in the change in net position totaling $45,175. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by $182,111. The net result was an increase in the change in net position.		185,802
Change in Net Position of Governmental Activities	$	706,463

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

EXHIBIT E-1

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

	Custodial Fund
ASSETS	
Cash and Cash Equivalents	$ 51,562
Total Assets	51,562
NET POSITION	
Restricted for Other Purposes	51,562
Total Net Position	$ 51,562

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

EXHIBIT E-2

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

	Custodial Fund
ADDITIONS:	
Miscellaneous Revenue - Student	$ 63,079
Total Additions	63,079
DEDUCTIONS:	
Supplies and Materials	68,365
Total Deductions	68,365
Change in Fiduciary Net Position	(5,286)
Total Net Position - September 1 (Beginning)	56,848
Total Net Position - August 31 (Ending)	$ 51,562

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Covington Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency's ***Financial Accountability System Resource Guide*** (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

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

The District applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund.** The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

2. **SSA IDEA, Part B Formula Special Revenue Fund.** The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

3. **SSA Special Education Special Revenue Fund.** The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

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

Governmental Funds:

4. **Special Revenue Funds.** The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

5. **Debt Service Fund**. The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

6. **Custodial Funds.** The District accounts for resources held for others in a custodial capacity in custodial funds. The District's Custodial Fund is the "Covington Student Activity Fund."

E. OTHER ACCOUNTING POLICIES

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

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

3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Right-to-use leases are reported in the government-wide statements with the lease liability calculated as the present value of reasonably certain expected future payments over the term of the lease. The District implemented GASB 96 for reporting subscription-based information technology arrangements (SBITAs) during this reporting period. A SBITA is defined as a contract that conveys control over another entity’s IT software as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a SBITA, it must meet the definition of a “long-term” SBITA provided in GASB 96. The right-to-use SBITA liability is reported in the government-wide statements. The SBITA liability is calculated as the present value of the reasonably certain expected payments made over the term of the contract and the interest included in the SBITA payments is recorded as an expense. There were no SBITAs material to the financial statements that were recorded during the year audited.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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

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

   Buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

Asset:	Years
Buildings	20-40
Building Improvements	20-40
Infrastructure	20-40
Vehicles	5-10
Equipment	3-15
Library Books	20

   Right-to-use leased assets and SBITA assets are depreciated/amortized using the straight line method over the term of the respective agreements.

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.

7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.

9. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Items reported as deferred outflows of resources are as follows:

Deferred charges related to TRS retirement	$ 1,118,996
Deferred charges related to TRS OPEB	$ 732,801

10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Items reported as deferred inflows of resources are as follows:

Deferred charges related to TRS retirement	$ 222,941
Deferred charges related to TRS OPEB	$ 2,161,129

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

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

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. (However, none of these were significant.)

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

During the year, the District had the following functional categories that exceeded its final amended budget by more than $2,500 for the General fund:

Functional Category	Amount Over Budget	Explanation
0052 - Security and monitoring services	$ 10,180	Accruals for ending accounts payable not accounted for in final budget amendments.
0099 - Other intergovernmental charges	$ 6,150	Appraisal fee assessments more than budgeted due to higher appraised values.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2023, the following are the District's cash and cash equivalents (including it's student fund) with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity < 1 Yr	Maturity 1-10 Yrs	Maturity > 10 Yrs	Credit Rating
Cash						
Money market and FDIC insured accounts	$ 1,466,003	43%	$ 1,466,003			N/A
Investment pools	1,961,081	57%	1,961,081			AAA
Total Cash and Cash Equivalents	$ 3,427,084	100%	$ 3,427,084			

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

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

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

Credit Risk. To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in commercial paper, corporate bonds and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2023, all of the District's investments were rated AAA by Standard & Poor's rating agency. Therefore, the District was not exposed to credit risk.

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

Concentration of Credit Risk. To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

Interest Rate Risk. To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance. The District was not exposed to interest rate risk.

Foreign Currency Risk for Investments. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in any foreign currency. Therefore, the District was not exposed to foreign currency risk.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. the hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

At August 31, 2023, the District had no investments other than public funds investment pools.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy Allowances for uncollectible tax receivables within the General Fund is based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of August 31, 2023 is as follows:

Fund	Receivable	Payable	Purpose	Current?
General fund	$ 7,198		Temporary advances	Yes
SSA IDEA, part B formula fund		23,124	Temporary advances	Yes
SSA special education fund	23,124	7,198	Temporary advances	Yes
Total	$ 30,322	$ 30,322		

Interfund transfers for the year ended August 31, 2023 consisted of the following individual amounts:

Fund	Transfers In	Transfers Out	Purpose
General fund	$ 244,359		Residual equity transfer
Debt service fund		244,359	Residual equity transfer
Total	$ 244,359	$ 244,359	

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2023 were as follows:

	Property Taxes (net)	Other Government	Total Receivables
Governmental Activities:			
General fund	$ 71,960	$ 380,041	$ 452,001
SSA IDEA, part B formula fund		23,124	23,124
SSA special education fund		7,101	7,101
Nonmajor governmental funds		6,131	6,131
Total Governmental Activities	$ 71,960	$ 416,397	$ 488,357

Payables at August 31, 2023 were as follows:

	Accounts	Salaries and Benefits	Other Governments	Total Payables
Governmental Activities:				
General fund	$ 27,331	$ 152,213	$ 1,474	$ 181,018
SSA special education fund	15,766			15,766
Nonmajor governmental funds	2,124	9,457		11,581
Total Governmental Activities	$ 45,221	$ 161,670	$ 1,474	$ 208,365

F. CAPITAL ASSET ACTIVITY

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

	Balance 8/31/2022	Additions	Disposals	Balance 8/31/2023
Governmental activities:				
Land and improvements	$ 153,050			$ 153,050
Buildings and improvements	6,480,571	501,078		6,981,649
Vehicles and equipment	1,200,795	84,089		1,284,884
Library books	38,383			38,383
Infrastructure	95,986	62,285		158,271
Totals	7,968,785	647,452		8,616,237
Less accumulated depreciation for:				
Buildings and improvements	2,978,560	182,628		3,161,188
Vehicles and equipment	771,506	87,555		859,061
Library books	21,850	1,920		23,770
Infrastructure	62,888	4,123		67,011
Total accumulated depreciation	3,834,804	276,226		4,111,030
Governmental activities capital assets, net	$ 4,133,981	$ 371,226		$ 4,505,207

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
11 - Instruction	$ 164,282
12 - Instructional resources and media services	658
34 - Student (pupil) transportation	28,609
35 - Food services	5,818
36 - Extracurricular activities	41,379
41 - General administration	2,704
51 - Facilities maintenance and operations	20,538
52 - Security and monitoring services	12,238
Total depreciation expense - governmental activities	$ 276,226

G. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the General and Debt Service Funds.

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

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/2022	Issued	Retired	Amounts Outstanding 8/31/2023
Bonds and Notes Payable:						
Unlimited tax refunding bonds, series 2014	2.31%-4.63%	$ 955,000	$ 111,000		$ 111,000	$ 0
Public property finance contract #7894	3.59%	$ 182,170	39,053		39,053	0
Public property finance contract #9933	3.61%	$ 70,000	70,000		22,511	47,489
Subtotal - bonds and notes payable			220,053		172,564	47,489
Premium - bond, series 2014	N/A	N/A	9,567		9,567	0
Total Long-Term Debt			$ 229,620		$ 182,131	$ 47,489

Covington ISD Public Property Finance Contract #9933 -
On May 10, 2012, the District executed a public property finance contract for the purpose of financing buses pursuant to the authority conferred by and in conformity with the laws of the State of Texas, Public Property Finance Act, Chapter 271, Subchapter A, Texas Local Government Code, as amended. The original issue was for $70,000 maturing in various amounts, with a stated interest rate of 3.61% and payable in annual installments of $25,038 beginning May 10, 2013 and maturing on May 10, 2025.

H. DEBT SERVICE REQUIREMENTS - BONDS AND LONG-TERM NOTES PAYABLE

Future debt service requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2024	$ 23,324	$ 1,714	$ 25,038
2025	24,165	873	25,038
Totals	$ 47,489	$ 2,587	$ 50,076

I. DEFINED BENEFIT PENSION PLAN

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued 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/about/documents/acfr.pdf#ACFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

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 grand fathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Contributions. Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The 86th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2022 and 2023.

Contribution Rates		
	2022	2023
Member	8.00%	8.00%
Non-Employer Contributing Entity (State)	7.75%	8.00%
Employers	7.75%	8.00%

Current fiscal year District contributions	$	219,308
Current fiscal year Member contributions	$	409,325
Measurement year NECE contributions	$	225,762

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate in the following instances:

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

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

- All public schools, charter schools and regional education service centers must contribute 1.7% of the member's salary beginning in fiscal year 2022, gradually increasing to 2% in fiscal year 2025. The surcharge amount is 1.8% for fiscal year 2023
- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2021. For a full description of these assumptions, please see the TRS actuarial valuation report dated November 22, 2022 and located at https://www.trs.texas.gov.

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
Actuarial Assumptions:	
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal bond rate as of August 2021	3.91% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Inflation	2.30%
Salary Increases	2.95% to 8.95% including inflation
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

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

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

Asset Class[1]	Target Allocation[2] %	Long-Term Expected Geometric Real Rate of Return[3]	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18%	3.6%	1.12%
Non-U.S. Developed	13%	4.4%	0.90%
Emerging Markets	9%	4.6%	0.75%
Private Equity	14%	6.3%	1.55%
Stable Value			
Government Bonds	16%	-0.2%	0.22%
Absolute Return (Including Credit Sensitive Investments)	0%	1.1%	0.00%
Stable Value Hedge Funds	5%	2.2%	0.18%
Real Return			
Real Estate	15%	4.5%	0.94%
Energy, Natural Resources and Infrastructure	6%	4.7%	0.37%
Commodities	0%	1.7%	0.00%
Risk Parity			
Risk Parity	8%	2.8%	0.43%
Asset Allocation Leverage			
Cash	2%	-0.7%	0.01%
Asset Allocation Leverage	-6%	-0.5%	-.05%
Inflation Expectation			2.70%
Volatility Drag[4]			-0.91%
Expected Return	100%		8.19%

[1] Absolute Return includes Credit Sensitive Investments.

[2] Target allocations are based on the FY2022 policy model.

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

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

Discount Rate Sensitivity Analysis. The following 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 2022 Net Pension Liability.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
District's proportionate share of the net pension liability	$ 3,799,470	$ 2,442,414	$ 1,342,456

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 $2,442,414 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:.

District's proportionate share of the collective net pension liability	$	2,442,414
State's proportionate share that is associated with the District		2,872,278
Total	$	5,314,692

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 District's proportion of the net pension liability was based on the District'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 District's proportion of the collective net pension liability was 0.0041140636% which was an increase of 0.0002610645% from its proportion measured as of August 31, 2021.

Changes Since the Prior Actuarial Valuation. Changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period are as follows:

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

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

For the year ended August 31, 2023, the District recognized pension expense $588,411 and revenue of $274,557 for support provided by the Sate in the Government-Wide Statement of Activities.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Difference between expected and actual economic experiences	$	35,415	$	53,249
Changes in actuarial assumptions		455,101		113,424
Differences between projected and actual investment earnings		241,303		
Changes in proportion and differences between the District's contributions and the proportionate share of contributions		167,869		56,268
Total as of August 31, 2022 measurement date	$	899,688	$	222,941
Contributions paid to TRS subsequent to the measurement date		219,308		
Total as of August 31, 2023 fiscal year end	$	1,118,996	$	222,941

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

Fiscal year ended August 31,		Amount
2024	$	179,669
2025	$	101,375
2026	$	49,868
2027	$	296,748
2028	$	49,086
Thereafter	$	1

J. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined benefit Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

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

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

Net OPEB Liability:	Total
Total OPEB liability	$ 27,061,942,520
Less: plan fiduciary net position	(3,117,937,218)
Net OPEB liability	$ 23,944,005,302
Net position as a percentage of total OPEB liability	11.52%

Benefits Provided. TRS-Care provides a basic health insurance coverage at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may pay premiums to participate in the high-deductible health plans. Eligible Medicare retirees and dependents may pay premiums to participate in the Medicare Advantage health plans. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system.

The following premium rates for retirees with Medicare Part A and Part B are reflected in the following table.

TRS-Care Plan Premium Rates		
	Medicare	Non-Medicare
Retiree or surviving spouse	$ 135	$ 200
Retiree and spouse	529	689
Retiree or surviving spouse and children	468	408
Retiree and family	1,020	999

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2022	2023
Active employee	0.65%	0.65%
Non-employer contributing entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

Current fiscal year District contributions	$	48,866
Current fiscal year member contributions	$	33,258
Measurement year NECE contributions	$	55,106

All employers whose employees are covered by the TRS pension plan are also required to pay a surcharge of $535 per month when employee a retiree of the TRS.

TRS-Care received a supplemental appropriation from the State of Texas as the non-employer contributing entity in the amount of $83 million in fiscal year 2022 from the Federal Rescue Plan Act (ARPA) to help defray COVID-19-related health care costs.

Actuarial Assumptions. The actuarial valuation of TRS-Care was performed as of August 31, 2021. Update procedures were used to roll forward the total OPEB liability to August 31, 2022.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those used in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017.

The following assumptions used for members of TRS are identical to the assumptions employed in the August 31, 2022 TRS annual pension actuarial valuation:

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

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

The initial medical trend rates were 8.50% for Medicare retirees and 7.25% for non-Medicare retirees. There was an initial prescription drug trend rate of 8.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2021 rolled forward to August 31, 2022
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	3.91% as of August 31, 2022
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	3.05% to 9.05%, including inflation
Ad hoc post-employment benefit changes	None

Discount Rate. A single discount rate of 3.91% was used to measure the total OPEB liability. There was a change of 1.96% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate was 20-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Sensitivity of the Net OPEB Liability:

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.

	1% Decrease in Discount Rate (2.91%)	Current Single Discount Rate (3.91%)	1% Increase in Discount Rate (4.91%)
District's proportionate share of net OPEB liability	$ 1,552,797	$ 1,316,957	$ 1,125,896

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of net OPEB liability	$ 1,085,178	$ 1,316,957	$ 1,617,428

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 $1,316,957 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	$ 1,316,957
State's proportionate share that is associated with the District	1,606,480
Total	$ 2,923,437

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

At August 31, 2022 the District's proportion of the collective net OPEB liability was 0.0055001527% which was an increase of 0.0003240651% 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 measurement of the total OPEB liability since the prior measurement period:

1. The discount rate changed from 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. This change decreased the total OPEB liability (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 ($364,909) and revenue of ($227,973) for support provided by the State.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experience	$ 73,218	$ 1,097,143
Changes in actuarial assumptions	200,599	914,943
Differences between projected and actual investment earnings	3,923	
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	406,195	149,043
Total as of August 31, 2022 measurement date	$ 683,935	$ 2,161,129
Contributions paid to TRS subsequent to the measurement date	48,866	
Total as of August 31, 2023 fiscal year end	$ 732,801	$ 2,161,129

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

Fiscal year ended August 31,	Amount
2024	$ (286,965)
2025	$ (286,951)
2026	$ (231,102)
2027	$ (155,494)
2028	$ (183,966)
Thereafter	$ (332,716)

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Texas Insurance Code Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.25% for 2021 thru 2023. The contribution rate for the district was 0.75% for 2021 thru 2023. The contribution rate for active employees was 0.65% of the district payroll for 2021 thru 2023. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.25% for 2021 thru 2023.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf to the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2023, 2022 and 2021 are as follows:

Contribution Rates and Contribution Amounts						
	Member		State		School District	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2023	0.65%	$ 33,258	1.25%	$ 63,957	0.75%	$ 38,374
2022	0.65%	$ 30,188	1.25%	$ 58,054	0.75%	$ 34,832
2021	0.65%	$ 28,772	1.25%	$ 55,332	0.75%	$ 33,901

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments recognized as equal revenues and expenditures by the District for the years ended August 31, 2023, 2022 and 2021 were $28,001, $19,189 and $19,816, respectively.

Active Employee Health Care Coverage

Plan Description. The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

L. CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Bonds payable	$ 111,000		$ 111,000	$ 0	$ 0
Bond premium	9,567		9,567	0	0
Notes payable	109,053		61,564	47,489	23,324
Net pension liability	981,223	1,653,165	191,974	2,442,414	0
Net OPEB liability	1,996,648		679,691	1,316,957	0
Total	$ 3,207,491	$ 1,653,165	$ 1,053,796	$ 3,806,860	$ 23,324

M. UNAVAILABLE/UNEARNED REVENUE

Unavailable and unearned revenue at year-end consisted of the following:

	Unavailable Revenue (levied but uncollected property taxes)
General fund	$ 71,960

N. DUE FROM STATE AND FEDERAL AGENCIES

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

	State Grants	Federal Grants	Total
General fund	$ 365,688		$ 365,688
SSA IDEA, part B formula fund		23,124	23,124
Nonmajor governmental funds		6,131	6,131
Total	$ 365,688	$ 29,255	$ 394,943

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

Description	General Fund	SSA Special Revenue Fund	Other Governmental Funds	Total
Property taxes	$ 1,264,799		$ 108,206	$ 1,373,005
Penalties, interest and other tax-related income	24,152		2,281	26,433
Food sales	0		72,651	72,651
Investment income	77,979	476	237	78,692
Extracurricular student activities	12,222		55,126	67,348
Shared service arrangement administration fee	248,987			248,987
Shared service arrangement fees	0	2,636,829		2,636,829
Chapter 313 tax limitation application fees	150,000			150,000
Insurance recovery	313,776			313,776
Other	922			922
Total	$ 2,092,837	$ 2,637,305	$ 238,501	$ 4,968,643

P. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND 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 collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

Q. JOINT VENTURE SHARED SERVICE ARRANGEMENTS

Shared Service Arrangement - Fiscal Agent

The District is the fiscal agent for Hill County Special Education Cooperative, a shared service arrangement ("SSA") which provides services to member districts listed below. All services are provided by the District. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and is accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Member Districts	Fund 313	Fund 314	Fund 437
Abbott ISD	$ 64,195	$ 2,537	$ 173,055
Aquilla ISD	76,147	3,009	205,273
Bynum ISD	75,025	2,965	202,247
Covington ISD	79,174	3,129	213,433
Gholson ISD	53,508	2,115	144,244
Hubbard ISD	87,663	3,465	236,318
Itasca ISD	161,158	6,369	434,441
Malone ISD	36,057	1,425	97,202
Mt. Calm ISD	44,999	1,778	121,305
Penelope ISD	63,642	2,515	171,563
Whitney ISD	374,137	14,788	1,008,576
Total	$ 1,115,705	$ 44,095	$ 3,007,657

Shared Service Arrangement - Member District

The District also participates in various shared service arrangements with the Education Service Center Region 12. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 12 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

R. 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 the fiscal year 2023, the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the "Fund") with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability and property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2023, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

Workers' Compensation

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

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of $2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2022, The Fund caries a discounted reserve of $50,647,775 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2023, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

Unemployment Compensation

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

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2023, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

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

S. GENERAL FUND FEDERAL SOURCE REVENUES

Revenues from federal sources, which are reported in the General Fund, consist of:

Program or Service	Assistance Listing #	Amount
School health and related services	N/A	$ 5,737

T. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 11, 2024; the date which the financial statements were available for distribution.

On November 8, 2023, taxpayers of the District approved a $9.97 million bond election to finance construction of new school facilities including: school building additions and improvements, playground and fieldhouse.

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REQUIRED SUPPLEMENTARY INFORMATION

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EXHIBIT G-1

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 1,593,489	$ 1,907,265	$ 2,092,837	$ 185,572
5800	State Program Revenues	2,990,489	2,990,489	3,257,888	267,399
5900	Federal Program Revenues	22,000	22,000	5,737	(16,263)
5020	Total Revenues	4,605,978	4,919,754	5,356,462	436,708
	EXPENDITURES:				
	Current:				
0011	Instruction	2,233,504	2,233,504	2,210,925	22,579
0012	Instructional Resources and Media Services	88,780	88,780	85,484	3,296
0013	Curriculum and Instructional Staff Development	15,000	15,000	9,649	5,351
0023	School Leadership	326,289	351,289	349,309	1,980
0031	Guidance, Counseling, and Evaluation Services	82,075	82,075	78,556	3,519
0033	Health Services	57,835	57,835	53,000	4,835
0034	Student (Pupil) Transportation	119,968	109,168	102,218	6,950
0036	Extracurricular Activities	155,517	155,517	142,058	13,459
0041	General Administration	495,515	645,515	606,928	38,587
0051	Facilities Maintenance and Operations	631,669	1,082,866	1,056,045	26,821
0052	Security and Monitoring Services	104,532	94,532	104,712	(10,180)
0053	Data Processing Services	56,207	31,207	28,967	2,240
	Debt Service:				
0071	Principal on Long-Term Liabilities	61,583	61,583	61,564	19
0072	Interest on Long-Term Liabilities	3,930	3,930	3,910	20
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	128,574	128,574	116,814	11,760
0099	Other Intergovernmental Charges	45,000	45,000	51,150	(6,150)
6030	Total Expenditures	4,605,978	5,186,375	5,061,289	125,086
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(266,621)	295,173	561,794
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	-	244,359	244,359
8911	Transfers Out (Use)	-	(800)	-	800
7080	Total Other Financing Sources (Uses)	-	(800)	244,359	245,159
1200	Net Change in Fund Balances	-	(267,421)	539,532	806,953
0100	Fund Balance - September 1 (Beginning)	2,456,281	2,456,281	2,456,281	-
3000	Fund Balance - August 31 (Ending)	$ 2,456,281	$ 2,188,860	$ 2,995,813	$ 806,953

EXHIBIT G-2

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

	Measurement Year Ended August 31,								
	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0041140636%	0.0038529991%	0.0039454416%	0.0036573312%	0.0038482854%	0.0037944217%	0.0036986980%	0.0039627000%	0.0009389000%
District's Proportionate Share of Net Pension Liability (Asset)	$ 2,442,414	$ 981,223	$ 2,113,098	$ 1,901,195	$ 2,118,190	$ 1,213,252	$ 1,397,683	$ 1,400,762	$ 250,793
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,872,278	1,339,971	2,608,657	2,352,100	2,607,945	1,583,139	1,759,029	1,589,038	1,074,351
Total	$ 5,314,692	$ 2,321,194	$ 4,721,755	$ 4,253,295	$ 4,726,135	$ 2,796,391	$ 3,156,712	$ 2,989,800	$ 1,325,144
District's Covered Payroll	$ 4,644,324	$ 4,426,566	$ 4,176,777	$ 3,594,423	$ 3,618,940	$ 3,532,092	$ 3,235,721	$ 2,971,679	$ 1,704,905
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Payroll	52.59%	22.17%	50.59%	52.89%	58.53%	34.35%	43.20%	47.14%	14.71%
Plan Fiduciary Net Position as a % of Total Pension Liability	75.62%	88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

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

EXHIBIT G-3

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

	Fiscal Year Ended August 31,								
	2023	2022	2021	2020	2019	2018	2017	2016	2015
Contractually Required Contribution	$ 219,308	$ 191,974	$ 164,425	$ 162,570	$ 127,897	$ 130,083	$ 124,179	$ 117,517	$ 117,291
Contribution in Relation to Contractually Required Contribution	(219,308)	(191,974)	(164,425)	(162,570)	(127,897)	(130,083)	(124,179)	(117,517)	(117,291)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
District's Covered Payroll	$ 5,116,564	$ 4,644,324	$ 4,426,566	$ 4,176,777	$ 3,594,423	$ 3,618,940	$ 3,532,092	$ 3,235,721	$ 2,971,679
Contributions as a % of Covered Payroll	4.29%	4.13%	3.71%	3.89%	3.56%	3.59%	3.52%	3.63%	3.95%

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

EXHIBIT G-4

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

	Measurement Year Ended August 31,					
	2022	2021	2020	2019	2018	2017
District's Proportion of the Net OPEB Liability (Asset)	0.0055001527%	0.0051760876%	0.0053105644%	0.0048034220%	0.0050466976%	0.0049703682%
District's Proportionate Share of the Net OPEB Liability (Asset)	$ 1,316,957	$ 1,996,648	$ 2,018,785	$ 2,271,598	$ 2,519,862	$ 2,161,427
State's Proportionate Share of the Net OPEB Liability (Asset) associated with the District	1,606,480	2,675,064	2,712,764	3,018,444	2,711,967	2,404,615
Total	$ 2,923,437	$ 4,671,712	$ 4,731,549	$ 5,290,042	$ 5,231,829	$ 4,566,042
District's Covered Payroll	$ 4,644,324	$ 4,426,566	$ 4,176,777	$ 3,594,423	$ 3,618,940	$ 3,532,092
District's Proportionate Share of the Net OPEB Liability (Asset) as a percentage of its Covered Payroll	28.36%	45.11%	48.33%	63.20%	69.63%	61.19%
Plan Fiduciary Net Position as a % of Total OPEB Liability	11.52%	6.18%	4.99%	2.66%	1.57%	0.91%

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

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

	Fiscal Year Ended August 31,					
	2023	2022	2021	2020	2019	2018
Contractually Required Contribution	$ 48,866	$ 45,175	$ 41,139	$ 40,322	$ 34,092	$ 34,878
Contribution in Relation to Contractually Required Contribution	(48,866)	(45,175)	(41,139)	(40,322)	(34,092)	(34,878)
Contribution Deficiency (Excess)	$ -	$ -	$ -	$ -	$ -	$ -
District's Covered Payroll	$ 5,116,564	$ 4,644,324	$ 4,426,566	$ 4,176,777	$ 3,594,423	$ 3,618,940
Contributions as a % of Covered Payroll	0.96%	0.97%	0.93%	0.97%	0.95%	0.96%

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

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.

c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level.

Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

Changes of benefit terms.

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

Changes of assumptions.

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

Other Post-Employment Benefit Plan

Changes of benefit terms.

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

Changes of assumptions.

See Footnote J page 35 for changes in assumptions that affected measurement of the total OPEB liability during the measurement period.

COMBINING SCHEDULES

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

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
	ASSETS			
1110	Cash and Cash Equivalents	$ 2,122	$ 55,062	$ 1,110
1240	Due from Other Governments	-	6,131	-
1000	Total Assets	$ 2,122	$ 61,193	$ 1,110
	LIABILITIES			
2110	Accounts Payable	$ -	$ 2,124	$ -
2160	Accrued Wages Payable	2,068	5,782	994
2200	Accrued Expenditures	54	120	116
2000	Total Liabilities	2,122	8,026	1,110
	FUND BALANCES			
	Restricted Fund Balance:			
3450	Federal or State Funds Grant Restriction	-	53,167	-
3600	Unassigned Fund Balance	-	-	-
3000	Total Fund Balances	-	53,167	-
4000	Total Liabilities and Fund Balances	$ 2,122	$ 61,193	$ 1,110

270 ESEA V, B,2 Rural & Low Income	282 ESSER III ARP Act	289 Other Federal Special Revenue Funds	314 SSA IDEA, Part B Preschool	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
$ -	$ -	$ 323	$ -	$ -	$ -	$ 57,736	$ 116,353
-	-	-	-	-	-	-	6,131
$ -	$ -	$ 323	$ -	$ -	$ -	$ 57,736	$ 122,484
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,124
-	-	289	-	-	-	-	9,133
-	-	34	-	-	-	-	324
-	-	323	-	-	-	-	11,581
-	-	-	-	-	-	-	53,167
-	-	-	-	-	-	57,736	57,736
-	-	-	-	-	-	57,736	110,903
$ -	$ -	$ 323	$ -	$ -	$ -	$ 57,736	$ 122,484

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EXHIBIT H-1

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

Data Control Codes		599 Debt Service Fund	Total Nonmajor Governmental Funds
	ASSETS		
1110	Cash and Cash Equivalents	$ -	$ 116,353
1240	Due from Other Governments	-	6,131
1000	Total Assets	$ -	$ 122,484
	LIABILITIES		
2110	Accounts Payable	$ -	$ 2,124
2160	Accrued Wages Payable	-	9,133
2200	Accrued Expenditures	-	324
2000	Total Liabilities	-	11,581
	FUND BALANCES		
	Restricted Fund Balance:		
3450	Federal or State Funds Grant Restriction	-	53,167
3600	Unassigned Fund Balance	-	57,736
3000	Total Fund Balances	-	110,903
4000	Total Liabilities and Fund Balances	$ -	$ 122,484

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

Data Control Codes		211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
	REVENUES:			
5700	Total Local and Intermediate Sources	$ -	$ 72,651	$ -
5800	State Program Revenues	-	9,627	-
5900	Federal Program Revenues	44,316	236,264	7,572
5020	Total Revenues	44,316	318,542	7,572
	EXPENDITURES:			
	Current:			
0011	Instruction	44,316	-	7,572
0035	Food Services	-	306,864	-
0036	Extracurricular Activities	-	-	-
0051	Facilities Maintenance and Operations	-	-	-
0052	Security and Monitoring Services	-	-	-
	Debt Service:			
0071	Principal on Long-Term Liabilities	-	-	-
0072	Interest on Long-Term Liabilities	-	-	-
	Intergovernmental:			
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-
6030	Total Expenditures	44,316	306,864	7,572
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	11,678	-
	OTHER FINANCING SOURCES (USES):			
8911	Transfers Out (Use)	-	-	-
1200	Net Change in Fund Balance	-	11,678	-
0100	Fund Balance - September 1 (Beginning)	-	41,489	-
3000	Fund Balance - August 31 (Ending)	$ -	$ 53,167	$ -

270 ESEA V, B,2 Rural & Low Income	282 ESSER III ARP Act	289 Other Federal Special Revenue Funds	314 SSA IDEA, Part B Preschool	410 State Instructional Materials	429 Other State Special Revenue Funds	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
$ -	$ -	$ -	$ -	$ -	$ -	$ 55,126	$ 127,777
-	-	-	-	2,146	201,905	-	213,678
30,894	116,566	8,893	44,095	-	-	-	488,600
30,894	116,566	8,893	44,095	2,146	201,905	55,126	830,055
30,894	38,764	8,893	972	2,146	6,000	-	139,557
-	-	-	-	-	-	-	306,864
-	-	-	-	-	-	74,077	74,077
-	-	-	-	-	176,339	-	176,339
-	-	-	-	-	19,566	-	19,566
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	77,802	-	43,123	-	-	-	120,925
30,894	116,566	8,893	44,095	2,146	201,905	74,077	837,328
-	-	-	-	-	-	(18,951)	(7,273)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(18,951)	(7,273)
-	-	-	-	-	-	76,687	118,176
$ -	$ -	$ -	$ -	$ -	$ -	$ 57,736	$ 110,903

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EXHIBIT H-2

COVINGTON 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		599 Debt Service Fund	Total Nonmajor Governmental Funds
	REVENUES:		
5700	Total Local and Intermediate Sources	$ 110,724	$ 238,501
5800	State Program Revenues	8,377	222,055
5900	Federal Program Revenues	-	488,600
5020	Total Revenues	119,101	949,156
	EXPENDITURES:		
	Current:		
0011	Instruction	-	139,557
0035	Food Services	-	306,864
0036	Extracurricular Activities	-	74,077
0051	Facilities Maintenance and Operations	-	176,339
0052	Security and Monitoring Services	-	19,566
	Debt Service:		
0071	Principal on Long-Term Liabilities	111,000	111,000
0072	Interest on Long-Term Liabilities	2,564	2,564
	Intergovernmental:		
0093	Payments to Fiscal Agent/Member Districts of SSA	-	120,925
6030	Total Expenditures	113,564	950,892
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	5,537	(1,736)
	OTHER FINANCING SOURCES (USES):		
8911	Transfers Out (Use)	(244,359)	(244,359)
1200	Net Change in Fund Balance	(238,822)	(246,095)
0100	Fund Balance - September 1 (Beginning)	238,822	356,998
3000	Fund Balance - August 31 (Ending)	$ -	$ 110,903

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REQUIRED TEA SCHEDULES

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

Last 10 Years Ended August 31		(1) Tax Rates Maintenance	(2) Tax Rates Debt Service	(3) Assessed/Appraised Value for School Tax Purposes
2014	and prior years	Various	Various	$ Various
2015		1.170000	0.180000	79,160,667
2016		1.170000	0.165400	77,190,954
2017		1.170000	0.140000	76,916,183
2018		1.170000	0.127900	85,727,327
2019		1.170000	0.130300	91,715,995
2020		1.068300	0.210300	96,988,712
2021		1.054700	0.100300	99,252,890
2022		0.960300	0.108200	115,326,809
2023	(School year under audit)	0.942900	0.078900	138,078,033
1000	TOTALS			
8000	Total Taxes Refunded Under Section 26.115, Tax Code			

(10) Beginning Balance 9/1/2022	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2023
$ 11,943	$ -	$ 95	$ 19	$ (13)	$ 11,816
1,780	-	-	-	-	1,780
1,452	-	21	3	-	1,428
1,931	-	149	18	-	1,764
2,194	-	151	16	-	2,027
2,527	-	272	30	-	2,225
4,437	-	1,380	272	155	2,940
6,422	-	(197)	(19)	(420)	6,218
36,929	-	23,958	2,700	(1,575)	8,696
-	1,410,881	1,238,970	105,167	(11,922)	54,822
$ 69,615	$ 1,410,881	$ 1,264,799	$ 108,206	$ (13,775)	$ 93,716
		$ 0.00			

EXHIBIT J-2

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 35,000	$ 35,000	$ 72,651	$ 37,651
5800	State Program Revenues	8,483	8,483	9,627	1,144
5900	Federal Program Revenues	151,000	151,000	236,264	85,264
5020	Total Revenues	194,483	194,483	318,542	124,059
	EXPENDITURES:				
	Current:				
0035	Food Services	305,270	305,270	306,864	(1,594)
6030	Total Expenditures	305,270	305,270	306,864	(1,594)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(110,787)	(110,787)	11,678	122,465
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	110,787	110,787	-	(110,787)
1200	Net Change in Fund Balances	-	-	11,678	11,678
0100	Fund Balance - September 1 (Beginning)	41,489	41,489	41,489	-
3000	Fund Balance - August 31 (Ending)	$ 41,489	$ 41,489	$ 53,167	$ 11,678

EXHIBIT J-3

COVINGTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2023

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	$ 113,566	$ 113,566	$ 110,724	$ (2,842)
5800	State Program Revenues	-	-	8,377	8,377
5020	Total Revenues	113,566	113,566	119,101	5,535
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Liabilities	111,000	111,000	111,000	-
0072	Interest on Long-Term Liabilities	2,566	2,566	2,564	2
6030	Total Expenditures	113,566	113,566	113,564	2
1100	Excess of Revenues Over Expenditures	-	-	5,537	5,537
	OTHER FINANCING SOURCES (USES):				
8911	Transfers Out (Use)	-	-	(244,359)	(244,359)
1200	Net Change in Fund Balances	-	-	(238,822)	(238,822)
0100	Fund Balance - September 1 (Beginning)	238,822	238,822	238,822	-
3000	Fund Balance - August 31 (Ending)	$ 238,822	$ 238,822	$ -	$ (238,822)

COVINGTON INDEPENDENT SCHOOL DISTRICT
USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS
FOR THE YEAR ENDED AUGUST 31, 2023

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	286517
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year.	172028

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.	12107
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year.	6660

OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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Cameron L. Gulley
CERTIFIED PUBLIC ACCOUNTANT

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cgulley@txol.net

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

Board of Trustees
Covington Independent School District
501 N. Main Street
Covington, Texas 76636

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Covington Independent School District (the "District") as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 11, 2024.

Report on Internal Control Over Financial Reporting

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

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my 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.

Cameron L. Gulley
Certified Public Accountant
Eastland, Texas

January 11, 2024

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COVINGTON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2023

Finding	Statement of Condition	Material Weakness?	Questioned Costs
	None.		

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

I. Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	No.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.

B. Federal Awards

Type of auditor's report issued on compliance for major programs:	Unmodified.
Internal control over major programs:	
Material weakness(es) identified?	No.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200?	No.
Major programs are as follows:	
84.027A - IDEA Part B, Formula	$ 1,115,705
84.173A - IDEA Part B, Preschool	44,095
Total	$ 1,159,800
Threshold used to distinguish between type A and type B programs:	$ 750,000.
Auditee qualified as low-risk auditee?	Yes.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None.

III. Findings and Questioned Costs for Federal Awards

None.

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

None required.

FEDERAL AWARDS SECTION

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Cameron L. Gulley
CERTIFIED PUBLIC ACCOUNTANT

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Eastland, Texas 76448
(325)669-9795
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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees
Covington Independent School District
501 N. Main Street
Covington, Texas 76636

Report on Compliance for Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program
I conducted my audit of compliance in accordance with auditing 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). My responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of my report.

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

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

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

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

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

I am 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 I identified during the audit.

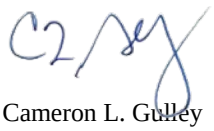
Report on Internal Control over Compliance

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.

My 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 my audit I did not identify any deficiencies in internal control over compliance that I 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.

My 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 my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Cameron L. Gulley
Certified Public Accountant
Eastland, Texas

January 11, 2024

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

EXHIBIT K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal Assistance Listing #	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. Department of Agriculture			
Passed Through Texas Department of Agriculture:			
School Breakfast Program *	10.553	71402201	$ 57,244
National School Lunch Program - cash assistance *	10.555	71302101	106,788
National School Lunch Program - noncash assistance *	10.555	N/A	14,358
Total FAL #10.555			121,146
Child and Adult Care Food Program	10.558	N/A	50,046
COVID-19 - National School Lunch Program - American Rescue Plan Act Equipment Assistance	10.579	6TX200211	7,200
COVID-19 - P-EBT Admin Cost Reimbursement	10.649	22-6TX109S9009	628
Total Passed Through Texas Department of Agriculture			236,264
Total U.S. Department of Agriculture			236,264
U.S. Department of Education			
Direct Programs:			
ESSA Title VI, Part B, Rural and Low Income Schools	84.358	N/A	30,894
Total Direct Programs			30,894
Passed Through Texas Education Agency:			
ESSA Title I Part A - Improving Basic Programs	84.010A	23610101109903	44,316
IDEA-B Formula *	84.027A	236600011099036000	1,115,705
IDEA-B Preschool *	84.173A	236610011099036000	44,095
ESSA Title II, Part A - Teacher and Principal Training and Recruiting	84.367A	23694501109903	7,572
COVID-19 - ESSER III - American Rescue Plan	84.425U	21528001109903	116,566
ESSA Title IV, Part A, Subpart 1	84.424A	23680101109903	8,893
Total Passed Through Texas Education Agency			1,337,147
Total U.S. Department of Education			1,368,041
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,604,305

* Clustered programs

The accompanying notes are an integral part of this statement.

COVINGTON 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 to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a special revenue fund.

2. The accompanying schedule of expenditures of federal awards included the federal grant activity of the District and is presented on the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual (both measurable and available) and expenditures in the accounting period in which the fund liability is incurred (if measurable) except for unmatured interest on General Long-Term Debt (which is recognized when due) and certain compensated absences and claims and judgments (which are recognized when the obligations are expected to be liquidated with expendable available financial resources).

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 120 days beyond the federal project period ending date, in accordance with Section H, Period of Performance, 2 CFR Section 200.344(b).

4. Non-monetary assistance received from the Commodity Supplemental Food Program is recorded in fair market value of the commodities received and disbursed. The revenue and expenditures are reported in the Child Nutrition Special Revenue Fund using the CFDA numbers of the programs under which the USDA donated the commodities.

5. The District has elected not to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

6. A reconciliation of federal program revenues and expenditures is as follows:

Total federal revenues per Exhibit C-3	$	1,610,042
Less: non-federal SHARS reimbursements		(5,737)
Total federal expenditures per Exhibit K-1	$	1,604,305

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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February 29, 2024

Re: Covington Independent School District
Unlimited Tax School Building Bonds, Series 2024 (the "Bonds")

Ladies and Gentlemen:

We have acted as Bond Counsel to the captioned issuer (the "District") in connection with the issuance of the Bonds, which are being issued in the aggregate original principal amount of $9,940,000. The Bonds are authorized by an order adopted by the Board of Trustees of the District on February 13, 2024 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity, we have reviewed a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the Order; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the District. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order. We call attention to the fact that the rights and obligations under the Bonds and the Order and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other

non-legal advice. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Finally, our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

We express no opinion with respect to: (1) whether the interest on the Bonds is excluded from the gross income of the owners thereof for federal income tax purposes, or (2) any other 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.

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

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect. The Bonds constitute valid and legally binding obligations of the District, and the Bonds have been authorized and delivered in accordance with law.

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

Respectfully submitted,

Leon | Alcala, PLLC

APPENDIX D

FORM OF SPECIAL TAX COUNSEL'S OPINION

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Jackson Walker LLP

February 29, 2024

Re: Covington Independent School District
Unlimited Tax School Building Bonds, Series 2024

Ladies and Gentlemen:

We have served as special tax counsel to the Covington Independent School District (the "District") in connection with its issuance of its Unlimited Tax School Building Bonds, Series 2024 (the "Bonds"), in the principal amount of $9,940,000. The Bonds are authorized by an order adopted by the Board of Trustees of the District (the "Board") on February 13, 2024 (the "Order"). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Order.

We have served as special tax counsel for the sole purpose of rendering an opinion with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the federal income tax law and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the tax certificate of the District dated the date hereof (the "Tax Certificate"), certificates of the District and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

Based on our examination as described above and in reliance on the legal opinion of Leon Alcala, PLLC, as Bond Counsel, dated the date hereof, that the Bonds have been authorized and issued in accordance with the Constitution and laws of the State of Texas and is a valid and legally binding obligation of the District, we are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The opinion set forth in the first sentence of the immediately preceding paragraph is subject to the condition that the District comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Order and the Tax Certificate executed by the District on the date hereof to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of

interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinion is based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

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 as of the date hereof based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above.

JACKSON WALKER LLP

APPENDIX E

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

This disclosure statement provides information relating to the program (the "Guarantee Program") administered by the Texas Education Agency (the "TEA") with respect to the Texas Permanent School Fund guarantee of tax-supported bonds issued by Texas school districts and the guarantee of revenue bonds issued by or for the benefit of Texas charter districts. The Guarantee Program was authorized by an amendment to the Texas Constitution in 1983 and is governed by Subchapter C of Chapter 45 of the Texas Education Code, as amended (the "Act"). While the Guarantee Program applies to bonds issued by or for both school districts and charter districts, as described below, the Act and the program rules for the two types of districts have some distinctions. For convenience of description and reference, those aspects of the Guarantee Program that are applicable to school district bonds and to charter district bonds are referred to herein as the "School District Bond Guarantee Program" and the "Charter District Bond Guarantee Program," respectively.

Some of the information contained in this Section may include projections or other forward-looking statements regarding future events or the future financial performance of the Texas Permanent School Fund (the "PSF" or the "Fund"). Actual results may differ materially from those contained in any such projections or forward-looking statements.

During the 87th Regular Session of the Texas Legislature (the "87th Regular Session"), which concluded on May 31, 2021, Senate Bill 1232 ("SB 1232" or "the bill") was enacted, and the bill became effective on September 1, 2021. SB 1232 provides for a variety of changes to the operations and management of the Fund, including the creation of the Permanent School Fund Corporation (the "PSF Corporation"), and the delegation of responsibility to manage the portion of the Fund previously under the management supervision of the State Board of Education (the "SBOE") to the PSF Corporation. SB 1232 also requires changes with respect to the management of certain investments previously made at the discretion of the Texas School Land Board (the "SLB"), including limiting the types of investments that may be made by the SLB and mandating the transfer of cash and certain other investment properties from the SLB to the PSF Corporation once the PSF Corporation is created. Certain of the authorizations of SB 1232, including the creation of the PSF Corporation have occurred, and other authorized changes are expected to be implemented in phases through the end of calendar year 2023. See "Management Transition to the PSF Corporation" for a summary of SB 1232 and its expected impact on the management and operations of the Fund.

The regular session of the 88th Texas Legislature (the "Legislature") is scheduled from January 10, 2023 to May 29, 2023. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the SBOE, the Act, the PSF Corporation, and Texas school finance generally. No representation is made regarding any actions the Legislature may take, but the TEA, SBOE, and PSF Corporation intend to monitor proposed legislation for any developments applicable thereto.

History and Purpose

The PSF supports the State's public school system in two major ways: distributions to the constitutionally established Available School Fund (the "ASF"), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a $2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be "permanent," and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and

royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund is established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

On November 8, 1983, the voters of the State approved a constitutional amendment that provides for the guarantee by the PSF of bonds issued by school districts. On approval by the State Commissioner of Education (the "Education Commissioner"), bonds properly issued by a school district are fully guaranteed by the PSF. See "The School District Bond Guarantee Program."

In 2011, legislation was enacted that established the Charter District Bond Guarantee Program as a new component of the Guarantee Program. That legislation authorized the use of the PSF to guarantee revenue bonds issued by or for the benefit of certain open-enrollment charter schools that are designated as "charter districts" by the Education Commissioner. On approval by the Education Commissioner, bonds properly issued by a charter district participating in the Guarantee Program are fully guaranteed by the PSF. The Charter District Bond Guarantee Program became effective on March 3, 2014. See "The Charter District Bond Guarantee Program."

State law also permits charter schools to be chartered and operated by school districts and other political subdivisions, but bond financing of facilities for school district-operated charter schools is subject to the School District Bond Guarantee Program, not the Charter District Bond Guarantee Program.

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see "Capacity Limits for the Guarantee Program"). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General (the "Attorney General") been requested to issue an opinion, with respect to its constitutional validity.

Audited financial information for the PSF is provided annually through the PSF Comprehensive Annual Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The SLB's land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the comprehensive annual report of the State of Texas. The Annual Report includes the Message of the Executive Administrator of the Fund (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2022, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the United States Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2022 is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2022 and for a description of the financial results of the PSF for the year ended August 31, 2022, the most recent year for which audited financial information regarding the Fund is available. The 2022 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2022 Annual Report or any other Annual Report. The TEA posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation's Investment Policy Statement (the "IPS"), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the TEA web site at http://tea.texas.gov/Finance_and_Grants/Permanent_School_Fund/ 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, is 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 TEA web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes. See "Management Transition to the PSF Corporation" for a discussion of the PSF Corporation audit. At its November 2022 quarterly board meeting, the SBOE considered new regulations for the administration of the Bond Guarantee Program. Two readings and a publication period are required for modifications to the Texas Administrative Code, and such process (the "Regulatory Recodification") was completed in February 2023, with the new regulations becoming effective March 1, 2023. The Regulatory Recodification was taken as an acknowledgment of the new role and powers that are delegated to the PSF Corporation. Among other regulations affecting the Fund that were restructured include the Statement of Investment Objectives, Policies and Guidelines of the Texas Permanent School Fund, which is codified at 19 Texas Administrative Code, Chapter 33 (recodified in part and replaced in part by the IPS).

Management and Administration of the Fund

The following discussion describes some legal and management aspects of the structure of the Fund prior to full implementation of SB 1232. SB 1232 is being implemented in phases. See "Management Transition to the PSF Corporation" for summaries of certain laws applicable to the Fund pursuant to the Texas Constitution and SB 1232 as well as certain prior actions and the ongoing changes in the management structure of the Fund.

The Texas Constitution and applicable statutes delegate to the SBOE the authority and responsibility for investment of the PSF's financial assets, but SB 1232 authorized the SBOE to delegate management of the Fund to the Corporation, which, as noted above, has been done. The SBOE consists of 15 members who are elected by territorial districts in the State to four year terms of office.

The Texas Constitution provides that the Fund shall be managed 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. Under the total-return investment objective, the IPS provides that the PSF shall be managed consistently with respect to the following: support for public free schools in Texas, real growth in Fund asset values, protection of Fund capital, and the provision of sustained income distributions to current and future generations of Texas school children. As described below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property, on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The PSF Corporation has also engaged outside counsel to advise it as to its duties with respect to the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection with the investment of Fund assets in non-traditional investments. TEA's General Counsel provides legal advice to the SBOE but will not provide legal advice directly to the PSF Corporation.

The Total Return Constitutional Amendment shifted administrative costs of the Fund from the ASF to the PSF, providing that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0293 (2005), stating that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor audits the financial statements of the PSF, which are separate from other financial statements of the State.

Prior to the enactment of SB 1232, Texas law assigned to the SLB control of the Fund's land and mineral rights and authority to invest in certain real assets. Administrative duties related to these assets have in the past resided with the GLO, which is under the guidance of the elected commissioner of the GLO (the "Land Commissioner").

In 2019, the Texas Legislature enacted legislation that created a "permanent school fund liquid account" (the "Liquid Account") in the PSF for the purpose of the SBOE receiving, administering, and investing funds transferred from the SLB on a quarterly basis that are not then invested by the SLB or needed within the forthcoming quarter. On January 1, 2023, management of the Liquid Account transferred from the SBOE to the PSF Corporation. The bill grants the PSF Corporation authority and discretion to abolish the Liquid Account when its purpose has been resolved and transfer any remaining balance to the Fund.

Management Transition to the PSF Corporation

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

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

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

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

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

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

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

As required by State law, during the 87th Regular Session the LBB issued a fiscal note on SB 1232. The fiscal note stated that uncertainty exists regarding the nature of future returns and the effect of the bill on distributions from all components of the PSF to the ASF, such that the financial impact of the bill could not be determined during the legislative session. However, the fiscal note stated that TEA and the GLO projected that the changes effected by the bill will have a positive fiscal impact in terms of growth of the Fund and future Fund distributions. No assurances can be given as to future investment results for the Fund.

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

The Total Return Constitutional Amendment

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

may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

The November 8, 2011, referendum included an increase to the base used to calculate the Distribution Rate by adding to the calculation base certain discretionary real assets and cash in the Fund that is managed by entities other than the SBOE (at present, by the SLB). The value of those assets was already included in the value of the Fund for purposes of the Guarantee Program, but prior to the amendment had not been included in the calculation base for purposes of making transfers from the Fund to the ASF. While the amendment provided for an increase in the base for the calculation of approximately $2 billion, no new resources were provided for deposit to the Fund. As described under "The Total Return Constitutional Amendment" the SBOE is prevented from approving a Distribution Rate or making a pay out from the Fund if the amount distributed would exceed 6% of the average of the market value of the Fund, excluding real property in the Fund, but including discretionary real asset investments on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium or if such pay out would exceed the Ten Year Total Return.

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

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

Annual Distributions to the Available School Fund[1]

Fiscal Year Ending	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
PSF(SBOE) Distribution	$1,021	$839	$839	$1,056	$1,056	$1,236	$1,236	$1,102	$1,102	$1,731
PSF(SLB) Distribution	$300	$0	$0	$0	$0	$0	$300	$600	$600[2]	$415
Per Student Distribution	$281	$175	$173	$215	$212	$247	$306	$347	$341	$432

[1] In millions of dollars. Source: PSF Annual Report for year ended August 31, 2022.

[2] 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.

Asset Allocation of Fund Portfolios

With respect to the management of the Fund's financial assets portfolio, the single most significant change made to date as a result of the Total Return Constitutional Amendment has been new asset allocation policies adopted from time to time by the SBOE. The SBOE historically reviewed the asset allocations during its summer meeting in even-numbered years. The first asset allocation policy adopted by the SBOE following the Total Return Constitutional Amendment was in February 2004, and the policy was reviewed and modified or reaffirmed in the summers of each even-numbered year, most recently in June 2022. The IPS (effective January 1, 2023) provides for minimum and maximum ranges among the components of each of the asset classifications: equities, fixed income, and alternatives. The alternatives category includes absolute return, private equity, real estate, emerging manager program, real return, natural resources, and infrastructure components. Alternative asset classes diversify the managed assets of the PSF and are not as correlated to traditional asset classes, which is intended to increase investment returns over the long run while reducing risk and return volatility of the portfolio. Given the greater weighting in the overall portfolio of traditional investments, it is expected that the Fund will reflect the general performance returns of the markets in which the Fund is invested.

Prior to the effective date of the IPS, the most recent asset allocation of the PSF(SBOE), was approved by the SBOE in June 2022, and is set forth below, along with the asset allocations of the PSF(SLB) and Liquid Account that were effective June 2022.

PSF 2022 Strategic Asset Allocations

	PSF(SBOE)	PSF(SLB)	Liquid Account
Equity Total	55%	0%	77%
Public Equity Total	37%	0%	77%
Large Cap US Equity	14%	0%	38%
Small/Mid Cap US Equity	6%	0%	10%
International Equities	14%	0%	29%
Emerging Markets Equity	3%	0%	0%
Private Equity	18%	0%	0%
Fixed Income Total	22%	0%	21%
Core Bonds	12%	0%	16%
Non-Core Bonds (High Yield & Bank Loans)	4%	0%	0%
Emerging Markets Debt	3%	0%	0%
Treasuries	3%	0%	0%
TIPS	0%	0%	5%
Short Duration	0%	0%	0%
Alternative Investments Total	22%	100%	0%
Absolute Return	7%	0%	0%
Real Estate	11%	33%	0%
Real Return	4%	0%	0%
Energy	0%	31%	0%
Infrastructure	0%	36%	0%
Emerging Manager Program	1%	0%	0%
Cash	0%	0%	2%

PSF Corporation 2023 Strategic Asset Allocation

Effective January 1, 2023, the IPS includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE, the SLB and the Liquid Account). The IPS provides that the Fund's investment objectives are as follows:

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

The table below sets forth the asset allocation of the Fund beginning January 1, 2023.

Asset Class	Strategic Asset Allocation	Range
Equities		
Large Cap US Equity	15%	+/- 3.0%
Small/Mid-Cap US Equity	6%	+/- 1.0%
Non-US Developed Equity	10%	+/- 3.0%
Emerging Market Equity	6%	+/- 1.0%
Total Equity	37%	
Fixed Income		
Core Bonds	11%	+/- 2.0%
Non-Core Bonds (High Yield & Bank Loans)	3%	+/- 3.0%
Emerging Market Debt (Local Currency)	2%	+/- 2.0%
U.S. Treasuries	2%	+/- 2.0%
Total Fixed Income	18%	
Cash Equivalents	0%	
Alternatives		
Absolute Return	6%	+/- 1.0%
Private Equity	15%	+/- 4.0%
Real Estate	12%	+/- 4.0%
Emerging Manager Program (Private Equity/Real Estate)	1%	+/- 1.0%
Real Return (Commodities & U.S. Treasury Inflation Protected Securities (TIPS))	4%	+/- 1.5%
Private Real Assets – Natural Resources	3%	+/- 2.0%
Private Real Assets - Infrastructure	4%	+/- 2.0%
Total Alternatives	45%	

For a variety of reasons, each change in asset allocation for the Fund has been implemented in phases, and that approach is likely to be carried forward when and if the asset allocation policy is again modified.

The table below sets forth the comparative investments of the PSF(SBOE) for the years ending August 31, 2021 and 2022, as set forth in the PSF Annual Reports for those years. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined for investment management and accounting purposes.

Comparative Investment Schedule - PSF(SBOE)[1]

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

ASSET CLASS	August 31, 2022	August 31, 2021	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	$ 2,358.4	$ 2,597.3	$ (238.9)	-9.2%
Domestic Large Cap	4,730.4	6,218.7	(1,488.3)	-23.9%
Total Domestic Equity	7,088.8	8,816.0	(1,727.2)	-19.6%
International Equity	5,972.5	8,062.1	(2,089.6)	-25.9%
TOTAL EQUITY	13,061.3	16,878.1	(3,816.8)	-22.6%
FIXED INCOME				
Domestic Fixed Income	4,563.3	4,853.1	(289.8)	-6.0%
U.S. Treasuries	1,140.2	1,243.3	(103.1)	-8.3%
High Yield Bonds	1,142.5	-	1,142.5	N/A
Emerging Market Debt	1,142.5	2,683.7	(1,492.8)	-55.6%
TOTAL FIXED INCOME	8,036.9	8,780.1	(743.2)	-8.5%
ALTERNATIVE INVESTMENTS				
Absolute Return	2,932.3	3,546.0	(613.7)	-17.3%
Real Estate	4,365.7	3,706.0	659.7	17.8%
Private Equity	7,933.1	7,724.6	208.5	2.7%
Emerging Manager Program	29.9	-	29.9	N/A
Real Return	1,412.0	1,675.5	(263.5)	-15.7%
TOT ALT INVESTMENTS	16,673.0	16,652.1	20.9	0.1%
UNALLOCATED CASH	196.5	262.9	(66.4)	-25.3%
TOTAL PSF(SBOE) INVESTMENTS	$ 37,967.7	$ 42,573.2	$ (4,605.5)	-10.8%

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

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

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

Liquid Account Fair Value at August 31, 2022[1]

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

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

[1] In millions of dollars.
Source: PSF Annual Report for year ended August 31, 2022.

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

Comparative Investment Schedule - PSF(SLB)

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

	As of 8-31-22	As of 8-31-21	Increase (Decrease)	Percent Change
Asset Class				
Discretionary Real Assets Investments				
Externally Managed				
Real Assets Investment Funds[1]				
Energy/Minerals	$2,718.6	$1,707.5	$1,011.1	59.2%
Infrastructure	1,622.7	1,652.3	(29.6)	-1.8%
Real Estate	1,921.2	1,276.8	644.4	50.5%
Internally Managed Direct				
Real Estate Investments	271.5	223.9	47.6	21.3%
Total Discretionary Real Assets Investments	6,534.0	4,860.5	1,673.5	34.4%
Dom. Equity Rec'd as In-Kind Distribution	-	1.7	(1.7)	-100.0%
Sovereign and Other Lands	428.3	405.4	22.9	5.6%
Mineral Interests	5,622.2	2,720.4	2,901.8	106.7%

Cash at State Treasury[2]	1,257.5	699.2	558.3	79.8%
Total PSF(SLB) Investments	$13,842.0	$8,687.2	$5,154.8	59.3%

[1] The fair values of externally managed real assets investment funds, separate accounts, and co-investment vehicles are estimated using the most recent valuations available, adjusted for subsequent contributions and withdrawals.
[2] Cash at State Treasury represents amounts that have been deposited in the State Treasury and temporarily invested in short-term investments until called for investment by the external real assets investment funds, separate accounts, and co-investment vehicles to which PSF(SLB) has made capital commitments. Prior to September 1, 2019, PSF(SLB) was required by statute to deposit cash designated by the SLB for investment in real assets in the State Treasury until it is drawn for investment. After September 1, 2019, that cash was moved to the Liquid Account to be invested by the SBOE.

The asset allocation of the Fund's financial assets portfolio is subject to change by the PSF Corporation from time to time based upon a number of factors, including recommendations to the PSF Corporation made by internal investment staff and external consultants. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person Standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and, PSF operational limitations impacted by Texas law or legislative appropriation. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Education Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Education Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings, and that bonds issued for capital facilities of school districts must have been voted as unlimited tax debt of the issuing district. The Guarantee Program Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at https://tea.texas.gov/sites/default/files/ch033a.pdf.

The Charter District Bond Guarantee Program

The Charter District Bond Guarantee Program became effective March 3, 2014. The SBOE published final regulations in the Texas Register that provide for the administration of the Charter District Bond Guarantee Program (the "CDBGP Rules"). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now codified at 19 TAC section 33.7 and are available at https://tea.texas.gov/sites/default/files/ch033a.pdf.

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

As of July 2023 (the most recent date for which data is available), the percentage of students enrolled in open-enrollment charter schools (excluding charter schools authorized by school districts) to the total State scholastic census was approximately 7.36%. At July 31, 2023, there were 184 active open-enrollment charter schools in the State and there were 1,103 charter school campuses authorized under such charters, though as of such date, 208 of such campuses are not currently serving students for various reasons; therefore, there are 895 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter

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

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

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

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

From time to time, TEA has limited new guarantees under the Charter District Bond Guarantee Program to conform to capacity limits specified by the Act. Legislation enacted during the Legislature's 2017 regular session modified the manner of calculating the capacity of the Charter District Bond Guarantee Program (the "CDBGP Capacity"), which further increased the amount of the CDBGP Capacity. The CDBGP Capacity is made available from the capacity of the Guarantee Program but is not reserved exclusively for the Charter District Bond Guarantee Program. See "Capacity Limits for the Guarantee Program" and "2017 Legislative Changes to the Charter District Bond Guarantee Program." Other factors that could increase the CDBGP Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBGP Capacity, as described below, changes in State or federal law or regulations related to the Guarantee Program limit, growth in the relative percentage of students enrolled in open-enrollment charter schools to the total State scholastic census, legislative and administrative changes in funding for charter districts, changes in level of school district or charter district participation in the Guarantee Program, or a combination of such circumstances.

Capacity Limits for the Guarantee Program

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

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 ("SB 389") was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds" below.

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

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. In accordance with the IRS Notice, the amount of any new bonds to be guaranteed by the PSF, together with the then outstanding amount of bonds previously guaranteed by the PSF, must not exceed the IRS Limit on the sale date of the new bonds to be guaranteed. The IRS Notice further provided that the IRS Notice may be relied upon for bonds sold on or after May 10, 2023, and before the effective date of future regulations or other public administrative guidance affecting funds like the PSF.

The IRS Notice changes the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of June 30, 2023 the cost value of the Guarantee Program was $43,704,948,910 (unaudited), thereby producing an IRS Limit of $218,344,585,245 in principal amount of guaranteed bonds outstanding.

As of June 30, 2023, the estimated State Capacity Limit is $152,967,321,185, which is lower than the IRS Limit, making the State Capacity Limit the current Capacity Limit for the Fund.

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

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

With the change in the Capacity Reserve from 5% to 0.25%, effective March 1, 2023, as discussed above, and the change in the IRS Limit making the State Capacity Limit the current Capacity Limit, the net Guarantee Program capacity as of June 30, 2023 is $152,556,827,260. No representation is made as to how the capacity will remain available, and the capacity of the Guarantee Program is subject to change due to a number of factors, including changes in bond issuance volume throughout the State and some bonds receiving guarantee approvals may not close. If the amount of guaranteed bonds approaches the State Capacity Limit, the SBOE or Education Commissioner may increase the State Capacity Limit multiplier as discussed above.

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.36% in March 2023. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At June 30, 2023, the Charter District Reserve Fund contained $90,293,027, which represented approximately 2.23% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

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

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

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

Infectious Disease Outbreak

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency's essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event.

Circumstances regarding the COVID-19 pandemic continue to evolve; for additional information on these events in the State, reference is made to the website of the Governor, https://gov.texas.gov/, and, with respect to public school events, the website of TEA, https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of February 2023, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value[(1)]	Market Value[(1)]
2018	$ 33,860,358,647	$ 44,074,197,940
2019	35,288,344,219	46,464,447,981
2020	36,642,000,738	46,764,059,745
2021	38,699,895,545	55,582,252,097
2022[(2)]	42,511,350,050	56,754,515,757

[(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, 2022, mineral assets, sovereign and other lands and discretionary internal investments, investments with external managers, and cash managed by the SLB had book values of approximately $13.4 million, $180.6 million, $5,433.0 million, and $1,257.5 million, respectively, and market values of approximately $5,622.2 million, $699.8 million, $6,262.5 million, and $1,257.52 million, respectively.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[(1)]
2018	$79,080,901,069
2019	84,397,900,203
2020	90,336,680,245
2021	95,259,161,922
2022	103,239,495,929[(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, 2022 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $156,825,227,335, of which $53,585,731,406 represents interest to be paid. As shown in the table above, at August 31, 2022, there were $103,239,495,929 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of $152,556,827,260 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of June 30, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of June 30, 2023, the amount of outstanding bond

guarantees represented 70.06% of the Capacity Limit (which is currently the State Capacity Limit). June 30, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category[(1)]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount ($)	No. of Issues	Principal Amount ($)	No. of Issues	Principal Amount ($)
2018	3,249	77,647,966,069	44	1,432,935,000	3,293	79,080,901,069
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
2021	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022[(2)]	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929

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

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

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

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

The Fund is invested in global markets and experiences volatility commensurate with the related indices. The Fund is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted and implemented to make the cost structure more effective and efficient. See "Comparative Investment Schedule - PSF(SBOE)" for the PSF(SBOE) holdings as of August 31, 2022.

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

PSF Returns Fiscal Year Ended 8-31-2022[1]

Portfolio	Return	Benchmark Return[2]
Total PSF(SBOE) Portfolio	(6.80)%	(6.37)%
Domestic Large Cap Equities(SBOE)	(11.08)	(11.23)
Domestic Small/Mid Cap Equities(SBOE)	(10.96)	(10.90)
International Equities(SBOE)	(19.72)	(19.52)
Emerging Market Equity(SBOE)	(22.85)	(21.80)
Fixed Income(SBOE)	(12.16)	(11.52)
Treasuries	(22.82)	(22.64)
Absolute Return(SBOE)	(0.55)	(5.66)
Real Estate(SBOE)	23.31	20.56
Private Equity(SBOE)	3.17	8.43
Real Return(SBOE)	2.98	3.09
Emerging Market Debt(SBOE)	(17.95)	(19.43)
Liquid Large Cap Equity(SBOE)	(10.39)	(11.23)
Liquid Small Cap Equity(SBOE)	(10.63)	(10.90)
Liquid International Equity(SBOE)	(19.34)	(19.52)
Liquid Short-Term Fixed Income(SBOE)	(4.27)	(4.01)
Liquid Core Bonds(SBOE)	(11.30)	(11.52)
Liquid TIPS(SBOE)	(5.78)	(5.98)
Liquid Transition Cash Reserves(SBOE)	1.65	0.38
Liquid Combined(SBOE)	(10.24)	(10.88)
PSF(SLB)	(32.29)	N/A

[1] Time weighted rates of return adjusted for cash flows for the PSF(SBOE) investment assets. Does not include GLO managed real estate or real assets. Returns are net of fees. Source: PSF Annual Report for year ended August 31, 2022.

[2] Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2022.

The PSF(SLB) portfolio is generally characterized by three broad categories: (1) discretionary real assets investments, (2) sovereign and other lands, and (3) mineral interests. Discretionary real assets investments consist of externally managed real estate, infrastructure, and energy/minerals investment funds; internally managed direct real estate investments, and cash. Sovereign and other lands consist primarily of the lands set aside to the PSF when it was created. Mineral interests consist of all of the minerals that are associated with PSF lands. The investment focus of PSF(SLB) discretionary real assets investments has shifted from internally managed direct real estate investments to externally managed real assets investment funds. The PSF(SLB) makes investments in certain limited partnerships that legally commit it to possible future capital contributions. At August 31, 2022, the remaining commitments totaled approximately $1.94 billion.

For fiscal year 2022, total revenues, inclusive of unrealized gains and losses and net of security lending rebates and fees, totaled $3.5 billion, a decrease of $7.3 billion from fiscal year 2021 earnings of $10.8 billion. The total change in the fair value of the Fund investments is consistent with the change in value of the markets in which those investments were made. In fiscal year 2022, revenues earned by the Fund included gains realized on the sale of land and real estate owned by the Fund; lease payments, bonuses and royalty income received from oil, gas and mineral leases; lease payments from commercial real estate; surface lease and easement revenues; revenues from the resale of natural and liquid gas supplies; dividends, interest, and securities lending revenues; the net change in the fair value of the investment portfolio and externally managed real assets investment funds; and other miscellaneous fees and income.

Expenditures are paid from the Fund before distributions are made under the total return formula. Such expenditures include the costs incurred by the SLB to manage the land endowment, as well as operational costs of the Fund, including external management fees paid from appropriated funds. Total operating expenditures, net of security lending rebates and fees, increased 3.0% for the fiscal year ending August 31, 2022. This increase is primarily attributable to an increase in PSF(SLB) quantities of purchased gas for resale in the State Energy Management Program, which is administered by the SLB as part of the Fund, as well as increases in operational costs.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. For fiscal years 2021 and 2022, the distribution from the SBOE to the ASF totaled $1.1 billion and $1.7 billion, respectively. Distributions from the SLB to the ASF for fiscal years 2021 and 2022 totaled $600 and $415 million, respectively.

At the end of the 2022 fiscal year, PSF assets guaranteed $103.2 billion in bonds issued by 898 local school districts and charter districts, the latter of which entered into the Guarantee Program during the 2014 fiscal year. Since its inception in 1983, the Fund has guaranteed 8,554 school district and charter district bond issues totaling $239.7 billion in principal amount. During the 2022 fiscal year, the number of outstanding issues guaranteed under the Guarantee Program totaled 3,442. The dollar amount of guaranteed school and charter bond issues outstanding increased by $7.98 billion or 8.4%. The State Capacity Limit increased by $13.3 billion, or 9.8%, during fiscal year 2022 due to continued growth in the cost basis of the Fund used to calculate that Program capacity limit. The effective capacity of the Guarantee Program did not increase during fiscal year 2022 as the IRS Limit was reached in a prior fiscal year, and it is the lower of the two capacity limits for the Guarantee Program.

Other Events and Disclosures

The State Investment Ethics Code governs the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. As part of the Regulatory Recodification, the PSF Corporation developed its own ethics policy as required by SB 1232, which provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at https://tea.texas.gov/sites/default/files/ch033a.pdf. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

As of August 31, 2022, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA has made the following agreement for the benefit of the issuers, holders and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking pertain solely to the Guarantee Program. The issuer

or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with respect to such undertakings. Under the TEA Undertaking, the TEA will be obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

The TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this offering document under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The information also includes the Annual Report. The TEA will update and provide this information within six months after the end of each fiscal year.

The TEA may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund are required to be prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

The Fund is reported by the State of Texas as a permanent fund and accounted for on a current financial resources measurement focus and the modified accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the modified accrual basis of accounting, all revenues reported are recognized based on the criteria of availability and measurability. Assets are defined as available if they are in the form of cash or can be converted into cash within 60 days to be usable for payment of current liabilities. Amounts are defined as measurable if they can be estimated or otherwise determined. Expenditures are recognized when the related fund liability is incurred.

The State's current fiscal year end is August 31. Accordingly, the TEA must provide updated information by the last day of February in each year, unless the State changes its fiscal year. If the State changes its fiscal year, the TEA will notify the MSRB of the change.

Event Notices

The TEA will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is

considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA will provide timely notice of any failure by the TEA to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

The TEA has agreed to update information and to provide notices of material events only as described above. The TEA has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The TEA disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA to comply with its agreement.

The continuing disclosure agreement of the TEA is made only with respect to the PSF and the Guarantee Program. The issuer of guaranteed bonds or an obligated person with respect to guaranteed bonds may make a continuing disclosure undertaking in accordance with Rule 15c2-12 with respect to its obligations arising under Rule 15c2-12 pertaining to financial information and operating data concerning such entity and events notices relating to such guaranteed bonds. A description of such undertaking, if any, is included elsewhere in this offering document.

This continuing disclosure agreement may be amended by the TEA from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision

of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

Compliance with Prior Undertakings

Except as stated below, during the last five years, the TEA has not failed to substantially comply with its previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022 TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents.

SEC Exemptive Relief

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than $10 million of outstanding municipal securities.

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