



(See “Continuing Disclosure Information” herein)

NEW ISSUE - Book-Entry-Only

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

**THE BONDS WILL NOT BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS”
FOR FINANCIAL INSTITUTIONS**

**\$146,685,000*
FRENSHIP INDEPENDENT SCHOOL DISTRICT
(Lubbock and Hockley Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025**

Dated Date: April 15, 2025

Due: As shown on Page 2

Interest Accrual Date: Delivery Date (as defined herein)

PAYMENT TERMS . . . Interest on the \$146,685,000* Frenship Independent School District Unlimited Tax School Building Bonds, Series 2025 (the “Bonds”) will accrue from April 29, 2025* (the “Delivery Date”). Such interest will be payable February 15 and August 15 of each year commencing on August 15, 2025, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. 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 authorized denominations thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein. The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas (see “THE BONDS – Paying Agent/Registrar”).

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 1371, Texas Government Code, as amended, Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Frenship Independent School District (the “District”) on November 5, 2024, and an order (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on March 26, 2025, in which the Board delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who will approve and execute a “Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”). The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see “THE BONDS – Authority for Issuance”). **An application has been filed and the District expects to receive conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see “Appendix D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the following purposes: (1) improving school facilities consisting of safety and security infrastructure; upgrades, repairs and renovations; parking lots; two new elementary schools; school buses, transportation safety equipment and vehicles; land for school facilities; and updating instructional technology equipment, and (2) to pay the costs associated with the issuance of the Bonds (see “THE BONDS – Purpose”).

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriters named below (the “Underwriters”) and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel (see Appendix C - “Form of Bond Counsel’s Opinion”). Certain legal matters will be passed upon for the Underwriters by their counsel, Cantu Harden Montoya LLP, San Antonio, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on or about April 29, 2025*.

FROST BANK

FHN FINANCIAL CAPITAL MARKETS

SAMCO CAPITAL

STEPHENS

* Preliminary, subject to change.

MATURITY SCHEDULE***CUSIP⁽¹⁾ Prefix:** _____

Maturity (2/15)	Principal Amount	Interest Rate	Initial Yield	CUSIP ⁽¹⁾ Suffix	Maturity (2/15)	Principal Amount	Interest Rate	Initial Yield	CUSIP ⁽¹⁾ Suffix
2026	\$ 2,320,000				2041	\$ 725,000			
2027	415,000				2042	855,000			
2028	825,000				2043	1,000,000			
2029	2,275,000				2044	1,165,000			
2030	665,000				2045	1,325,000			
2031	700,000				2046	1,150,000			
2032	735,000				2047	1,310,000			
2033	775,000				2048	1,480,000			
2034	810,000				2049	1,660,000			
2035	855,000				2050	1,515,000			
2036	580,000				2051	1,695,000			
2037	585,000				2052	27,320,000			
2038	585,000				2053	28,965,000			
2039	595,000				2054	30,695,000			
2040	590,000				2055	32,515,000			

(Interest to accrue from the Delivery Date)

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* Preliminary, subject to change.

REDEMPTION PROVISIONS. . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”). If two or more Bonds of consecutive maturity are combined into one or more “term” bonds (the “Term Bonds”) by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “Rule”), this document constitutes an Official Statement of the District with respect to the Bonds that has been “deemed final” by the District as of its date except for the omission of no more than the information permitted by the Rule.

No dealer, broker, salesperson or other person has been authorized by the District or the Underwriters 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 or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are considered to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “Appendix D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE INFORMATION” for a description of the undertakings of the Texas Education Agency (the “TEA”) and the District, respectively, to provide certain information on a continuing basis.

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

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including all appendices attached hereto, to obtain information essential to making an informed investment decision.

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY, NEW YORK, NEW YORK (“DTC”) OR ITS BOOK-ENTRY ONLY SYSTEM OR THE AFFAIRS OF THE TEA DESCRIBED UNDER “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND TEA, RESPECTIVELY.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SEC 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 WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The Frenship Independent School District (the “District”) is a political subdivision located in Lubbock and Hockley Counties, Texas and is approximately 122 square miles in area (see “INTRODUCTION – Description of the District”).
THE BONDS	The \$146,685,000* Unlimited Tax School Building Bonds, Series 2025 (the “Bonds”) are issued as serial bonds maturing on February 15 in the years 2026 through 2055, inclusive (see “THE BONDS – Description of the Bonds”).
PAYMENT OF INTEREST	Interest on the Bonds accrues from the date of their delivery (the “Delivery Date”) to the Underwriters and is due semiannually on February 15 and August 15 of each year commencing on August 15, 2025, until stated maturity or prior redemption (see “THE BONDS – Description of the Bonds” and “THE BONDS – Optional Redemption”).
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1371, Texas Government Code, and Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on November 5, 2024, and a bond order (the “Bond Order”) adopted by the Board of Trustees of the District (the “Board”) on March 26, 2025, in which the Board delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who will approve a “Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS – Authority for Issuance”).
SECURITY FOR THE BONDS	The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, an application has been filed and the District expects to receive conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS–Security and Source of Payment”).
PERMANENT SCHOOL FUND GUARANTEE	The District has applied for and expects to receive 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 of Texas (see “Appendix D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
REDEMPTION PROVISIONS	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the 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 (see “THE BONDS – Optional Redemption”). If two or more Bonds of consecutive maturity are combined into one or more “term” bonds (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order (see “THE BONDS – Mandatory Sinking Fund Redemption”).
NOT QUALIFIED TAX-EXEMPT OBLIGATIONS	The Bonds will not be designated as “Qualified Tax-Exempt Obligations” for financial institutions.
TAX EXEMPTION	In the opinion of Bond Counsel to the District, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on certain corporations.

* Preliminary, subject to change.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used for the following purposes: (1) improving school facilities consisting of safety and security infrastructure; upgrades, repairs and renovations; parking lots; two new elementary schools; school buses, transportation safety equipment and vehicles; land for school facilities; and updating instructional technology equipment, and (2) to pay the costs associated with the issuance of the Bonds (see “THE BONDS – Purpose”).

RATINGS Applications for contract ratings on the Bonds have been submitted to Fitch Ratings, Inc. (“Fitch”) and Moody’s Investors Service, Inc. (“Moody’s”). The presently outstanding tax supported debt of the District is rated “AA+” by Fitch and “Aa3” by Moody’s without regard to credit enhancement. The District also has issues outstanding which are rated “AAA” by Fitch and “Aaa” by Moody’s by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “OTHER INFORMATION - Ratings” and “Appendix D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

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

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

For additional information regarding the District, please contact:

Farley Reeves
 Chief Financial Officer
Frenship Independent School District
 P.O. Box 100
 Wolfforth, Texas 79382-0100
 (806) 866-9541

or

Jeff Robert
 Managing Director
Hilltop Securities Inc.
 717 N. Harwood St., Suite 3400
 Dallas, Texas 75201
 (214) 953-8744

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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Brad Draper President	20 Years	May 2025	Roofing Executive
David Miller Vice President	18 Years	May 2027	Construction Executive
Kyle Rogers Secretary	13 Years	May 2026	Account Manager
Andrew Cox Board Member	4 Years	May 2025	Accounting Executive
Chelsea Salazar Board Member	1 Year	May 2026	Marketing Director
Jamey Phillips Board Member	9 Years	May 2027	Partner, Law Firm
Shawn Vinson Board Member	1 Year	May 2027	Business Owner

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service in Current Position</u>
Dr. Michelle McCord	Superintendent	9 Years
Farley Reeves	Chief Financial Officer	7 Years

CONSULTANTS AND ADVISORS

Auditors	Eide Bailly LLP Abilene, Texas
Bond Counsel	McCall, Parkhurst & Horton L.L.P. Dallas, Texas
Financial Advisor.....	Hilltop Securities Inc. Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$146,685,000*
FRENSHIP INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$146,685,000* Frenship Independent School District Unlimited Tax School Building Bonds, Series 2025 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (hereinafter defined) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Frenship Independent School District (the “District”) and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Hilltop Securities Inc., Dallas, Texas.

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

DESCRIPTION OF THE DISTRICT . . . The Frenship Independent School District (the “District”) is a political subdivision located in Lubbock and Hockley Counties, Texas. The District is governed by a seven-member Board, the members of which serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 126 square miles in Lubbock and Hockley Counties, encompassing the City of Wolfforth. Additional demographic information with respect to the District is contained in Appendix A hereto.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be dated April 15, 2025 and mature on the dates and in the amounts shown on page 2 of this Official Statement. Interest will accrue from the date of their delivery to the Underwriters (the “Delivery Date”) and will be computed on the basis of a 360-day year of twelve 30-day months. Such interest will be payable on August 15, 2025 and each February 15 and August 15 thereafter, until stated maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, 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 owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

AUTHORITY FOR ISSUANCE . . . The Bonds are authorized and issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 1371, Texas Government Code, as amended, and Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended; an election held in the District on November 5, 2024, and a bond order (the “Bond Order”) adopted by the Board on March 26, 2025, in which the Board will delegate pricing of the Bonds and certain other matters to a “Pricing Officer” who will approve and execute a “Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”).

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. Additionally, the District has applied for and expects to receive conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas.

* Preliminary, subject to change.

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

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the following purposes: (1) improving school facilities consisting of safety and security infrastructure; upgrades, repairs and renovations; parking lots; two new elementary schools; school buses, transportation safety equipment and vehicles; land for school facilities; and updating instructional technology equipment, and (2) to pay the costs associated with the issuance of the Bonds.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the 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.

MANDATORY SINKING FUND REDEMPTION . . . If two or more Bonds of consecutive maturity are combined into one or more “term” bonds (the “Term Bonds”) by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order.

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

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

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

DEFEASANCE . . . The Order provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law)

for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The Order provides that “Defeasance Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The Pricing Officer may restrict the categories of eligible Defeasance Securities in connection with the pricing of the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

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

Upon defeasance, such defeased Bonds shall no longer be regarded to be Outstanding or unpaid and the Bonds will no longer be guaranteed by the Texas Permanent School Fund.

AMENDMENTS . . . The District may amend the Order without the consent of any bondholder to (i) cure any ambiguity, defect or omission in the Order that does not materially adversely affect the interests of the bondholders, (ii) grant additional rights or security for the benefit of the bondholders, (iii) add events of default that are consistent with the provisions of the Order and that do not materially adversely affect the interests of the bondholders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws, or (v) make such other provisions that are consistent with the provisions of the Order and that do not, in the opinion of Bond Counsel, materially adversely affect the bondholders.

Bondholders owning bonds aggregating in a majority of the principal amount of then outstanding Bonds that are the subject of a proposed amendment shall have the right to approve any amendment to the Order that may be deemed necessary or desirable by the District; provided, however, the consent of the bondholders of 100% of the aggregate principal amount of then outstanding Bonds shall be required in order to amend the Order or the Bonds so as to: (i) make any change in the maturity of any of the outstanding Bonds; (ii) reduce the rate of interest borne by any of the outstanding Bonds; (iii) reduce the amount of the principal payable on any outstanding Bonds; (iv) modify the terms of payment of principal or of interest on outstanding Bonds or any of them or impose any condition with respect to such payment; or (v) change the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. If at any time the District amends the Order, the District shall send by U.S. mail to each bondholder of the affected Bonds a copy of the proposed amendment and state whether consent of the bondholders is or is not required for such proposed amendment.

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

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

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not 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 registrar and request that copies of notices be provided directly to them.

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

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

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

statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable, but neither the District nor the Underwriters take any responsibility for the accuracy thereof.

Effect of Termination of Book-Entry-Only System... In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS – Transfer, Exchange and Registration" below.

Use of Certain Terms in Other Sections of this Official Statement... In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Order will be given only to DTC.

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

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal amount for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. The Paying Agent/Registrar shall not be required to make any such transfer, conversion or exchange of Bonds during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or, with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

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

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (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 registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS’ REMEDIES . . . The Order establishes specific events of default with respect to the Bonds and provides that if the District defaults in the payment of principal or interest on the Bonds when due, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the continuation thereof for a period of 60 days after notice of default is given by the District by any registered owner, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Chapter 1371, Texas Government Code, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, and therefore, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of another federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion and by governmental immunity. See “Appendix D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

<u>Sources of Funds</u>	
Par Amount of the Bonds	\$ -
Reoffering Premium	-
Total Sources of Funds	<u>\$ -</u>
<u>Uses of Funds</u>	
Deposit to the Construction Fund	\$ -
Underwriters' Discount and Costs of Issuance	-
Total Uses of Funds	<u>\$ -</u>

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM...On seven occasions in the last thirty years, the Texas Supreme Court (the “Court”) has issued decisions assessing the constitutionality of the Texas public school finance system (the “Finance System”). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the “State Legislature”) from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State 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 State Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) (“Morath”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the State 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 “despite 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State 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” herein).

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW

The following language constitutes only a summary of the public school finance system as it is currently structured. 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.

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

2025 TEXAS LEGISLATIVE SESSION

The Regular Session of the 89th Texas Legislature convened on January 14, 2025. During the Legislative Session, the Legislature will consider a general appropriations act to fund the State budget and may consider additional legislation affecting the Finance System, school funding and ad valorem taxation impacting school districts. The District cannot predict the amount of State funding that will be allocated by the Legislature to fund public schools. Additionally, the District cannot predict nor make any representations regarding legislation that may impact the District, Texas public school funding or the Finance System.

2023 REGULAR AND SPECIAL LEGISLATIVE SESSIONS

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

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 called and the Legislature concluded four special sessions during the 88th Texas Legislature (such special sessions, together with the 88th Regular Session, the "2023 Legislative Sessions"). During the second called special session, legislation was passed, and at an election held in the State on November 7, 2023, voters approved a State constitutional amendment that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and held districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibited school districts, cities and counties from repealing or reducing a general optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. This legislation reduces the amount of property taxes paid by homeowners and businesses and increases the State's share of the cost of funding public education.

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

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

Maximum Compressed Tax Rate. The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is set to 90% of the other school district's 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. The MCR for the 2024-2025 school year is \$0.6855 and the floor is \$0.6169.

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

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

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

STATE FUNDING FOR SCHOOL DISTRICTS

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district 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 discussed

herein), and in some instances is required to be used for that purpose (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations”), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

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

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics, 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 Texas’ goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district’s total Tier One funding less the allotments that are not derived by a weighted formula, 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.

For the 2023-2024 school year, the fast growth allotment weight is 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$315 million for the 2023-2024 school year and \$320 million for the 2024-25 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 2024-25 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

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

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

Since future-year IFA awards were not funded by the State Legislature for the 2024-2025 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 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 Regular and Special 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 Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.

Furthermore, "property-wealthy" school districts that received additional State funds under the public school finance system prior to the enactment of the 2019 Legislation are entitled to an equalized wealth transition grant on an annual basis through 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(c) through (g), as those sections existed on January 1, 2019. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year. Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. Furthermore, if the total amount of allotments to which school districts and open enrollment charter schools are entitled for a school year under the formula transition grant exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

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

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

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six (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 Commissioner must reduce the school district's local revenue level to the level that would produce the school district's guaranteed entitlement, by detaching certain types of property from the school district and annexing the property to a property-poor school district or, if necessary, consolidate the school district with a property-poor school district. Provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring school district's existing debt.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2024-25 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

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

AD VALOREM PROPERTY TAXATION

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

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

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

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

On July 13, 2023, during the Second Special Session, the Texas Legislature passed Senate Bill 2, which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "Maximum Property Value") to an amount exceeding the lesser of: (1) the market value of the subjected property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the subjected property for the preceding tax year; (b) the appraised value of the subjected property for the preceding tax year; and (c) the market value of all new improvements to the subjected property (collectively, the "Appraisal Cap"). The Appraisal Cap took effect on January 1, 2024. 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. After such time, the value limitation provisions for non-homestead properties described above will expire unless extended by future legislation.

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

STATE MANDATED HOMESTEAD EXEMPTIONS. . . State law grants, with respect to taxes levied by each school district in the State for general elementary and secondary public school purposes, (1) a \$100,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. On November 2, 2021, the Texas Constitution was amended to provide that the surviving spouse of an individual who received a limitation on the school district property taxes on the person's residence homestead on the basis of disability continued to receive that limitation while the property remained the spouse's residence homestead if the spouse was at least 55 years old. Senate Bill 1, which was also passed during the Third Special Session of the 87th Texas Legislature makes provisions for additional state aid to hold school districts harmless for tax revenue losses resulting from the increased homestead exemption.

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

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

STATE MANDATED FREEZE ON SCHOOL DISTRICT TAXES. . . Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the homestead of persons sixty-five (65) years of age or older or of disabled persons above the amount of tax imposed in the year such homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older, but not the disabled.

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

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

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

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

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 physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

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

Until September 1, 1999, school districts were able to reduce the value of taxable property reported to the State to reflect any taxable value lost due to TIRZ participation by the school district. The ability of the school district to deduct the taxable value of the tax increment that it contributed prevented the school district from being negatively affected in terms of state school funding. However, due to a change in law, local M&O tax rate revenue contributed to a TIRZ created on or after May 31, 1999 will count

toward a school district's Tier One entitlement (reducing Tier One State funds for eligible school districts) and will not be considered in calculating any school district's Tier Two entitlement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts").

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

During the Regular Session of the 88th Texas Legislature, 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 are limited and include manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects. Projects must create and maintain jobs, as well as meet certain minimum investment requirements. The District does not expect that HB 5 will have any material adverse effect on its ability to repay the Bonds or its finances or operations more generally.

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

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

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

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

LEVY AND COLLECTION OF TAXES. . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and 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. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1.

DISTRICT'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES. . . Taxes levied by the District are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax

lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

DISTRICT APPLICATION OF TAX CODE . . . As required by law, the District grants the mandated residential homestead exemption of \$100,000 on qualifying homesteads. The District grants a State mandated \$10,000 residence homestead for persons 65 years of age or older and the disabled.

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

The District has not granted a local option, additional exemption for persons 65 years of age or older or disabled veterans above the amount of the State mandated exemption.

The District has not granted a local option, additional exemption of up to 20% of the market value of residence homesteads.

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

The District does not tax nonbusiness personal property; and the Lubbock County Tax Assessor Collector collects taxes for the District.

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

The District does tax freeport property.

The District does tax goods-in-transit.

The District has not adopted a tax abatement policy.

The District does not participate in any TIFs.

The District has not entered into any appraised value limitation agreements pursuant to the Texas Economic Development Act, Chapter 313, Texas Tax Code.

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 June 24, 1972 in accordance with the provisions of Chapter 20, Texas Education Code (now codified at Section 45.003, Texas Education Code, as amended).

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

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

For the State fiscal year ending in 2025 (the 2024-2025 school year), the State Compression Percentage was set at \$0.6855 and the MCR for the District is \$0.6169 per \$100 taxable value. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts" herein.

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, “exempt bonds”), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the “50-cent Test”). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district’s local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district’s I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as school building bonds under Chapter 45, Texas Education Code and are subject to the 50-cent test. The District is not using projected values nor a pledge of State funding to pass the 50-cent Test in connection with the Bonds.

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

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

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

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

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

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

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

TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2024/25 Market Valuation Established by the Appraisal Districts (excluding totally exempt property)		\$ 8,896,132,995
Less Exemptions/Reductions at 100% Market Value:		
State Mandated General Homestead Exemptions	\$ 1,234,743,666	
State Mandated Over 65 Homestead Exemptions	34,408,736	
State Mandated Disabled Persons Exemptions	1,353,867	
Veteran Exemptions	73,185,073	
Productivity Loss	226,533,783	
Leased Vehicles Exemptions	14,883,813	
Freeze Value Loss	342,294,951	
House Bill 366 Exemption	786,542	
Homestead Cap Loss	<u>206,271,896</u>	<u>(2,134,462,327)</u>
2024/25 Taxable Assessed Valuation		\$ 6,761,670,668
Debt Payable from Ad Valorem Taxes (as of 4/29/25)		
Unlimited Tax Bonds	\$ 432,645,000	
The Bonds ⁽¹⁾	<u>146,685,000</u>	
Debt Payable from Ad Valorem Taxes (as of 4/29/25)		\$ 579,330,000
Ratio Tax Supported Debt to 2024/25 Taxable Assessed Valuation		8.57%
Estimated Population - 55,113		
Per Capita Taxable Assessed Valuation - \$122,687		
Per Capita Debt Payable from Ad Valorem Taxes - \$10,512		

(1) Preliminary, subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2025		2024		2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,434,126,708	61.08%	\$ 4,836,720,399	62.34%	\$ 4,210,587,325	61.62%
Real, Residential, Multi-Family	637,639,603	7.17%	543,707,682	7.01%	520,272,721	7.61%
Real, Vacant Lots/Tracts	198,992,080	2.24%	186,399,221	2.40%	166,022,654	2.43%
Real, Acreage (Land Only)	242,954,862	2.73%	113,900,832	1.47%	113,485,249	1.66%
Real, Farm and Ranch Improvements	268,963,877	3.02%	201,085,457	2.59%	151,315,730	2.21%
Real, Commercial & Industrial	1,323,860,785	14.88%	1,252,026,513	16.14%	1,135,841,615	16.62%
Real, Oil, Gas and Other Mineral Reserves	3,587,270	0.04%	3,199,650	0.04%	2,899,900	0.04%
Real & Intangible Personal, Utilities	104,966,551	1.18%	102,947,626	1.33%	97,384,359	1.43%
Tangible Personal, Commercial & Industrial	404,232,731	4.54%	379,307,414	4.89%	324,975,778	4.76%
Tangible Personal, Mobile Homes	34,676,690	0.39%	18,839,099	0.24%	18,335,302	0.27%
Residential Inventory	59,627,906	0.67%	35,448,105	0.46%	14,111,766	0.21%
Special Inventory	182,503,932	2.05%	84,581,197	1.09%	77,860,836	1.14%
Total Appraised Value Before Exemptions	\$ 8,896,132,995	100.00%	\$ 7,758,163,195	100.00%	\$ 6,833,093,235	100.00%
Less: Total Exemptions/Reductions	(2,134,462,327)		(1,794,566,379)		(876,961,115)	
Adjustment	-		263,547,534		(28,562,203)	
Taxable Assessed Value	<u>\$ 6,761,670,668</u>		<u>\$ 6,227,144,350</u>		<u>\$ 5,927,569,917</u>	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2022		2021	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 3,446,341,414	59.33%	\$ 3,119,407,127	58.57%
Real, Residential, Multi-Family	452,585,754	7.79%	408,958,751	7.68%
Real, Vacant Lots/Tracts	124,894,084	2.15%	124,270,725	2.33%
Real, Acreage (Land Only)	114,579,980	1.97%	111,821,223	2.10%
Real, Farm and Ranch Improvements	114,888,627	1.98%	115,053,554	2.16%
Real, Commercial & Industrial	1,051,887,925	18.11%	989,430,470	18.58%
Real, Oil, Gas and Other Mineral Reserves	1,240,480	0.02%	2,173,030	0.04%
Real & Intangible Personal, Utilities	88,314,459	1.52%	72,294,444	1.36%
Tangible Personal, Commercial & Industrial	322,642,832	5.55%	291,642,596	5.48%
Tangible Personal, Mobile Homes	17,063,352	0.29%	16,638,303	0.31%
Residential Inventory	15,444,695	0.27%	15,465,129	0.29%
Special Inventory	58,617,920	1.01%	58,499,393	1.10%
Total Appraised Value Before Exemptions	\$ 5,808,501,522	100.00%	\$ 5,325,654,745	100.00%
Less: Total Exemptions/Reductions	(588,896,554)		(543,457,332)	
Adjustment	28,635,880		37,036,372	
Taxable Assessed Value	<u>\$ 5,248,240,848</u>		<u>\$ 4,819,233,785</u>	

Valuations shown are certified assessed values reported by the Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

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 Debt Outstanding at Fiscal Year End	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2021	49,415	\$ 4,819,233,785	\$ 97,526	\$ 474,011,539	9.84%	\$ 9,592
2022	50,797	5,248,240,848	103,318	466,872,576	8.90%	9,191
2023	51,529	5,927,569,917	115,034	459,722,773	7.76%	8,922
2024	53,433	6,227,144,350	116,541	440,645,000	7.08%	8,247
2025	55,113	6,761,670,668	122,687	579,330,000 ⁽³⁾	8.57% ⁽³⁾	10,512 ⁽³⁾

(1) Source: Municipal Advisory Council of Texas.

(2) As reported by the Appraisal District on District's Annual State Property Tax Reports; subject to change during the ensuing year.

(3) Projected, includes the Bonds. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 8/31	TAX RATE BREAKDOWN			TAX COLLECTIONS		
	Maintenance & Operations	Interest and Sinking	Total Tax Rate	Tax Levy	Current Collections	Total Collections
2021	\$ 0.94810	\$ 0.48000	\$ 1.42810	\$ 67,544,417	99.80%	100.04%
2022	0.89590	0.48000	1.37590	70,571,563	99.88%	100.16%
2023	0.86440	0.48000	1.34440	79,793,599	98.47%	98.62%
2024	0.67900	0.48000	1.15900	71,346,478	96.61%	96.45%
2025	0.75670	0.40000	1.15670	79,905,243	92.32% ⁽¹⁾	93.85% ⁽¹⁾

(1) Partial year collections as of January 31, 2025.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2024/25 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Frontier Dodge	Auto Dealership	\$ 95,412,074	1.53%
Westwing Realty LP	Hospital	55,406,830	0.89%
CHP Raider Ranch TX Owner LLC	Ranch	42,794,580	0.69%
Betenbough Homes LLC	Home Builder	38,193,305	0.61%
South Plains Electric Co-Op Inc.	Electric Utility/Power Plant	33,823,890	0.54%
Southwestern, Public Service	Electric Utility/Power Plant	30,715,780	0.49%
CMC 6 Ashton Pointe LLC	Apartments	28,500,000	0.46%
Tigris XVII LTD	Land/Improvements	24,200,000	0.39%
Canyon Hubwest Ten LLC	Land/Improvements	23,473,253	0.38%
District West Lubbock LLC	Apartments	23,393,330	0.38%
		<u>\$ 395,913,042</u>	<u>6.36%</u>

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.

<u>Taxing Jurisdiction</u>	<u>Total Tax Supported Debt As Of 4/29/2025</u>	<u>Estimated % Applicable</u>	<u>District's Overlapping Tax Supported Debt As Of 4/29/2025</u>
Frenship ISD	\$ 579,330,000 ⁽¹⁾	100.00%	\$ 579,330,000 ⁽¹⁾
Hockley County	0	0.52%	0
Lubbock County	114,745,000	21.53%	24,704,599
City of Lubbock	537,219,642	21.50%	115,502,223
City of Wolfforth	31,195,000	100.00%	31,195,000
Total Direct and Overlapping Tax Supported Debt			\$ 750,731,822
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			11.10%
Per Capita Direct and Overlapping Tax Supported Debt			\$ 13,622

(1) Projected, includes the Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Fiscal Year	Ending 8/31	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			Total Debt Service Requirements	% of Principal Retired
		Principal	Interest	Total	Principal	Interest	Total		
2025		\$ 8,000,000	\$ 14,457,941	\$ 22,457,941	\$ -	\$ 2,159,529	\$ 2,159,529	\$ 24,617,471	1.36%
2026		7,705,000	14,089,716	21,794,716	2,320,000	7,276,250	9,596,250	31,390,966	3.07%
2027		8,735,000	13,707,300	22,442,300	415,000	7,207,875	7,622,875	30,065,175	4.63%
2028		9,165,000	13,319,570	22,484,570	825,000	7,176,875	8,001,875	30,486,445	6.33%
2029		10,035,000	12,903,523	22,938,523	2,275,000	7,099,375	9,374,375	32,312,898	8.42%
2030		10,940,000	12,458,065	23,398,065	665,000	7,025,875	7,690,875	31,088,940	10.40%
2031		11,815,000	12,053,816	23,868,816	700,000	6,991,750	7,691,750	31,560,566	12.53%
2032		12,430,000	11,674,584	24,104,584	735,000	6,955,875	7,690,875	31,795,459	14.77%
2033		12,795,000	11,171,077	23,966,077	775,000	6,918,125	7,693,125	31,659,202	17.08%
2034		13,320,000	10,666,590	23,986,590	810,000	6,878,500	7,688,500	31,675,090	19.49%
2035		13,965,000	10,257,216	24,222,216	855,000	6,836,875	7,691,875	31,914,091	22.01%
2036		14,630,000	9,832,545	24,462,545	580,000	6,801,000	7,381,000	31,843,545	24.60%
2037		15,310,000	9,395,091	24,705,091	585,000	6,771,875	7,356,875	32,061,966	27.31%
2038		16,015,000	8,936,348	24,951,348	585,000	6,742,625	7,327,625	32,278,973	30.13%
2039		16,740,000	8,455,191	25,195,191	595,000	6,713,125	7,308,125	32,503,316	33.09%
2040		17,500,000	7,948,599	25,448,599	590,000	6,683,500	7,273,500	32,722,099	36.17%
2041		18,155,000	7,416,095	25,571,095	725,000	6,650,625	7,375,625	32,946,720	39.38%
2042		18,840,000	6,861,284	25,701,284	855,000	6,611,125	7,466,125	33,167,409	42.73%
2043		19,540,000	6,285,501	25,825,501	1,000,000	6,564,750	7,564,750	33,390,251	46.23%
2044		20,265,000	5,688,027	25,953,027	1,165,000	6,510,625	7,675,625	33,628,652	49.88%
2045		21,000,000	5,085,938	26,085,938	1,325,000	6,448,375	7,773,375	33,859,313	53.68%
2046		21,735,000	4,479,938	26,214,938	1,150,000	6,386,500	7,536,500	33,751,438	57.58%
2047		22,545,000	3,800,125	26,345,125	1,310,000	6,325,000	7,635,000	33,980,125	61.64%
2048		23,435,000	3,041,150	26,476,150	1,480,000	6,255,250	7,735,250	34,211,400	65.88%
2049		24,355,000	2,249,975	26,604,975	1,660,000	6,176,750	7,836,750	34,441,725	70.31%
2050		25,310,000	1,425,400	26,735,400	1,515,000	6,097,375	7,612,375	34,347,775	74.88%
2051		26,365,000	502,300	26,867,300	1,695,000	6,017,125	7,712,125	34,579,425	79.65%
2052		-	-	-	27,320,000	5,291,750	32,611,750	32,611,750	84.31%
2053		-	-	-	28,965,000	3,884,625	32,849,625	32,849,625	89.24%
2054		-	-	-	30,695,000	2,393,125	33,088,125	33,088,125	94.46%
2055		-	-	-	32,515,000	812,875	33,327,875	33,327,875	100.00%
		<u>\$ 440,645,000</u>	<u>\$ 228,162,906</u>	<u>\$ 668,807,906</u>	<u>\$ 146,685,000</u>	<u>\$ 188,664,904</u>	<u>\$ 335,349,904</u>	<u>\$ 1,004,157,810</u>	

(1) Outstanding Debt excludes lease agreements ("See Table 10 – Other Obligations").

(2) Interest shown for purposes of illustration only. Preliminary, subject to change.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/25		\$ 22,457,941
Interest and Sinking Fund, Fiscal Year Ending 8/31/24	\$ 14,263,473	
Budgeted Interest and Sinking Fund Tax Levy	<u>27,046,683</u>	<u>\$ 41,310,156</u>
Estimated Balance, Fiscal Year Ending 8/31/25		<u><u>\$ 18,852,215</u></u>

TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Amount Issued to Date	Amount Being Issued ⁽¹⁾	Unissued Balance
School Building & Security	11/5/2024	\$ 189,500,000	\$ -	\$ 144,000,000	\$ 45,500,000
Technology	11/5/2024	10,000,000	-	6,000,000	4,000,000
		<u>\$ 199,500,000</u>	<u>\$ -</u>	<u>\$ 150,000,000</u>	<u>\$ 49,500,000</u>

(1) "Amount Being Issued" will include the Bonds and an anticipated allocation of the original issue premium relating thereto being deposited to the District's construction fund, and therefore being applied towards the amount of authorization. Preliminary, subject to change.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District does not have any plans to issue additional unlimited tax debt within the next 12 months.

TABLE 10 - OTHER OBLIGATIONS

The District entered an agreement to lease copiers for District-wide use beginning August 2024. Under the terms of the lease, the District pays an annual fee of \$249,240. The lease terminates in July 2028. The District has entered into various agreements to lease vehicles for District-wide use beginning on dates ranging from September 2023 to August 2024. Under the terms of the leases, the District pays monthly fees ranging from \$504 to \$1,095. The leases terminate ranging from October 2024 to August 2029. The District has entered into a lease agreement to lease security monitoring equipment for District-wide use beginning in September 2023. The lease included two payments of \$206,600. The lease terminates in September 2025.

At August 31, 2024, the District has recognized a right to use asset, net of accumulated amortization, of \$1,548,233 and a lease liability of \$1,410,977 related to these agreements. During the fiscal year, the District recorded \$207,225 in amortization expense and \$8,091 in interest expense for the right to use the copiers, vehicles, and security equipment. The District used a discount rate of 4.43% on the copier lease, rates ranging from 4.77% to 7.18% on the vehicles, and 4.98% on the security equipment. The discount rates for the copiers and security equipment were based on the estimated incremental borrowing rate of the District. The rates for the vehicles were taken from the lease documents.

Remaining obligations associated with these leases for governmental activities are as follows:

Year Ending August 31,	Principal	Interest	Total
2025	\$ 337,437	\$ 53,498	\$ 390,935
2026	312,892	38,886	351,778
2027	327,713	23,625	351,338
2028	343,216	7,657	350,873
2029	89,719	1,872	91,591
Total	<u>\$1,410,977</u>	<u>\$ 125,538</u>	<u>\$1,536,515</u>

POST-EMPLOYMENT BENEFIT PLAN . . . The District records its proportionate share of the net OPEB liability of the Teacher Retirement System of Texas (TRS) Care Plan. The fiduciary net position of the 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. For more information please see "Excerpts from the District's Annual Financial Report – Note 11".

EMPLOYEE RETIREMENT PLAN . . . 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system. For more information please see "Excerpts from the District's Annual Financial Report – Note 10".

FINANCIAL INFORMATION

TABLE 11 – CHANGES IN NET POSITION

	Fiscal Year Ended August 31				
	2024	2023	2022	2021	2020
<u>Program Revenues:</u>					
Charges for Services	\$ 3,200,949	\$ 4,925,643	\$ 4,399,344	\$ 3,338,244	\$ 3,531,221
Operating Grants & Contributions	22,988,214	10,699,041	12,425,597	13,721,953	13,518,470
<u>General Revenues:</u>					
Property Taxes	69,116,033	79,144,006	70,797,197	67,609,683	62,474,998
State Aid - Formula	60,828,441	41,766,316	44,730,432	42,742,225	40,156,730
Grants & Contributions not Restricted	228,286	399,274	420,324	163,385	96,084
Investment Earnings	12,536,274	14,261,517	1,665,952	295,483	802,021
Other	582,930	484,370	439,846	2,434,639	384,892
Total Revenues	<u>\$ 169,481,127</u>	<u>\$ 151,680,167</u>	<u>\$ 134,878,692</u>	<u>\$ 130,305,612</u>	<u>\$ 120,964,416</u>
<u>Expenses:</u>					
Instruction, Curriculum and Media Services	\$ 71,969,167	\$ 64,976,131	\$ 62,667,335	\$ 63,235,107	\$ 62,586,091
Instructional and School Leadership	10,564,483	8,457,117	7,877,196	7,563,874	8,465,666
Student Support Services	10,577,849	8,447,270	7,210,866	6,886,268	6,496,443
Food Services	417,260	367,207	339,914	352,821	377,536
Extracurricular Activities	8,467,864	6,833,743	6,340,589	5,654,117	6,250,365
General Administration	4,283,801	3,684,227	3,755,215	3,691,011	3,413,777
Facilities Maintenance, Security & Data Processing	20,899,630	18,130,838	17,228,631	17,212,720	16,673,955
Community Services	57,978	104,382	208,348	94,861	121,039
Debt Services	18,370,317	12,479,511	14,051,111	12,592,473	8,621,597
Facilities Acquisition and Construction	-	-	-	729,982	150,866
Other business-type activities	711,839	719,654	609,915	602,409	552,531
Total Expenses	<u>\$ 146,320,188</u>	<u>\$ 124,200,080</u>	<u>\$ 120,289,120</u>	<u>\$ 118,615,643</u>	<u>\$ 113,709,866</u>
Increase (decrease) in net position before transfers and special items	\$ 23,160,939	\$ 27,480,087	\$ 14,589,572	\$ 11,689,969	\$ 7,254,550
Prior Period Adjustment	70,656,276	43,176,189	28,586,617	726,151	-
Beginning Net Position	-	-	-	16,170,497	8,915,947
Ending Net Position	<u>\$ 93,817,215</u>	<u>\$ 70,656,276</u>	<u>\$ 43,176,189</u>	<u>\$ 28,586,617</u>	<u>\$ 16,170,497</u>

Source: The District's audited financial statements.

TABLE 11-A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended August 31,				
	2024	2023	2022	2021	2020
Revenues:					
Local and Intermediate Sources	\$ 45,263,171	\$ 55,182,478	\$ 47,854,348	\$ 46,576,711	\$ 45,067,205
State Sources	66,826,529	47,242,406	49,710,827	47,541,656	44,961,897
Federal Sources	411,776	2,325,140	1,979,001	1,079,637	1,226,361
Total Revenues	<u>\$ 112,501,476</u>	<u>\$ 104,750,024</u>	<u>\$ 99,544,176</u>	<u>\$ 95,198,004</u>	<u>\$ 91,255,463</u>
Expenditures:					
Instruction and Instructional-Related Services	\$ 60,848,221	\$ 58,557,499	\$ 53,267,867	\$ 50,479,439	\$ 50,037,906
Instructional and School Leadership	9,599,077	8,649,832	7,936,234	7,101,383	7,615,318
Support Services - Student (Pupil)	13,915,422	11,735,905	10,002,383	10,249,599	9,255,328
Administrative Support Services	3,862,110	3,625,284	3,625,638	3,386,470	3,002,515
Support Services - Nonstudent Based	17,863,623	16,892,410	15,258,716	14,155,287	14,442,292
Ancillary Services	40,481	91,068	188,657	80,603	95,622
Debt Service	66,417	650,902	257,475	-	136,829
Capital Outlay	6,258,298	2,051,923	100,249	2,820,915	1,463,231
Intergovernmental Charges	711,839	719,654	609,915	602,409	552,531
Total Expenditures	<u>\$ 113,165,488</u>	<u>\$ 102,974,477</u>	<u>\$ 91,247,134</u>	<u>\$ 88,876,105</u>	<u>\$ 86,601,572</u>
Other Resources and (Uses)	\$ 1,117,452	\$ 434,097	\$ -	\$ 1,694,867	\$ -
Excess (Deficiency) of Revenues Over Expenditures and Other Financing Sources (Uses)	\$ 453,440	\$ 2,209,644	\$ 8,297,042	\$ 8,016,766	\$ 4,653,891
Beginning Fund Balance on September 1	<u>\$ 57,442,555</u>	<u>\$ 55,232,911</u>	<u>\$ 46,935,869</u>	<u>\$ 38,919,103</u>	<u>\$ 34,265,212</u>
Ending Fund Balance on August 31	<u>\$ 57,895,995</u>	<u>\$ 57,442,555</u>	<u>\$ 55,232,911</u>	<u>\$ 46,935,869</u>	<u>\$ 38,919,103</u>

Source: The District's audited financial statements.

FINANCIAL POLICIES

Summary of Significant Accounting Policies . . . The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation . . . *Government-wide financial statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present

increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing related to 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 are reported using the *current financial resources measurement focus* and the *modified basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

Budgetary Data . . . Budgets are presented on the modified accrual basis of accounting for the General and Debt Service funds. The budget is prepared and controlled at the function level.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The Board formally adopts the budget at a public meeting held at least ten days after public notice has been given. Once adopted, the budget can be amended by subsequent Board action.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law, the District is authorized to invest in obligations meeting the requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "PFIA"), which may include: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as its custodian of the banking deposits issued for its account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under Securities and Exchange Commission Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit

Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (12), or, if applicable, corporate bonds as described below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with Federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (15) for bond proceeds, guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. "Corporate bond" is defined as a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm (does not include convertible bonds or unsecured debt). The bonds must have a stated final maturity that is not later than 3 years from the date the corporate bonds were purchased. The District may not (1) invest more than 15 percent of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service), in corporate bonds; or (2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The District must sell corporate bonds if they are rated "AA-" or its equivalent and are either downgraded or placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. The District has not taken the required steps to authorize the investment of District funds in corporate bonds.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (8) and (12) through (14) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

An eligible political subdivision such as the District may enter into hedging transactions, including hedging contracts, related security, credit, and insurance agreements in connection with commodities used the political subdivision in its general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the SEC. The political subdivision may pledge to such contracts or agreements any general or special revenues or funds it is authorized by law to pledge to the payment of any other obligations. The political subdivision's cost under such contract or agreement may be considered an operations and maintenance expense, an acquisition costs, a project cost, or a construction expense.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

ADDITIONAL PROVISIONS . . . Under Texas law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the District that are not made through accounts of other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the District's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the District.

TABLE 12 - CURRENT INVESTMENTS

As of March 1, 2024, the District's investable funds were invested in the following categories:

Description of Investment	Percent	Book Value	Market Value
TexStar	30.05%	\$ 55,958,352	\$ 55,958,352
LOGIC	9.79%	18,219,854	18,219,854
City Bank-Checking	8.60%	16,019,571	16,019,571
City Bank DDM	13.37%	24,888,770	24,888,770
Peoples Bank	0.30%	564,158	564,158
SLGS	37.72%	70,232,243	70,232,243
TexTerm	0.17%	317,930	317,930
TOTAL	100.00%	\$ 186,200,878	\$ 186,200,878

TAX MATTERS

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

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

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

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

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

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

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

INFORMATION REPORTING AND BACKUP WITHHOLDING... Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number

(“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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

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

CONTINUING DISCLOSURE INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “Appendix D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of specified events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 and in Appendix B, which is the District's annual audited financial report. The District will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2025 and, if not submitted as part of such annual financial information, the District will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the “SEC”), as permitted by SEC Rule 15c2-12 (the “Rule”).

NOTICE OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake

such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under “Annual Reports”. Neither the Bonds nor the Order make any provision for a trustee, liquidity enhancement, credit enhancement (except for guarantee of the Permanent School Fund), or debt service reserves.

For these purposes, 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.

For the events listed in clause (15) and (16) above, the term “financial obligation” means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) a guarantee of either (A) or (B). The term “financial obligation” shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

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 AND AMENDMENTS . . . The District has agreed to update information and to provide notices of certain events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the 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 and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District amends its agreement, it 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 type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

Applications for contract ratings on the Bonds have been submitted to Fitch Ratings, Inc. (“Fitch”) and Moody’s Investors Service, Inc. (“Moody’s”). The presently outstanding tax supported debt of the District is rated “AA+” by Fitch and “Aa3” by Moody’s without regard to credit enhancement. The District also has issues outstanding which are rated “AAA” by Fitch and “Aaa” by Moody’s by virtue of the guarantee of the Permanent School Fund of the State of Texas. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. 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, or either of them, may have an adverse effect on the market price or marketability of the Bonds.

LITIGATION

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

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. 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. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than “A” or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See “OTHER INFORMATION – Ratings” herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The District will furnish the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the District to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein, a form of which opinion is attached to this Official Statement as Appendix C. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under Federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished to the Underwriters. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Permanent School Fund Guarantee", "Book-Entry-Only System", "DTC Notices", "Bondholders' Remedies", and "Sources and Uses of Proceeds", "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" (first paragraph only), "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaptions "Compliance with Prior Undertakings" and "Availability of Information from MSRB"), "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER INFORMATION - Legal Matters" (except for the last sentence of the first paragraph thereof) 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 and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The District expects to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Cantu Harden Montoya LLP, San Antonio, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

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

FINANCIAL ADVISOR

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

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

UNDERWRITING

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

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

SAMCO Capital Markets Inc., an Underwriter of the Unlimited Tax School Building Bonds, Series 2025, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, SAMCO Capital Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, SAMCO Capital Markets Inc. will compensate Fidelity for its selling efforts.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

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

In the Bond Order, the Board authorized the Pricing Officer to approve, 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 Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of Rule 15c2-12.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

The Frenship Independent School District lies primarily in Lubbock County but also extends into Hockley County. The District is a mineral, industrial and agricultural area located adjacent to and partially within the City of Lubbock. The District currently has an approximate enrollment of 10,376 students. Major colleges and universities in the region include Texas Tech University, Texas Tech University Health Sciences Center and Lubbock Christian University.

CAMPUS INFORMATION

Campus	Number of Schools	Capacity
Elementary Schools	7	6,250
Middle Schools	3	2,850
High Schools	1	2,500
Alternative	1	200
Totals	12	11,800

EMPLOYEE AND TEACHER INFORMATION

Number of teachers holding doctorate degrees	1
Number of teachers holding master's degrees	98
Number of teachers holding bachelor's degrees	493
Employee Information	
Number of Employees	999
Number of Teachers	565
Pupil/Teacher Ratios	
Elementary School	19:1
Middle School	16:1
High School	16:1

HISTORICAL ENROLLMENT

School Year	Total Enrollment	Average Daily Attendance
2020	10,353	9,645.100
2021	10,877	9,945.487
2022	11,171	10,254.214
2023	11,581	10,634.099
2024	11,792	10,841.496

LABOR FORCE ESTIMATES

	Annual Averages				
	2024	2023	2022	2021	2020
Lubbock County					
Civilian Labor Force	169,618	15,067,153	14,672,312	14,292,315	13,941,490
Total Employment	164,475	14,472,524	14,093,906	13,486,624	12,872,070
Unemployment	5,143	594,629	578,406	805,691	1,069,420
Percent Unemployment	3.0%	3.9%	3.9%	5.6%	7.7%
State of Texas					
Civilian Labor Force	15,591,398	15,067,153	14,672,312	14,292,315	13,941,490
Total Employment	15,012,362	14,472,524	14,093,906	13,486,624	12,872,070
Unemployment	579,036	594,629	578,406	805,691	1,069,420
Percent Unemployment	3.7%	3.9%	3.9%	5.6%	7.7%

Source: Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE
FRENSHIP INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2024

The information contained in this Appendix consists of excerpts from the Frenship Independent School District Annual Financial Report (the "Report") for the Year Ended August 31, 2024, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.



Independent Auditor's Report

To the Board of Trustees of
Frenship Independent School District
Wolfforth, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Frenship Independent School District (the District) as of and for the year ended August 31, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2024, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Budgetary Comparison Schedule – General Fund (Exhibit G-1), Schedule of District's Proportionate Share of the Net Pension Liability (Exhibit G-2), Schedule of District's Contributions to the Pension Plan (Exhibit G-3), Schedule of District's Proportionate Share of the Net OPEB Liability (Exhibit G-4), Schedule of District's Contributions to the OPEB Plan (Exhibit G-5) be presented to supplement the basic financial statements.. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements, TEA required schedules and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, TEA required schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises Exhibit L-1 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated December 5, 2024 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eric Bailly LLP". The signature is written in a cursive, flowing style.

Abilene, Texas
December 5, 2024

This section of Frenship Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended August 31, 2024. Please read it in conjunction with the District's basic financial statements, which follow this section.

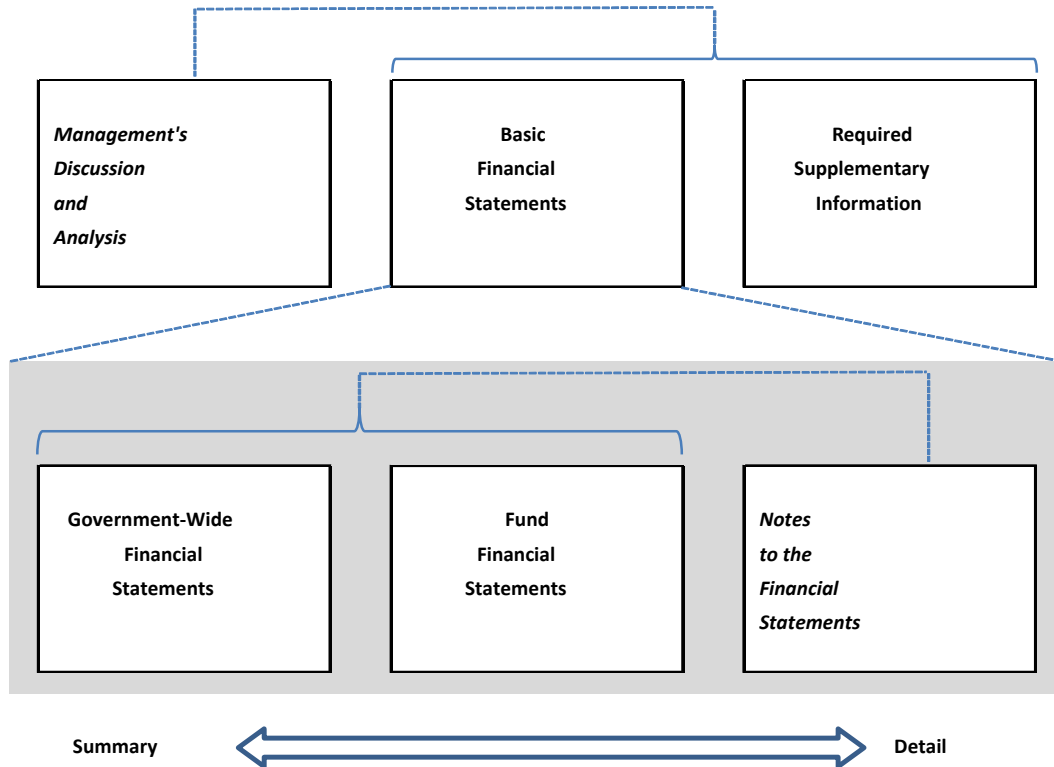
FINANCIAL HIGHLIGHTS

- At August 31, 2024, the District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows by \$97,923,891. Unrestricted net position totaled \$15,164,627.
- As of the close of the current fiscal year, the District's governmental funds (general, debt service, capital projects and special revenue funds) reported combined ending fund balances of \$172,365,565. Of this total amount, 28.9% or \$49,777,977 is available for spending at the District's discretion (unassigned fund balance).
- The general fund as of August 31, 2024 reflects an ending fund balance of \$57,895,995 an increase of \$453,440 to last year. This balance is 51.2% of the total general fund expenditures.
- The District paid long-term debt principal and interest during the fiscal year in the amount of \$31,087,058.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. Figure I shows how the required parts of this annual report are arranged and related to one another.

Figure I, Required Components of the District's Annual Financial Report



The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the District's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.
 - The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like businesses, such as food service.
 - Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

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

The following chart summarizes the major features of the District's financial statements, including the portion of the District's government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major features of the District's government-wide and fund financial statements are summarized below:

Type of Statement	Government-Wide	Fund Financials		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses: food service	Instances in which the District is the trustee or agent for someone else's resources
Required Financial Statements	<ul style="list-style-type: none"> Statement of net position Statement of activities 	<ul style="list-style-type: none"> Balance sheet Statement of revenues, expenditures, and changes in fund balances 	<ul style="list-style-type: none"> Statement of net position Statement of revenues, expenses and changes in net position Statement of cash flows 	<ul style="list-style-type: none"> Statement of fiduciary net position Statement of change in fiduciary net position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term; the District's funds do not currently contain capital assets, although they can
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenue and expenses during the year, regardless of when cash is received or paid.	All revenue and expenses during the year, regardless of when cash is received or paid.

Government-Wide Statements

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

The two government-wide statements report the District's net position and how it has changed. Net position—the difference between the District's assets and deferred outflows of resources and liabilities and deferred inflow of resources—is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District are divided into two categories:

Governmental activities - Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes, fees, state, and federal grants finance most of these activities.

Business-type activities – The District charges a fee to “customers” to help cover all or most of the cost of services it provides in the food and nutrition program.

Fund Financial Statements

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

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

Proprietary funds—The District reports the activities for which it charges users in proprietary funds using the same accounting method employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements, but containing more detail and additional information, such as cash flows.

Fiduciary funds—The District is the trustee, or fiduciary, for money raised by student activities programs. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide 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.

Financial Analysis of the District as a Whole

The District's combined net position was \$97,923,891 at August 31, 2024.

Table A-1

Frenship Independent School District's Net Position						
	Governmental Activities 2024	Governmental Activities 2023	Business-Type Activities 2024	Business-Type Activities 2023	Total Government 2024	Total Government 2023
Assets						
Current and other assets	\$ 70,413,664	\$66,541,775	\$ 3,368,055	\$ 4,781,329	\$ 73,781,719	\$71,323,104
Capital assets	439,215,069	327,931,515	1,248,677	161,940	440,463,746	328,093,455
Restricted assets	127,668,780	226,945,899	-	-	127,668,780	226,945,899
Total assets	637,297,513	621,419,189	4,616,732	4,943,269	641,914,245	626,362,458
Deferred outflows of resources						
Deferred outflows	26,298,591	25,037,460	-	-	26,298,591	25,037,460
Total outflows of resources	26,298,591	25,037,460	-	-	26,298,591	25,037,460
Liabilities						
Current liabilities	9,327,958	7,157,626	510,056	376,232	9,838,014	7,533,858
Payables from restricted assets	15,265,618	13,184,806	-	-	15,265,618	13,184,806
Long-term liabilities	523,868,992	531,388,591	-	-	523,868,992	531,388,591
Total liabilities	548,462,568	551,731,023	510,056	376,232	548,972,624	552,107,255
Deferred inflows of resources						
Deferred inflows	21,316,321	24,069,350	-	-	21,316,321	24,069,350
Total inflows of resources	21,316,321	24,069,350	-	-	21,316,321	24,069,350
Net position						
Net investment in capital assets	69,058,438	44,273,784	1,248,677	161,940	70,307,115	44,435,724
Restricted for debt service and grants	9,586,102	12,511,792	2,857,999	4,405,097	12,444,101	16,916,889
Restricted for capital acquisition	8,048	-	-	-	8,048	-
Unrestricted net position	15,164,627	13,870,700	-	-	15,164,627	13,870,700
Total net position	\$ 93,817,215	\$70,656,276	\$ 4,106,676	\$ 4,567,037	\$ 97,923,891	\$75,223,313

Of the District's restricted net position, \$9,586,102 represents proceeds for debt retirement. The unrestricted net position represents resources available to fund the programs of the District next year. Unrestricted net position totals \$15,164,627.

Changes in Net Position

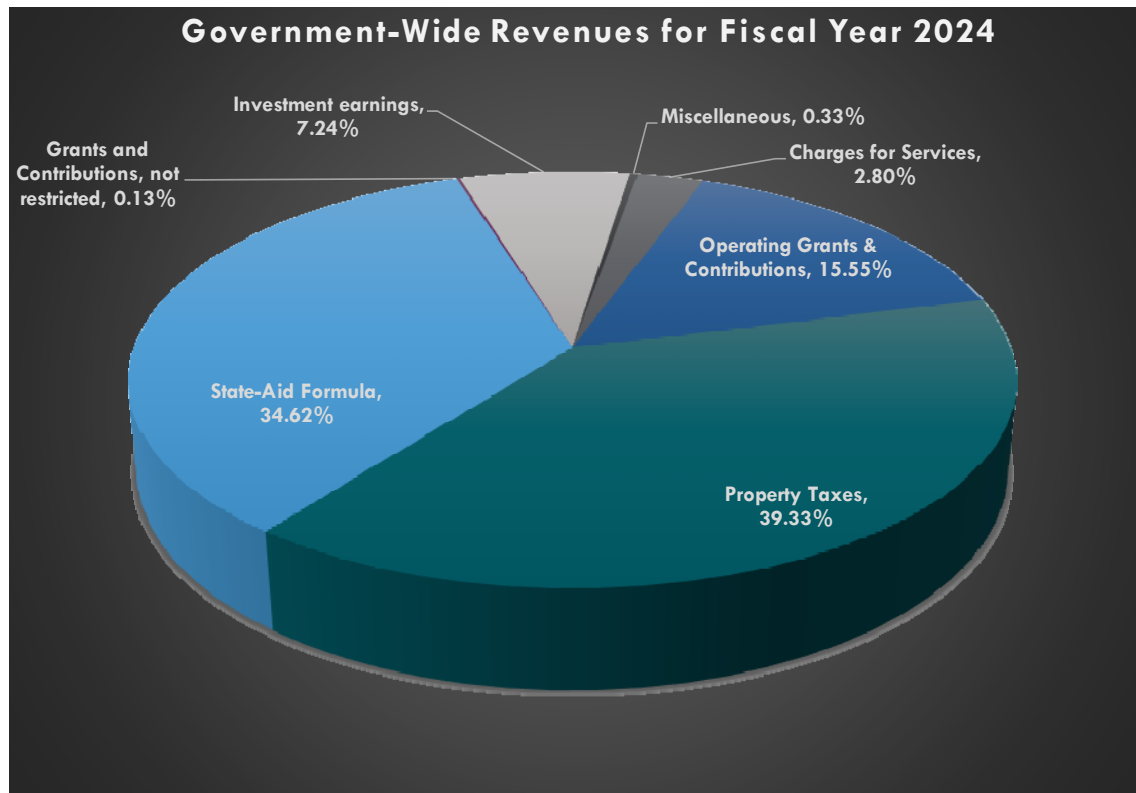
The District's total revenues were \$175,723,240 an increase of 11.24% to last year. Of this total, 39.3% comes from local property taxes. (See Table A-2) Of the remainder, 50.3% comes from state aid and federal grants, while 10.4% relates to charges for services, investment earnings, and miscellaneous.

Frenship Independent School District
Management's Discussion and Analysis
August 31, 2024

The total cost of all programs and services was \$153,022,662, an increase of 17.8%.

Table A-2

	Change in Frenship Independent School District's Net Position					
	Governmental Activities		Business-Type Activities		Total Government	
	2024	2023	2024	2023	2024	2023
Program Revenues						
Charges for services	\$ 3,200,949	\$ 4,925,643	\$ 1,720,182	\$ 1,603,204	\$ 4,921,131	\$ 6,528,847
Operating grants and contributions	22,988,214	10,699,041	4,339,211	4,525,809	27,327,425	15,224,850
General Revenues						
Property taxes	69,116,033	79,144,006	-	-	69,116,033	79,144,006
State-aid formula	60,828,441	41,766,316	-	-	60,828,441	41,766,316
Grants and contributions not restricted	228,286	399,274	-	-	228,286	399,274
Investment earnings	12,536,274	14,261,517	182,720	160,590	12,718,994	14,422,107
Miscellaneous	582,930	484,370	-	-	582,930	484,370
Total revenues	169,481,127	151,680,167	6,242,113	6,289,603	175,723,240	157,969,770
Expenses						
Instruction	68,537,887	61,955,240	-	-	68,537,887	61,955,240
Instructional resources and media	1,728,918	1,428,868	-	-	1,728,918	1,428,868
Curriculum and staff development	1,702,362	1,592,023	-	-	1,702,362	1,592,023
Instructional leadership	3,726,166	3,023,323	-	-	3,726,166	3,023,323
School leadership	6,838,317	5,433,794	-	-	6,838,317	5,433,794
Guidance and counseling	5,238,574	4,252,811	-	-	5,238,574	4,252,811
Health services	1,327,688	1,072,633	-	-	1,327,688	1,072,633
Student transportation	4,011,587	3,121,826	-	-	4,011,587	3,121,826
Food services	417,260	367,207	6,702,474	5,696,607	7,119,734	6,063,814
Cocurricular / extracurricular	8,467,864	6,833,743	-	-	8,467,864	6,833,743
General administration	4,283,801	3,684,227	-	-	4,283,801	3,684,227
Facilities maintenance and operations	14,136,248	12,704,830	-	-	14,136,248	12,704,830
Security and monitoring services	1,788,449	2,170,899	-	-	1,788,449	2,170,899
Data processing services	4,974,933	3,255,109	-	-	4,974,933	3,255,109
Community services	57,978	104,382	-	-	57,978	104,382
Debt service	18,370,317	12,479,511	-	-	18,370,317	12,479,511
Other governmental charges	711,839	719,654	-	-	711,839	719,654
Total expenses	146,320,188	124,200,080	6,702,474	5,696,607	153,022,662	129,896,687
Increase (Decrease) in Net Position	23,160,939	27,480,087	(460,361)	592,996	22,700,578	28,073,083
Net Position - Beginning	70,656,276	43,176,189	4,567,037	3,974,041	75,223,313	47,150,230
Net Position - Ending (Aug 31)	<u>\$ 93,817,215</u>	<u>\$70,656,276</u>	<u>\$ 4,106,676</u>	<u>\$ 4,567,037</u>	<u>\$ 97,923,891</u>	<u>\$75,223,313</u>



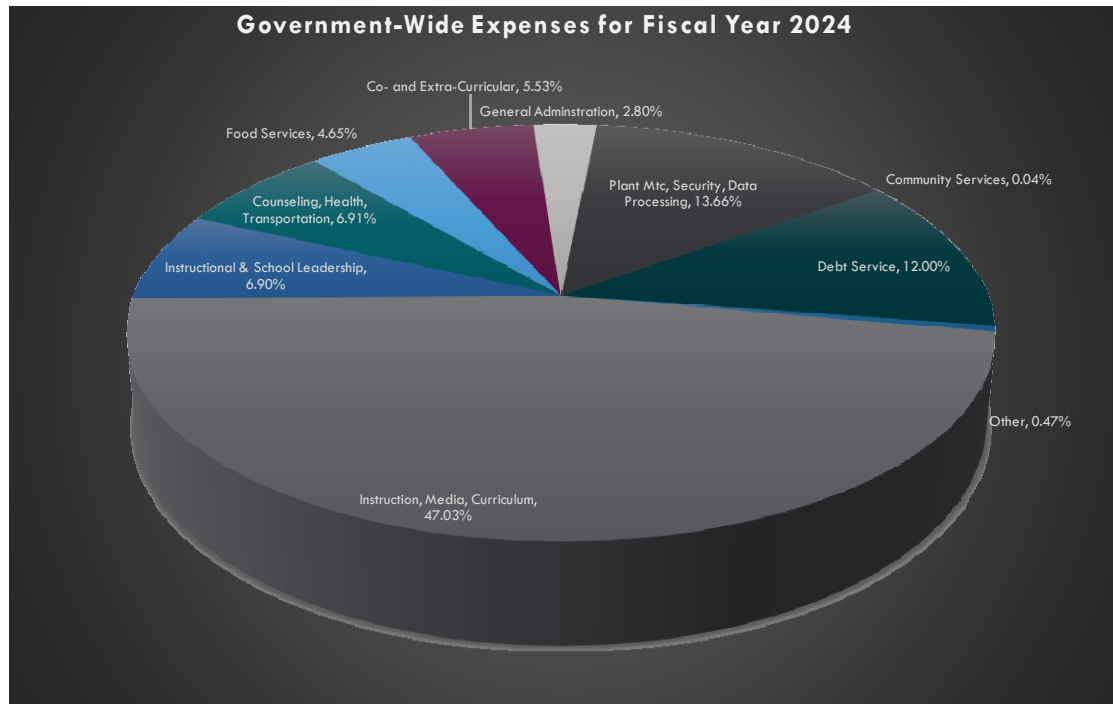


Table A-3 below presents the cost of selected District functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

The cost of all governmental activities this year was \$146,320,188. However, the amount that our local taxpayers paid for these activities through local property taxes was \$69,116,033 while state aid totaled \$60,828,441. Some of the cost was paid by those who directly benefited from the programs at \$3,200,949, or by grants and contributions at \$22,988,214.

Table A-3

Frenship Independent School District's Net Cost of Selected District Functions						
	Governmental Activities					
	Total Cost of Services			Net Cost of Services		
	2024	2023	%	2024	2023	%
			Change			Change
Instruction	\$68,537,887	\$61,955,240	10.62	\$54,692,532	\$52,626,416	3.93
School Leadership	6,838,317	5,433,794	25.85	5,973,176	5,266,047	13.43
Cocurricular / Extracurricular	8,467,864	6,833,743	23.91	6,743,694	5,540,089	21.73
General Administration	4,283,801	3,684,227	16.27	3,881,624	3,578,537	8.47
Facilities Maintenance & Operations	14,136,248	12,704,830	11.27	12,111,373	11,520,311	5.13
Debt Service	18,370,317	12,479,511	47.20	15,187,885	11,749,162	29.27

Financial Analysis of the District's Funds

Revenues from governmental fund types totaled \$162,288,007. The increase in these funds comes from increased state program revenues as Frenship's state aid program revenues increased in the current year while local and Federal program revenues decreased in the current year.

The general fund reported an ending fund balance of \$57,895,995 which reflects an increase of \$453,440 versus last year. The unassigned general fund balance was \$49,777,977, an increase of \$1,798,714 from the prior year. Due to continued fast growth, future campus additions and program changes, the District continues to be intentionally conservative in their operations to plan for the future as well as meet the current needs.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget to reflect activities in the District. With these adjustments, actual expenditures were \$3.9 million below the final budgeted amount. The most positive variances in the District's budget occurred in facilities maintenance and operations and debt service.

Resources available were \$4.9 million above the final budgeted amount. The favorable variance was due to increased state aid. An extremely conservative approach was taken in the budgeting of revenues due to continued growth of the District.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2024, the District had invested \$440,463,746 in a broad range of capital assets, including construction in progress, buildings and improvements, furniture and equipment, and right to use assets. (See Table A-4).

Table A-4

Frenship Independent School District's Capital Assets						
	Governmental Activities		Business-Type Activities		Total Government	
	2024	2023	2024	2023	2024	2023
Land	\$ 11,640,022	\$ 11,640,022	\$ -	\$ -	\$ 11,640,022	\$ 11,640,022
Construction in Progress	144,014,902	62,433,303	-	-	144,014,902	62,433,303
Buildings and Improvements	375,260,344	340,296,625	-	-	375,260,344	340,296,625
Furniture and Equipment	10,763,110	10,142,949	2,126,132	894,262	12,889,242	11,037,211
Intangible asset - right to use assets	2,582,816	595,446	-	-	2,582,816	595,446
Total at Historical Cost	544,261,194	425,108,345	2,126,132	894,262	546,387,326	426,002,607
Less Accumulated Depreciation/Amortization	(105,046,125)	(97,176,830)	(877,455)	(732,322)	(105,923,580)	(97,909,152)
Net Capital Assets	<u>\$ 439,215,069</u>	<u>\$ 327,931,515</u>	<u>\$ 1,248,677</u>	<u>\$ 161,940</u>	<u>\$ 440,463,746</u>	<u>\$ 328,093,455</u>

Long-Term Debt

At the end of 2024, the District had \$482,313,349 in debt outstanding as shown in Table A-5.

More detailed information about the District's debt is presented in the notes to the basic financial statements.

Table A-5

**Frenship Independent School District's
Long-Term Debt**

	Governmental Activities		
	2024	2023	
Bonds payable	\$ 476,387,880	\$ 494,097,336	\$ (17,709,456)
Accreted interest	-	273,417	(273,417)
Arbitrage rebate liability	4,514,492	-	4,514,492
Lease and SBITA liability	1,410,977	43,509	1,367,468
	<u>\$ 482,313,349</u>	<u>\$ 494,414,262</u>	<u>\$ (12,100,913)</u>
Total debt payable	<u>\$ 482,313,349</u>	<u>\$ 494,414,262</u>	<u>\$ (12,100,913)</u>

ECONOMIC FACTORS AND 2024-2025 BUDGETS & RATES

The District continues to see increasing numbers of students enroll as a result of steady population growth, new housing developments and starts, new commercial and retail construction, and an economy that consistently outperforms the state and national averages. The District's enrollment growth rate returned to its regular anticipated growth of 3.99 % in 2023-24. For fiscal year 2023-2024, the budgets were originally based on an enrollment of 11,321 students, a 1.51% increase, or 171 students, more than the previous year. However, the final adopted budget had an enrollment of 11,562 students, an increase of 1.95% and 241 students more than originally projected.

The 2024-25 budget is once again developed with a conservative approach using an estimated enrollment of 11,792 students, a projected increase of 230 students. As of the 2024 Snapshot date, enrollment for 2024-25 is slightly lower than the budgeted projections with a snapshot enrollment of 11,753 students.

The District continues to demonstrate a strong commitment to financial solvency. The conservative approach, and managements active monitoring of the operational budget, allows for reserves to continue to increase throughout an uncertain economic period. With the Foundation School Fund's basic allotment allocations remaining the same since 2019 and the inflationary cost in the same time period, resources are becoming increasingly scarce. Fortunately, increased student enrollment and local property value growth have aided in the Districts continued to ability to maintain and expand, when possible, its programs and academic opportunities for students. The District continuously works to improve opportunities for the staff and remain competitive in an increasingly challenging labor market. The District adopted a competitive benefits and pay package in 2023-24 and was able to remain competitive in the human resource market while maximizing efficiency. The District entered into its third year of the One-to-One initiative for student and staff technology. Frenship ISD continues to adopt budgets that are efficient and fiscally responsible providing for the various needs of the District both present and future. As the District continues to grow and face the challenges of an unpredictable social environment, a recovering economy and a legislative agenda that will have direct impact on public schools, the importance of day-to-day operations and fiscal responsibility is emphasized even greater. In November 2024, the District received additional support from our local taxpayers and successfully passed a Voter Approved Tax Rate Election further securing the future of Frenship ISD and allowing the District to invest more into schools, students, and staff regardless of the level of support provided by the State.

The economic outlook for the District continues to show growth in both the commercial and residential development. Average daily attendance (ADA) continued to rise as the District finished the 2023-24 school year with an ADA of 10634.13. In fall 2024 the district projected an enrollment of 11,792 with an attendance rate of 94.5% and expecting an ADA of 10841.496. Tax Appraised Value gains have also been steadily growing by a Compounded Average Growth Rate of more than 5.75% over the same period due to the continued expansion in housing and retail construction. The fiscal 2025 Taxable Assessed Value totals of \$7.103 billion, up 11.91% from the prior year. The certified property values for the District are growing at an average rate of 9.19% annually the past three years due to housing and retail growth in the west and southwest areas of the City of Lubbock along with the increased developments in Wolfforth. This average is particularly strong considering the impact of the \$100,000 Homestead Exemption because of the passing of House Bill 3. District residents' per capita income remains slightly above the state average but below the national average. The unemployment rate remains historically lower than both the state and national averages.

The property tax rate for Maintenance and Operations (M&O) was compressed for the sixth year in a row to a rate of \$.67900 per \$100 of taxable value for 2023-24. The Interest and Sinking (I&S) tax rate for paying the District's annual principal and interest payments on its bond debt remained at \$0.48 per \$100 value in order to pay the District's outstanding bond indebtedness. As property values continue to grow, the District anticipates adjusting the tax rate in response to the existing debt and reducing the rate when possible.

The District completed construction on Ridgewood Elementary School, the ninth elementary school, and continued construction of the second high school project from the 2020 Bond Program. In addition to these, Alcove Trails Middle School completed its first year of operation in the 2023-2024 school year. The projects from the \$299,700,000 November 2020 Bond addresses the growth needs of the District with the addition of a second-high school, a 4th middle school, a 9th elementary school, the conversion of the Ninth Grade Center into Frenship Middle School, along with other projects geared toward addressing the continued growth of the District.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Department of Business Services at Frenship ISD, 501 7th Street, Wolfforth, Texas.

Frenship Independent School District
Statement of Net Position (Exhibit A-1)
August 31, 2024

Data Control Codes		1 Governmental Activities	2 Business Type Activities	3 Total
Assets				
1110	Cash and cash equivalents	\$ 40,848,044	\$ 3,022,796	\$ 43,870,840
1120	Investments - current	21,191,993	-	21,191,993
1220	Property taxes receivable (delinquent)	2,372,260	-	2,372,260
1230	Allowance for uncollectible taxes	(401,506)	-	(401,506)
1240	Due from other governments	5,814,301	306,847	6,121,148
1260	Internal balances	3,691	(3,691)	-
1267	Due from fiduciary funds	6,944	-	6,944
1290	Other receivables	146,767	42,103	188,870
1300	Inventories at cost	6,343	-	6,343
1410	Prepayments	394,922	-	394,922
1490	Other current assets	29,905	-	29,905
Capital assets				
1510	Land	11,640,022	-	11,640,022
1520	Buildings and improvements, net	277,781,576	-	277,781,576
1530	Furniture and equipment, net	3,605,161	1,248,677	4,853,838
1550	Intangible asset - right-to-use leased asset, net	2,173,408	-	2,173,408
1580	Construction in progress	144,014,902	-	144,014,902
1800	Restricted assets	127,668,780	-	127,668,780
1000	Total assets	637,297,513	4,616,732	641,914,245
Deferred Outflows of Resources				
1701	Deferred outflows - bond refunding	9,184,099	-	9,184,099
1705	Deferred outflows - pension	11,681,077	-	11,681,077
1706	Deferred outflows - OPEB	5,433,415	-	5,433,415
1700	Total deferred outflows of resources	26,298,591	-	26,298,591
Liabilities				
2110	Accounts payable	2,065,974	510,056	2,576,030
2140	Interest payable	979,067	-	979,067
2160	Accrued wages payable	5,560,889	-	5,560,889
2180	Due to other governments	333,143	-	333,143
2300	Unearned revenue	388,885	-	388,885
2400	Payable from restricted assets	15,265,618	-	15,265,618
Noncurrent liabilities				
2501	Due within one year	8,337,437	-	8,337,437
2502	Due in more than one year	473,975,912	-	473,975,912
2540	Net pension liability	27,559,922	-	27,559,922
2545	Net OPEB liability	13,995,721	-	13,995,721
2000	Total liabilities	548,462,568	510,056	548,972,624
Deferred Inflows of Resources				
2605	Deferred inflows - pension	971,622	-	971,622
2606	Deferred inflows - OPEB	20,344,699	-	20,344,699
2600	Total deferred inflows of resources	21,316,321	-	21,316,321
Net Position				
3200	Net investment in capital assets	69,058,438	1,248,677	70,307,115
3820	Restricted for grants	-	2,857,999	2,857,999
3850	Restricted for debt service	9,586,102	-	9,586,102
3870	Restricted for capital acquisition	8,048	-	8,048
3900	Unrestricted	15,164,627	-	15,164,627
3000	Total net position	\$ 93,817,215	\$ 4,106,676	\$ 97,923,891

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues	
			3	4
			Charges for Services	Operating Grants and Contributions
	Governmental activities			
11	Instruction	\$ 68,537,887	\$ 1,701,830	\$ 12,143,525
12	Instructional resources and media services	1,728,918	-	196,052
13	Curriculum and instructional staff development	1,702,362	-	554,525
21	Instructional leadership	3,726,166	-	517,008
23	School leadership	6,838,317	-	865,141
31	Guidance, counseling, and evaluation services	5,238,574	-	1,879,915
33	Health services	1,327,688	-	214,645
34	Student transportation	4,011,587	-	-
35	Food services	417,260	-	-
36	Extracurricular activities	8,467,864	1,313,973	410,197
41	General administration	4,283,801	-	402,177
51	Facilities maintenance and operations	14,136,248	185,146	1,839,729
52	Security and monitoring services	1,788,449	-	554,978
53	Data processing services	4,974,933	-	204,886
61	Community services	57,978	-	15,802
72	Debt service - interest on long-term debt	18,370,317	-	3,182,432
81	Facilities acquisition and construction	-	-	7,202
99	Other intergovernmental charges	711,839	-	-
TG	Total governmental activities	146,320,188	3,200,949	22,988,214
	Business-type activities			
05	Enterprise fund - National School Breakfast and Lunch	6,702,474	1,720,182	4,339,211
TB	Total business-type activities	6,702,474	1,720,182	4,339,211
TP	Total primary government	\$ 153,022,662	\$ 4,921,131	\$ 27,327,425
	General revenues			
	Taxes			
MT	Property taxes and penalties, levied for general purposes			
DT	Property taxes and penalties, levied for debt service			
SF	State aid - formula grants			
GC	Grants and contributions not restricted to specific programs			
IE	Investment earnings			
MI	Miscellaneous			
TR	Total general revenues			
CN	Change in net position			
NB	Net position, beginning			
NE	Net position, end of year			

See Notes to Financial Statements

Frenship Independent School District
Statement of Activities (Exhibit B-1)
Year Ended August 31, 2024

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Governmental Activities	Primary Government Business-Type Activities	Total
\$ (54,692,532)	\$ -	\$ (54,692,532)
(1,532,866)	-	(1,532,866)
(1,147,837)	-	(1,147,837)
(3,209,158)	-	(3,209,158)
(5,973,176)	-	(5,973,176)
(3,358,659)	-	(3,358,659)
(1,113,043)	-	(1,113,043)
(4,011,587)	-	(4,011,587)
(417,260)	-	(417,260)
(6,743,694)	-	(6,743,694)
(3,881,624)	-	(3,881,624)
(12,111,373)	-	(12,111,373)
(1,233,471)	-	(1,233,471)
(4,770,047)	-	(4,770,047)
(42,176)	-	(42,176)
(15,187,885)	-	(15,187,885)
7,202	-	7,202
(711,839)	-	(711,839)
(120,131,025)	-	(120,131,025)
-	(643,081)	(643,081)
-	(643,081)	(643,081)
(120,131,025)	(643,081)	(120,774,106)
40,395,868	-	40,395,868
28,720,165	-	28,720,165
60,828,441	-	60,828,441
228,286	-	228,286
12,536,274	182,720	12,718,994
582,930	-	582,930
143,291,964	182,720	143,474,684
23,160,939	(460,361)	22,700,578
70,656,276	4,567,037	75,223,313
\$ 93,817,215	\$ 4,106,676	\$ 97,923,891

Data Control Codes		10	50
		General Fund	Debt Service Fund
	Assets		
1110	Cash and cash equivalents	\$ 38,861,175	\$ -
1120	Current investments	21,191,993	-
1220	Property taxes - delinquent	1,389,788	982,472
1230	Allowance for uncollectible taxes	(235,222)	(166,284)
1240	Due from other governments	3,146,166	88,816
1260	Due from other funds	2,478,240	-
1290	Other receivables	89,814	14,546
1300	Inventories	6,343	-
1410	Prepayments	81,770	-
1490	Other current assets	29,905	-
1800	Restricted assets	-	14,163,611
1000	Total assets	67,039,972	15,083,161
1000a	Total assets and deferred outflows	\$ 67,039,972	\$ 15,083,161
	Liabilities		
2110	Accounts payable	\$ 1,884,566	\$ 3,500
2160	Accrued wages payable	5,560,889	-
2170	Due to other funds	-	-
2180	Due to other governments	323,686	-
2300	Unearned revenue	-	-
2400	Payable from restricted assets	222,268	-
2000	Total liabilities	7,991,409	3,500
	Deferred inflows of resources		
2600	Unavailable revenue - property taxes	1,152,568	816,188
	Total deferred inflows of resources	1,152,568	816,188
	Fund balance		
3410	Nonspendable - inventories	6,343	-
3430	Nonspendable - prepaid items	111,675	-
3470	Restricted - capital acquisition and contractual obligation	-	-
3480	Restricted - retirement of long term debt	-	14,263,473
3545	Committed - other	-	-
3550	Assigned - construction	5,000,000	-
3570	Assigned - capital expenditures for equipment	1,500,000	-
3590	Assigned - other	1,500,000	-
3600	Unassigned	49,777,977	-
3000	Total fund balances	57,895,995	14,263,473
4000	Total liabilities, deferred inflows, and fund balances	\$ 67,039,972	\$ 15,083,161

See Notes to Financial Statements

Frenship Independent School District
Balance Sheet – Governmental Funds (Exhibit C-1)
August 31, 2024

60 Capital Projects Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ -	\$ 1,856,271	\$ 40,717,446
-	-	21,191,993
-	-	2,372,260
-	-	(401,506)
-	2,579,319	5,814,301
-	-	2,478,240
8,048	31,343	143,751
-	-	6,343
-	313,152	394,922
-	-	29,905
113,505,169	-	127,668,780
113,513,217	4,780,085	200,416,435
<u>\$ 113,513,217</u>	<u>\$ 4,780,085</u>	<u>\$ 200,416,435</u>
\$ -	\$ 177,908	\$ 2,065,974
-	-	5,560,889
3,692	2,463,913	2,467,605
-	9,457	333,143
-	388,885	388,885
15,043,350	-	15,265,618
15,047,042	3,040,163	26,082,114
-	-	1,968,756
-	-	1,968,756
-	-	6,343
-	313,152	424,827
98,466,175	-	98,466,175
-	-	14,263,473
-	1,426,770	1,426,770
-	-	5,000,000
-	-	1,500,000
-	-	1,500,000
-	-	49,777,977
98,466,175	1,739,922	172,365,565
<u>\$ 113,513,217</u>	<u>\$ 4,780,085</u>	<u>\$ 200,416,435</u>

Frenship Independent School District

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit C-1r)

August 31, 2024

Total Fund Balances - Governmental Funds (Exhibit C-1) \$ 172,365,565

The District uses internal service funds to charge the costs of certain activities, such as workers compensation, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position. 133,614

Capital assets, net of accumulated depreciation, are not financial resources and therefore are not reported as assets in governmental funds. 439,215,069

Some liabilities, including bonds payable and leases, are not due and payable in the current period and therefore are not reported in the funds:

Lease liability	(1,410,977)	
Bonds payable	(440,645,000)	
Deferred charge on refunding	9,184,099	
Unamortized premiums on bonds payable	(35,742,880)	
Arbitrage rebate liability	<u>(4,514,492)</u>	(473,129,250)

Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds. (979,067)

Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds. These are:

Deferred resource inflow for property taxes	1,968,756
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The government-wide statements includes the District's proportionate share of the TRS net pension liabilities and TRS-Care net OPEB liabilities, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources:

Net pension liability	(27,559,922)	
Deferred outflows of resources - TRS pension	11,681,077	
Deferred inflows of resources - TRS pension	(971,622)	
Net OPEB liability	(13,995,721)	
Deferred outflows of resources - TRS-Care OPEB	5,433,415	
Deferred inflows of resources - TRS-Care OPEB	<u>(20,344,699)</u>	<u>(45,757,472)</u>

Total Net Position - Governmental Activities (Exhibit A-1) \$ 93,817,215

Data Control Codes		10	50
		General Fund	Debt Service Fund
	Revenues		
5700	Local and intermediate sources	\$ 45,263,171	\$ 29,397,909
5800	State program revenues	66,826,529	3,182,432
5900	Federal program revenues	411,776	-
5020	Total revenues	112,501,476	32,580,341
	Expenditures		
	Current		
0011	Instruction	58,248,035	-
0012	Instructional resources and media services	1,404,777	-
0013	Curriculum and instructional staff development	1,195,409	-
0021	Instructional leadership	3,390,565	-
0023	School leadership	6,208,512	-
0031	Guidance, counseling, and evaluation services	3,481,928	-
0033	Health services	1,178,631	-
0034	Student (pupil) transportation	3,968,568	-
0035	Food services	32,584	-
0036	Extracurricular activities	5,253,711	-
0041	General administration	3,862,110	-
0051	Facilities maintenance and operations	12,913,703	-
0052	Security and monitoring services	1,589,993	-
0053	Data processing services	3,359,927	-
0061	Community services	40,481	-
	Debt service		
0071	Principal on long term debt	58,326	15,906,873
0072	Interest on long term debt	8,091	15,113,768
	Capital outlay		
0081	Facilities acquisition and construction	6,258,298	-
	Intergovernmental		
0099	Other intergovernmental charges	711,839	-
6030	Total expenditures	113,165,488	31,020,641
1100	Excess (deficiency) of revenues over (under) expenditures	(664,012)	1,559,700
	Other financing sources (uses)		
7913	Proceeds from leases and SBITAs	1,425,794	-
7915	Transfer in	-	-
8911	Transfer out	(308,342)	-
7080	Total other financing sources (uses)	1,117,452	-
1200	Net change in fund balances	453,440	1,559,700
0100	Fund balance, beginning	57,442,555	12,703,773
3000	Fund balance, end of year	\$ 57,895,995	\$ 14,263,473

See Notes to Financial Statements

Frenship Independent School District

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds (Exhibit C-2)

Year Ended August 31, 2024

60 Capital Projects Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ 8,128,197	\$ 1,820,702	\$ 84,609,979
-	2,191,807	72,200,768
-	5,065,484	5,477,260
8,128,197	9,077,993	162,288,007
-	4,509,147	62,757,182
-	75,045	1,479,822
-	418,780	1,614,189
-	49,730	3,440,295
-	118,996	6,327,508
-	1,495,388	4,977,316
-	37,471	1,216,102
-	-	3,968,568
-	-	32,584
-	1,230,693	6,484,404
-	33,358	3,895,468
-	750,924	13,664,627
905,863	342,145	2,838,001
892,553	-	4,252,480
-	17,216	57,697
-	-	15,965,199
-	-	15,121,859
108,652,488	-	114,910,786
-	-	711,839
110,450,904	9,078,893	263,715,926
(102,322,707)	(900)	(101,427,919)
-	-	1,425,794
-	308,342	308,342
-	-	(308,342)
-	308,342	1,425,794
(102,322,707)	307,442	(100,002,125)
200,788,882	1,432,480	272,367,690
\$ 98,466,175	\$ 1,739,922	\$ 172,365,565

Frenship Independent School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities (Exhibit C-2r)
Year Ended August 31, 2024

Total Net Change in Fund Balances - Governmental Funds (Exhibit C-2) \$ (100,002,125)

The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The change in net position of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position. 34,767

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 2024 capital outlay of \$117,165,479, bond principal payments of \$7,732,773, a bond defeasance of \$8,205,000, lease principal payments of \$58,326, right-of-use asset additions of \$2,105,084 and payment of accretion on capital appreciation bonds of \$279,436 is to increase net position. 135,546,098

Depreciation and amortization are not recognized as an expense in governmental funds since they do not require the use of current financial resources. The net effect of the current year's depreciation and amortization is to decrease net position. (7,987,009)

Changes in the deferred outflows of resources, deferred inflows of resources and net pension liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$270,938. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate shares of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$3,171,183. The net effect is a decrease in net position. (2,900,245)

Changes in the deferred outflows of resources, deferred inflows of resources and net OPEB liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$35,487. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the OPEB be recognized. These cause the change in net position to increase in the amount of \$2,804,044. The net effect is an increase in net position. 2,839,531

Bond premiums and deferred charge on refunding are recorded as expenditures when paid in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization. 1,265,243

Frenship Independent School District
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities (Exhibit C-2r)
Year Ended August 31, 2024

The arbitrage rebate liability is accrued in the government-wide financial statements. The current year change in the rebate liability is an increase of \$4,514,492. The net effect is to decrease net position.	(4,514,492)
Proceeds from issuance of leases and SBITAs are shown as sources of funds in the governmental funds, but the government-wide financial statements recognize the liability.	(1,425,794)
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is an increase of \$303,526. Capital appreciation bonds are issued at a discount and then increase in value until maturity. The current year accretion is \$6,019. The net effect is to decrease net position.	(309,545)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred inflows of \$1,968,756 as revenue, removing prior year's tax collection of \$1,354,246, other various adjustments and eliminating interfund transactions. The net effect is an increase in net position.	<u>614,510</u>
Change in Net Position of Governmental Activities (Exhibit B-1)	<u>\$ 23,160,939</u>

Frenship Independent School District
Statement of Net Position – Proprietary Funds (Exhibit D-1)
August 31, 2024

Data Control Codes		Business Type Activities	Governmental Activities
		Enterprise Fund	Internal Service Fund
	Assets		
	Current assets		
1110	Cash and cash equivalents	\$ 3,022,796	\$ 130,598
1240	Due from other governments	306,847	-
1290	Other receivables	42,103	3,016
	Total current assets	3,371,746	133,614
	Noncurrent assets		
1530	Furniture and equipment, net	1,248,677	-
	Total noncurrent assets	1,248,677	-
1000	Total assets	4,620,423	133,614
	Liabilities		
	Current liabilities		
2110	Accounts payable	510,056	-
2170	Due to other funds	3,691	-
	Total current liabilities	513,747	-
	Net position		
3200	Net investment in capital assets	1,248,677	-
3280	Restricted for grants	2,857,999	-
3900	Unrestricted	-	133,614
3000	Total net position	\$ 4,106,676	\$ 133,614

Frenship Independent School District
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds (Exhibit D-2)
Year Ended August 31, 2024

Data Control Codes		Business Type Activities	Governmental Activities
		Enterprise Fund	Internal Service Fund
	Operating revenues		
5700	Local and intermediate sources	\$ 1,720,182	\$ 7,611,268
5800	State program revenues	4,931	-
	Total operating revenues	1,725,113	7,611,268
	Operating expenses		
6100	Payroll services	81,260	-
6200	Professional and contracted services	4,913,643	-
6300	Supplies and materials	1,347,154	-
6400	Other operating costs	360,417	7,589,192
6030	Total operating expenses	6,702,474	7,589,192
	Operating loss	(4,977,361)	22,076
	Nonoperating revenues		
7952	National school breakfast program	953,241	-
7953	National school lunch program	3,036,939	-
7954	Donated commodities	344,100	-
7955	Earnings from temporary deposits and investments	182,720	12,691
8030	Total nonoperating revenues	4,517,000	12,691
1300	Change in net position	(460,361)	34,767
0100	Net position, beginning	4,567,037	98,847
3300	Net position, ending	\$ 4,106,676	\$ 133,614

Frenship Independent School District
Statement of Cash Flows – Proprietary Funds (Exhibit D-3)
Year Ended August 31, 2024

	Business Type Activities	Governmental Activities
	Enterprise Fund	Internal Service Fund
Operating activities		
Cash received from user charges	\$ 1,707,067	\$ 7,609,902
Cash payment for insurance premiums	-	(7,589,192)
Cash payments for employees services	(81,260)	-
Cash payments for suppliers	(5,998,157)	-
Net cash (used for) provided by operating activities	(4,372,350)	20,710
Non-capital financing activities		
Federal grants received	3,940,878	-
Net cash from non-capital financing activities	3,940,878	-
Capital and related financing activities		
Acquisition of capital assets	(1,231,870)	-
Net cash used for capital and related financing activities	(1,231,870)	-
Investing activities		
Earnings from temporary deposits and investments	182,720	12,691
Net cash from investing activities	182,720	12,691
Net change in cash and cash equivalents	(1,480,622)	33,401
Cash balances, beginning of the year	4,503,418	97,197
Cash balances, end of the year	<u>\$ 3,022,796</u>	<u>\$ 130,598</u>
Reconciliation of operating (loss) income to net cash (used for) provided by operating activities		
Operating (loss) income	\$ (4,977,361)	\$ 22,076
Adjustments to reconcile operating (loss) income to net cash (used for) provided by operating activities		
Depreciation	145,133	-
Donated commodities	344,100	-
Change in assets and liabilities		
Increase in receivables	(18,046)	(1,366)
Increase in accounts payable	133,824	-
Net cash (used for) provided by operating activities	<u>\$ (4,372,350)</u>	<u>\$ 20,710</u>

Frenship Independent School District
Statement of Fiduciary Net Position – Fiduciary Fund (Exhibit E-1)
August 31, 2024

	Custodial Fund
Assets	
Cash and cash equivalents	\$ 139,480
Other receivables	<u>14,429</u>
Total assets	<u>153,909</u>
Liabilities	
Accounts payable	207
Due to other funds	<u>6,944</u>
Total liabilities	<u>7,151</u>
Net Position	
Restricted for student activities	<u>146,758</u>
Total net position	<u><u>\$ 146,758</u></u>

Frenship Independent School District
Statement of Change in Fiduciary Net Position – Fiduciary Fund (Exhibit E-2)
Year Ended August 31, 2024

	<u>Custodial Fund</u>
Additions	
Contributions	<u>\$ 127,557</u>
Total additions	<u>127,557</u>
Deductions	
Extracurricular activities	<u>71,096</u>
Total deductions	<u>71,096</u>
Change in net position	56,461
Net position, beginning	<u>90,297</u>
Net position, ending	<u><u>\$ 146,758</u></u>

Note 1 - Summary of Significant Accounting Policies**Reporting Entity**

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of Frenship Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. There are no component units included within the reporting entity. The financial statements of the District include all activities for which the Board exercises these governance responsibilities.

The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

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

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements, as well as the proprietary and fiduciary fund financial statements, are reported using 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 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 are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The Proprietary Fund Types and Fiduciary Funds are accounted for using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Property taxes and penalties and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

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

The *Debt Service Fund*, a governmental fund type, accounts for financial resources that are restricted, committed or assigned to expenditures for principal and interest on long-term debt of governmental activities.

The *Capital Projects Fund*, a governmental fund type, accounts for the financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets.

Additionally, the District reports the following fund types:

The *special revenue funds*, a governmental fund type, account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District accounts for each federal and state grant in a separate special revenue fund.

The *enterprise fund*, a proprietary fund type, accounts for the District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District currently reports food service as a non-major Enterprise Fund.

The *internal service fund* is a proprietary type fund. Revenues and expenses are related to services provided to organizations or individuals inside the District on a cost reimbursement basis. Internal service funds inherently create redundancy because their expenses are recorded a second time in the fund that is billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the internal service funds are consolidated and interfund transactions are eliminated. The District has an internal service fund for its employee health insurance. The general fund is contingently liable for liabilities of this fund.

The *fiduciary funds*, The District has the following:

Custodial funds, The District accounts for resources held for others in a custodial capacity in custodial funds. The District's custodial fund is the student activity fund.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from *nonoperating items*. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the health insurance internal service fund are District contributions for health insurance. Operating expenses include premiums and administrative expense for administering the health insurance fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at amortized cost.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities and business type activities columns in the government-wide financial statements. The District defines capital assets 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 acquisition 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.

Property, plant, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & improvements	5 - 65
Furniture & equipment	3 - 15

Right-to-use lease assets are recognized at the lease commencement date and represent the District’s right to use an underlying asset for the lease term. Right-to-use lease assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right-to-use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

Right-to-use subscription IT assets are recognized at the subscription commencement date and represent the District’s right to use the underlying IT asset for the subscription term. Right-to-use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right-to-use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 1 to 3 years.

Inventories

Inventories of supplies on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Lease liabilities represent the District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the District.

Subscription liabilities represent the District's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments are discounted based on a borrowing rate determined by the District.

Deferred Outflows

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) until that time.

The District has two types of items that qualify for reporting in this category. The first item is deferred outflows related to pension and OPEB plans as a result of various estimate differences that will be recognized as expenses in future years, reported in the government-wide statement of net position. The second item is deferred outflows related to deferred charges on previous bond refundings and is reported in the government-wide statement of net position and will be recognized as expense in future years.

Deferred Inflows of Resources

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 two types of items that qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is deferred inflows related to pension and OPEB plans as a result of various estimate differences that will be recognized as expenses in future years, reported in the government-wide statement of net position.

Property Tax

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the August 31, 2024 fiscal year was based, was \$6,227,144,350. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended August 31, 2024 were 96.61% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund and Debt Service Fund are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2024, property taxes receivable, net of estimated uncollectible taxes, totaled \$1,970,754.

The tax rate to finance general governmental services was \$0.67900 per \$100 and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.4800 per \$100 for the year ended August 31, 2024.

Net Position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. The District's net position is composed of the following:

Net Investment in Capital Assets is the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvements of these capital assets. The net investment in capital assets for governmental activities is made up of the following:

Net carrying value of capital assets	\$ 439,215,069
Less:	
Outstanding principal of capital debt and other borrowings	(442,055,977)
Unamortized balance of original issue premiums	(35,742,880)
Outstanding balance of capital related liabilities, including accounts payable	(15,047,042)
Plus:	
Unspent bond proceeds	113,505,169
Unamortized balance of capital related deferred outflows of resources	9,184,099
Net investment in capital assets, governmental activities	<u>\$ 69,058,438</u>

Restricted for Grants is the component of net position that reports the difference between assets and liabilities of the Federal and State special revenue programs that consists of assets with constraints placed on their use by the Department of Education, Health and Human Services, Agriculture or TEA.

Restricted for Debt Service is the component of net position that reports the difference between assets and liabilities of the Debt Service Fund, net of accrued interest, at August 31, 2024, that consists of assets with constraints placed on their use by the bond covenants.

Restricted for Capital Acquisition is the amount of net position that consists of assets constrained for acquiring new capital assets, such as property, equipment and buildings at August 31, 2024.

Unrestricted is the difference between the assets and liabilities that are not reported in net position invested in capital assets, net position restricted for debt service, net position restricted for federal and state programs, net position restricted for capital projects, and net position restricted for other purposes.

Fund Balance

The District classifies governmental fund balance in accordance with GASB 54, Fund Balance Reporting and Governmental Fund Type Definitions:

Nonspendable fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District had nonspendable fund balance for inventory of \$6,343 and prepaid items of \$424,827 at August 31, 2024.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. As of August 31, 2024, \$98,466,175 was restricted for capital acquisition and contractual obligations. Fund balance restricted for the retirement of funded indebtedness totaled \$14,263,473 as of August 31, 2024.

Committed fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At August 31, 2024, the District had \$1,426,770 committed for Campus Activity Funds.

Assigned fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent. At August 31, 2024, the District had \$5,000,000 assigned for construction, \$1,500,000 assigned for capital expenditures for equipment, and \$1,500,000 for other future growth expenditures.

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

The District uses restricted amounts first when both restricted and unrestricted fund balances are available. Additionally, the District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

The District's financial goal is to have a sufficient balance in the operating fund with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The District shall strive to maintain a yearly fund balance in the general operating fund in which the total fund balance is 20% of the total operating expenditures.

Pensions

The fiduciary net position of the 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. The General Fund is typically used to liquidate pension liabilities.

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 relating 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 General Fund is typically used to liquidate OPEB liabilities.

Use of Estimates

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

New Accounting Pronouncements

GASB issued Statement No. 101, *Compensated Absences*. Statement 101 was issued in June 2022. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The requirements of this Statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged. The effects of this change on the District's financial statements have not yet been determined.

GASB issues Statement No. 102, *Certain Risk Disclosures*. Statement 102 was issued in December 2023. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a governments' vulnerabilities due to certain concentrations or constraints. The objective is achieved by providing financial statements users with essential information that currently is not often provided. The disclosures will provide users with timely information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. As a result, users will have better information to understand and anticipate certain risks to a government's financial condition. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. Earlier application is encouraged. The District has not yet determined the impact of this Statement.

GASB issued Statement No. 103, Financial Reporting Model Improvements. Statement 103 was issued in April 2024. The objective of this statement is to improve the financial reporting model's effectiveness in providing information for decision-making and assessing a government's accountability. The statement was issued in April 2024 and is the result of a reexamination project that began in 2013. The statement's requirements are intended to improve transparency, comparability and quality; address application issues and increase consistency. This statement will be effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged. The District has not yet determined the impact of this Statement.

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

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

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund, and the Child Nutrition Special Revenue Fund. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year.

Note 3 - Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

U.S. Treasury SLGS securities are valued using Level 2 inputs that are based on market data obtained from independent sources.

Note 4 - Detailed Notes on All Funds

Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent, bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) coverage. In order to maximize return on cash balances, the District uses consolidated bank accounts from which all disbursements are made, with cash in excess of the District's total daily requirement being invested for future needs.

At August 31, 2024, the bank balance of \$31,218,405 was on deposit with the contracted depository bank. District funds are insured up to \$250,000 for the combined amount of all time and savings accounts. Interest-bearing accounts were collateralized by pledged United States government securities with a fair value of \$39,740,565 at August 31, 2024, held by City Bank. Because City Bank holds the pledged securities in trust on behalf of the District, the deposits were deemed collateralized under Texas law. All campus activity funds were on deposit with the contracted depository.

Demand Deposit Accounts, totaling \$557,481, were on deposit with People's Bank at August 31, 2024, were insured up to \$250,000. Deposits were also collateralized by pledged United States government securities with a fair value of \$510,070 at August 31, 2024, held by People's Bank.

Investments

The Texas legislature passed the Public Funds Investment Act of 1995 ("Public Funds Investment Act") which authorizes the District to invest its excess funds in the following:

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies, and instrumentalities,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less,
- Fully collateralized repurchase agreements,
- 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", or its equivalent, by a nationally recognized investment rating firm,
- Commercial paper having a stated maturity of 365 days or fewer 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,
- 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,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above,
- Bonds issued, assumed or guaranteed by the State of Israel, and Secured corporate bonds rated not lower than "AA—" or the equivalent.

The Public Funds Investment Act requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports and establishment of appropriate policies, the District materially adhered to the requirements of the Public Funds Investment Act. Additionally, investment practices of the District were in accordance with local policies, which are more restrictive than state statutes.

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

As of August 31, 2024, the following are the cash equivalents and investments held by the District, with respective maturities and credit rating:

Type of Investment	Book Value	Percent	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-10 Years	Credit Rating
Cash	\$ 24,271,392	12.6%	\$ 24,271,392	12.6%	\$ 24,271,392	\$ -	N/A
FDIC Insured Investment Accounts	24,486,572	12.7%	24,486,572	12.7%	24,486,572	-	N/A
Total cash and cash equivalents	48,757,964	25.3%	48,757,964	25.3%	48,757,964	-	
Investment pools:							
TexSTAR	22,072,372	11.4%	22,072,372	11.4%	22,072,372	-	AAAm
LOGIC	17,921,120	9.3%	17,921,120	9.3%	17,921,120	-	AAA
TexasTerm Daily	312,851	0.2%	312,851	0.2%	312,851	-	AAAmmf
Total investment pools	40,306,343	20.9%	40,306,343	20.9%	40,306,343	-	
Investments:							
U.S. Treasury SLGS	103,806,786	54%	103,806,786	54%	103,806,786	-	AA+
Total investments	103,806,786	54%	103,806,786	54%	103,806,786	-	
Total cash, cash equivalents and investments	\$ 192,871,093	100%	\$ 192,871,093	100%	\$ 192,871,093	\$ -	

Investment Pools are measured at amortized cost or net asset value, i.e. fair value. As such, these investments are not required to be reported in the fair value hierarchy. The U.S. Treasury SLGS investments are classified as Level 2 of the fair value hierarchy.

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with Hilltop Securities. TexSTAR invests in treasury and agency securities and repurchase agreements fully collateralized by government securities. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. TexSTAR uses amortized cost rather than market value to report net assets to compute share prices.

Local Government Investment Cooperative (LOGIC) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with Hilltop Securities. LOGIC invests in treasury and agency securities and repurchase agreements as well as prime commercial paper. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. LOGIC uses amortized cost rather than market value to report net assets to compute share prices.

The Texas Term Local Government Investment Pool (TexasTERM) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexasTERM is administered by PFM Asset Management LLC, who also serves as the investment advisor. The reported value of the pool is the same as the fair value of the pool shares. TexasTERM uses amortized cost rather than market value to report net assets to compute share prices.

Interest Rate Risk

The District's investment policy states that any internally created pool fund group of the District shall have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

Credit Risk

The District's investments in Local Government Investment Pools (LGIP's) include: TexSTAR, LOGIC and TexasTerm Daily. These are public fund investment pools operating in full compliance with the Public Funds Investment Act. TexSTAR is rated "AAAm" by Standard and Poor's while LOGIC is rated "AAA" and TexasTerm is rated "AAAmf."

Concentration of Credit Risk

The District's investment policy does not limit investments in any one issuer except that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity, or specific issuer.

Custodial Credit Risk – Deposits

This is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. All deposits not covered by FDIC insurance but held in the depository bank, City Bank, were fully collateralized at August 31, 2024. The District uses a Demand Deposit Marketplace, similar to a Certificate of Deposit Registry Service (CDARS) program, which holds investment balances of \$250,000 or less at multiple depositories to maintain full FDIC coverage for the whole asset.

Foreign Currency Risk

As of August 31, 2024, there are no foreign currency investments in the District's portfolio.

Restricted Assets

The nature and restrictions associated with assets reported in object code 1800, Restricted Assets is as follows:

Cash and equivalents	
Restricted for debt service	\$ 3,342,723
Restricted for capital projects	<u>105,210,416</u>
	<u>108,553,139</u>
Investments	
Restricted for debt service	10,820,888
Restricted for capital projects	<u>8,294,753</u>
	<u>19,115,641</u>
Total restricted assets	<u><u>\$127,668,780</u></u>

Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2024, are summarized below:

<u>Governmental Activities</u>	<u>State Grants/ Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$ 3,146,166	\$ -	\$ 3,146,166
Debt Service Fund	88,816	-	88,816
Nonmajor Governmental Funds	<u>1,128,078</u>	<u>1,451,241</u>	<u>2,579,319</u>
	<u>\$ 4,363,060</u>	<u>\$ 1,451,241</u>	<u>\$ 5,814,301</u>
<u>Business-type Activities</u>			
Enterprise Fund	<u>\$ -</u>	<u>\$ 306,847</u>	<u>\$ 306,847</u>

Interfund Receivables and Payables

The composition of interfund balances as of August 31, 2024, is as follows:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund		
Capital project funds	\$ 3,692	\$ -
Nonmajor governmental funds	2,463,913	-
Enterprise fund	3,691	-
Fiduciary funds	6,944	-
Capital project funds		
General fund	-	3,692
Enterprise Fund		
General fund	-	3,691
Nonmajor governmental funds		
General fund	-	2,463,913
Fiduciary funds		
General fund	-	6,944
Totals	<u>\$ 2,478,240</u>	<u>\$ 2,478,240</u>

Interfund receivables and payables were recorded to eliminate cash deficit balances and to record temporary interfund borrowing.

The composition of transfer balances as of August 31, 2024, is as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ -	\$ 308,342
Nonmajor governmental funds	308,342	-
	<u>\$ 308,342</u>	<u>\$ 308,342</u>

Interfund transfers between the General Fund and nonmajor governmental funds were used to cover program costs of special revenue funds.

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

Note 5 - Capital Assets

Capital asset activity for the year ended August 31, 2024 was as follows for governmental activities:

	Balance 9/1/2023	Additions	Deletions	Balance 8/31/2024
Governmental Activities				
Capital assets, not being depreciated				
Land	\$ 11,640,022	\$ -	\$ -	\$ 11,640,022
Construction in progress	62,433,303	114,300,939	(32,719,340)	144,014,902
Total capital assets, not being depreciated	74,073,325	114,300,939	(32,719,340)	155,654,924
Capital assets, being depreciated				
Building and improvements	340,296,625	34,963,719	-	375,260,344
Furniture and equipment	10,142,949	620,161	-	10,763,110
Total capital assets, being depreciated	350,439,574	35,583,880	-	386,023,454
Less accumulated depreciation for				
Building and improvements	(90,509,531)	(6,969,237)	-	(97,478,768)
Furniture and equipment	(6,407,607)	(750,342)	-	(7,157,949)
Total accumulated depreciation	(96,917,138)	(7,719,579)	-	(104,636,717)
Total capital assets, being depreciated (net)	253,522,436	27,864,301	-	281,386,737
Right-to-use lease assets being amortized				
Equipment	582,049	1,425,794	(104,317)	1,903,526
Total right-to-use lease assets being amortized	582,049	1,425,794	(104,317)	1,903,526
Less accumulated amortization for				
Equipment	(252,385)	(207,225)	104,317	(355,293)
Net right-to-use lease assets	329,664	(207,225)	-	1,548,233
Right-to-use subscription IT assets being amortized	13,397	679,290	(13,397)	679,290
Less accumulated amortization for subscription IT assets	(7,307)	(60,205)	13,397	(54,115)
Net right-to-use subscription IT assets	6,090	619,085	-	625,175
Total right-to-use assets, net	335,754	411,860	-	2,173,408
Governmental activities, capital assets, net	\$ 327,931,515	\$ 142,577,100	\$ (32,719,340)	\$ 439,215,069

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

Estimated costs to complete construction in progress as of August 31, 2024 are \$88,007,512

Capital asset activity for the year ended August 31, 2024 was as follows for business-type activities:

	Balance 9/1/2023	Additions	Deletions	Balance 8/31/2024
Business-Type Activities				
Capital assets, being depreciated				
Furniture and equipment	\$ 894,262	\$ 1,231,870	\$ -	\$ 2,126,132
Less accumulated depreciation for				
Furniture and equipment	(732,322)	(145,133)	-	(877,455)
Total capital assets, being				
depreciated (net)	161,940	1,086,737	-	1,248,677
Business-Type, capital assets, net	\$ 161,940	\$ 1,086,737	\$ -	\$ 1,248,677

Depreciation expense for governmental activities was charged to the District's functions as follows:

Instruction	\$ 4,189,260
Instructional resources and media services	146,195
Instructional leadership	40,624
School leadership	67,766
Guidance, counseling and evaluation services	16,632
Health services	18,511
Student transportation	43,019
Food service	379,246
Extracurricular activities	1,864,558
General administration	186,194
Facilities maintenance and operations	126,738
Security and monitoring services	25,861
Data processing services	614,975
Total depreciation expense - governmental activities	\$ 7,719,579

Depreciation expense for business-type activities was \$145,133 and was allocated to the District's food service program.

Amortization expense for governmental activities was charged to the District's functions as follows:

Governmental Activities	
11 Instruction	\$ 267,430
Total amortization expense - governmental activities	<u>\$ 267,430</u>

Note 6 - Long Term Debt

Bonded indebtedness of the District is reflected in the Government-Wide Statement of Net Position. In the Fund Financial Statements, the current requirements for principal and interest expenditures are accounted for in the Debt Service Fund and General Fund.

Long-term debt includes par bonds and capital appreciation (deep discount) serial bonds. At August 31, 2024, the District's debt limitation under local policies, which represents 10% of the District's total assessed property value for school tax purposes, is \$622,714,435. The District's net bonded debt at August 31, 2024 was \$469,875,308, which is less than the legal debt margin.

On September 19, 2023, the District established a defeasance escrow to defease a portion of the District's outstanding Unlimited Tax Refunding Building Bonds, Series 2020. The District deposited existing resources with a paying agent for the defeased bonds in the amount of \$8,134,535, sufficient to provide the final payment and redemption of the defeased bonds. The defeased bonds are no longer regarded as being outstanding, except for the purpose of being paid from funds on deposit in the escrow fund. The payment to the escrow was recorded as principal paid on long-term debt from the Debt Service Fund. The defeasance resulted in a cash flow savings of approximately \$1.7 million for the District.

Arbitrage Rebate Liability

Bonds issued are subject to Internal Revenue Service income tax regulations which require rebates to the U.S. Government of interest income earned on investments purchased with the proceeds from the bonds at any applicable reserves in excess of the allowable yield of the issue. At August 31, 2024, the arbitrage rebate liability for the District is \$4,514,492.

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

A summary of bond issuances and other general long-term debt original amounts issues, interest rates and maturity dates as of August 31, 2024, is as follows:

Bond Issuances	Amount of Original Issue	Interest Rate Payable	Maturity Date
Series 2008 Capital Appreciaton Bonds	\$ 1,503,746	4.29-4.87%	February 2024
Unlimited Tax Refunding Bond Series 2014	65,240,000	4.00-5.00%	February 2025
Unlimited Tax Refunding Bonds Series 2015A	24,185,000	2.00-3.00%	February 2033
Unlimited Tax Refunding Bonds Series 2015B	6,935,000	2.00-4.00%	February 2029
Unlimited Tax Refunding Bonds Series 2015C	4,700,000	2.00-3.00%	February 2024
Unlimited Tax Refunding Bonds Series 2016	8,580,000	2.00-4.00%	February 2035
Unlimited Tax Refunding Bonds Series 2019	47,190,000	2.31-3.20%	February 2044
Unlimited Tax Refunding Building Bonds, Series 2020	96,515,000	1.81-2.46%	February 2046
Unlimited Tax School Building and Refunding Bonds, Series 2021	144,275,000	3.0-5.0%	February 2050
Unlimited Tax School Building Bonds, Series 2021A	135,380,000	3.0-5.0%	February 2051
Leases			
Hogland	\$ 929,260	4.43%	July 2028
Enterprise	974,266	4.77% -7.18%	August 2029
Navigate 360	434,097	4.98%	September 2025

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

A summary of changes in general long-term debt for the year ended August 31, 2024, is as follows for governmental activities:

Bond Series Name	Beginning Balance	Debt Issued	Principal Retired	Ending Balance	Due Within One Year
Series 2008 Capital Appreciation Bonds	\$ 12,773	\$ -	\$ 12,773	\$ -	\$ -
Unlimited Tax Refunding Bond Series 2014	4,060,000	-	-	4,060,000	4,060,000
Unlimited Tax Refunding Bonds Series 2015A	23,890,000	-	-	23,890,000	320,000
Unlimited Tax Refunding Bonds Series 2015B	6,845,000	-	-	6,845,000	-
Unlimited Tax Refunding Bonds Series 2015C	1,045,000	-	1,045,000	-	-
Unlimited Tax Refunding Bonds Series 2016	8,440,000	-	-	8,440,000	-
Unlimited Tax Refunding Bonds Series 2019	47,190,000	-	-	47,190,000	-
Unlimited Tax Refunding Building Bonds, Series 2020	96,515,000	-	11,855,000	84,660,000	2,540,000
Unlimited Tax School Building and Refunding Bonds, Series 2021	138,775,000	-	-	138,775,000	1,080,000
Unlimited Tax School Building Bonds, Series 2021A	129,810,000	-	3,025,000	126,785,000	-
Total bonds payable	456,582,773	-	15,937,773	440,645,000	8,000,000
Other Long-Term Debt					
Leases	43,509	1,425,794	58,326	1,410,977	337,437
Arbitrage rebate liabilities	-	4,514,492	-	4,514,492	-
Total other long-term debt	43,509	5,940,286	58,326	5,925,469	337,437
Total general long-term debt - governmental activities	\$ 456,626,282	\$ 5,940,286	\$ 15,996,099	\$ 446,570,469	\$ 8,337,437

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

Debt service requirements for the District's bonds are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2025	\$ 8,000,000	\$ 14,356,441	\$ 22,356,441
2026	7,705,000	14,089,716	21,794,716
2027	8,735,000	13,707,299	22,442,299
2028	9,165,000	13,319,569	22,484,569
2029	10,035,000	12,903,523	22,938,523
2030-2034	61,300,000	58,024,129	119,324,129
2035-2039	76,660,000	46,876,392	123,536,392
2040-2044	94,300,000	34,199,506	128,499,506
2045-2049	113,070,000	17,657,126	130,727,126
2050-2051	51,675,000	2,927,700	54,602,700
	<u>\$ 440,645,000</u>	<u>\$ 228,061,401</u>	<u>\$ 668,706,401</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2024.

Payment requirements for the District's lease liabilities for governmental activities are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2025	\$ 337,437	\$ 53,498	\$ 390,935
2026	312,892	38,886	351,778
2027	327,713	23,625	351,338
2028	343,216	7,657	350,873
2029	89,719	1,872	91,591
Total	<u>\$ 1,410,977</u>	<u>\$ 125,538</u>	<u>\$ 1,536,515</u>

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

A summary in changes of total bonds payable and other long-term debt for governmental activities follows:

	Amounts Outstanding 8/31/2023	Additions	Reductions	Amounts Outstanding 8/31/2024	Amounts Due Within One Year
Bonds payable					
General obligation bonds	\$ 456,570,000	\$ -	\$ 15,925,000	\$ 440,645,000	\$ 8,000,000
Capital appreciation bonds	12,773	-	12,773	-	-
Premium on bonds payable	37,514,563	-	1,771,683	35,742,880	-
Total bonds payable	494,097,336	-	17,709,456	476,387,880	8,000,000
Accreted interest on cap. appreciation	273,417	6,019	279,436	-	-
Lease liability	43,509	1,425,794	58,326	1,410,977	337,437
Arbitrage rebate liability	-	4,514,492	-	4,514,492	-
Total long-term debt	\$ 494,414,262	\$ 5,946,305	\$ 18,047,218	\$ 482,313,349	\$ 8,337,437

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability for vacation leave has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying financial statements.

Note 7 - Leases

The District entered an agreement to lease copiers for District-wide use beginning August 2024. Under the terms of the lease, the District pays an annual fee of \$249,240. The lease terminates in July 2028. The District has entered into various agreements to lease vehicles for District-wide use beginning on dates ranging from September 2023 to August 2024. Under the terms of the leases, the District pays monthly fees ranging from \$504 to \$1,095. The leases terminate ranging from October 2024 to August 2029. The District has entered into a lease agreement to lease security monitoring equipment for District-wide use beginning in September 2023. The lease included two payments of \$206,600. The lease terminates in September 2025.

At August 31, 2024, the District has recognized a right to use asset, net of accumulated amortization, of \$1,548,233 and a lease liability of \$1,410,977 related to these agreements. During the fiscal year, the District recorded \$207,225 in amortization expense and \$8,091 in interest expense for the right to use the copiers, vehicles, and security equipment. The District used a discount rate of 4.43% on the copier lease, rates ranging from 4.77% to 7.18% on the vehicles, and 4.98% on the security equipment. The discount rates for the copiers and security equipment were based on the estimated incremental borrowing rate of the District. The rates for the vehicles were taken from the lease documents.

Remaining obligations associated with these leases for governmental activities are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2025	\$ 337,437	\$ 53,498	\$ 390,935
2026	312,892	38,886	351,778
2027	327,713	23,625	351,338
2028	343,216	7,657	350,873
2029	89,719	1,872	91,591
Total	<u>\$ 1,410,977</u>	<u>\$ 125,538</u>	<u>\$ 1,536,515</u>

Note 8 - Subscription-Based Information Technology Arrangements (SBITAs)

The District has entered into various SBITA contracts for IT monitoring software. The District is required to make principal and interest payments through July 2023. The subscription liability was valued using a discount rate of 4.51%. The discount rates were based on the estimated incremental borrowing rate of the District. The District has entered into a SBITA contract for various digital learning material products. The District paid upfront for four year access in the amount of \$679,290. No subscription liability was recorded as the amount was paid in full up front. The discount rate for the monitoring software was based on the estimated incremental borrowing rate of the District. At August 31, 2024, no remaining payment obligations remained for the SBITA contracts.

Note 9 - Contingencies

The District is not a party to any legal actions that are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

The District participates in numerous state and federal grant programs that 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, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2024, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 10 - 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401 (a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

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

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2019 through 2025.

	Contribution Rates	
	2023	2024
Member	8.00%	8.25%
Non-Employer Contributing Entity (State)	8.00%	8.25%
Employers	8.00%	8.25%

The contribution amounts for the District are as follows:

	2023	2024
Member contributions	\$ 5,336,531	\$ 5,902,387
NECE On-Behalf Contributions	4,359,056	4,754,672
Employer Contributions	2,061,925	2,332,863

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

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

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

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

- All public schools, charter schools, and regional educational service centers must contribute 1.8% of the member's salary beginning in fiscal year 2023, gradually increasing to 2% in fiscal year 2025.
- When employing a retiree of the TRS the employer shall pay both the member contribution and State contribution as an employment after retirement surcharge.

Actuarial Assumptions

The total pension liability in the August 31, 2022 actuarial valuation rolled forward to August 31, 2023 was determined using the following actuarial assumptions outlined on the next page.

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Actuarial Cost Method	Individual entry age normal
Asset Valuation Method	Fair value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2023	4.13%
Last year ending August 31 in Projection	
Period (100 Years)	2122
Inflation	2.30%
Salary increases including inflation	2.95% to 8.95%
Ad hoc post-employment benefit changes	None

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2022. For a full description of these assumptions, please see the actuarial valuation report dated November 22, 2022.

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 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 session. It is assumed that future employer and State contributions will be 9.5% of payroll in fiscal year 2024 gradually increasing to 9.56% in fiscal year 2025 and thereafter. This includes all employer and State contributions for active and rehired retirees.

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

The long-term expected rate of return on pension plan investments is 7.00%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target allocation as of August 31, 2023 (see page 56 of the TRS ACFR) are summarized on the following page.

Teacher Retirement System of Texas
Asset Allocation and long-Term Expected Real Rate of Return as of August 31, 2023

Asset Class	Target Allocation ¹	Long-Term Expected Geometric Real Rate of Return ²	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	4.0%	1.00%
Non-U.S. Developed	13.0%	4.5%	0.90%
Emerging Markets	9.0%	4.8%	0.70%
Private Equity	14.0%	7.0%	1.50%
Stable Value			
Government Bonds	16.0%	2.5%	0.50%
Absolute Return ⁴	0.0%	3.6%	0.00%
Stable Value Hedge Funds	5.0%	4.1%	0.20%
Real Return			
Real Estate	15.0%	4.9%	1.10%
Energy and Natural Resources and Infrastructure	6.0%	4.8%	0.40%
Commodities	0.0%	4.4%	0.00%
Risk Parity			
Risk Parity	8.0%	4.5%	0.40%
Leverage			
Cash	2.0%	3.7%	0.00%
Asset Allocation Leverage	-6.0%	4.4%	-0.10%
Inflation Expectation			2.30%
Volatility Drag ³			-0.90%
Expected Return	100%		8.00%

¹ Target Allocation based on FY 2023 policy manual.

² Capital Market Assumptions come from Aon Hewitt (as of 6/30/2023).

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

⁴ Absolute Return includes Credit Sensitive instruments.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability of the plan using the discount rate of 7.00%, and what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Total TRS net pension liability	\$ 102,695,878,717	\$ 68,690,350,942	\$ 40,414,736,337
District's proportionate share of the net pension liability	\$ 41,203,610	\$ 27,559,922	\$ 16,215,188

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

At August 31, 2024, the District reported a liability of \$27,559,922 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	\$ 27,559,922
State's proportionate share that is associated with the District	<u>56,554,366</u>
Total	<u><u>\$ 84,114,288</u></u>

The net pension liability was measured as of August 31, 2022 and rolled forward to August 31, 2023 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2022 through August 31, 2023.

At August 31, 2023, the employer's proportion of the collective net pension liability was .040121970% which was an increase of .00270664% from its proportion measured as of August 31, 2022.

Changes Since the Prior Actuarial Valuation

The actuarial assumptions and methods are the same as used in the determination of the prior year's net pension liability.

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

The Texas 2023 Legislature passed legislation that provides a one-time stipend to certain retired teachers. The stipend was paid to retirees beginning in September of 2023. The Legislature appropriated funds to pay for this one-time stipend so there will be no impact on the net pension liability of TRS. In addition, the Legislature also provided for a cost of living adjustment (COLA) to retirees which was approved during the November 2023 election which will be paid in January 2024. Therefore, this contingent liability was not reflected as of August 31, 2023.

For the year ended August 31, 2024, the District recognized pension expense of \$8,539,220. Additionally, the District recognized revenue of \$4,232,078 for support provided by the State.

At August 31, 2024 the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 981,969	\$ 333,721
Changes in actuarial assumptions	2,606,629	637,901
Difference between projected and actual investment earnings	4,010,638	-
Changes in proportion and difference between District contributions and the proportionate share of contributions	1,748,978	-
Contributions paid to TRS subsequent to the measurement date	2,332,863	-
Total	<u>\$ 11,681,077</u>	<u>\$ 971,622</u>

\$2,332,863 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2025.

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

Year Ended August 31,	Pension Expense Amount
2025	\$ 1,866,240
2026	1,243,533
2027	3,725,520
2028	1,293,286
2029	248,013
Thereafter	-
Total	<u>\$ 8,376,592</u>

Note 11 - Postemployment Health Benefits**Plan Description**

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

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

OPEB Plan Fiduciary Net Position

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

Benefits Provided

TRS-Care provides health insurance coverage to retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

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

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

TRS-Care Monthly Premium Rates

	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree or Surviving Spouse	\$ 135	\$ 200
Retiree and Spouse	529	689
Retiree or Surviving Spouse and Children	468	408
Retiree and Family	1,020	999

Contributions

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

Texas Insurance Code, section 1575.202 establishes the State's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75 percent of each active employee's pay for fiscal year 2023. The following table shows contributions to the TRS-Care plan by type of contributor:

Contribution Rates		
	2023	2024
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%
	2023	2024
Employer contributions	\$ 548,145	\$ 583,632
Member contributions	433,591	465,041
NECE on-behalf contributions	792,148	851,000

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

TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$21.3 million in fiscal year 2023 provided by Rider 14 of the Senate Bill GAA of the 87th Legislature. These amounts were re-appropriated from amounts received by the pension and TRS-Care funds in excess of the state's actual obligation and then transferred to TRS-Care.

Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2022. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2023. The actuarial valuation was determined using the following actuarial assumptions:

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2021.

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2022 TRS pension plan actuarial valuation that was rolled forward to August 31, 2023:

Rates of mortality	General inflation
Rates of retirement	Wage inflation
Rates of termination	Rates of disability

The active mortality rates were based on PUB(2010), Amount-Weighted, Below-Median Income, Teacher male and female tables (with a two-year set forward for males). The post-retirement mortality rates for healthy lives were based on the 2021 TRS of Texas Healthy Pensioner Mortality Tables. The rates were projected on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2021.

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	4.13% as of August 31, 2023
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.
Salary Increases	2.95% to 8.95%, including inflation
Healthcare Trend Rates	4.25% to 7.75% The initial medical trend rates were 7.75% for Medicare retirees and 7.00% for non-Medicare retirees. There was an initial prescription drug trend rate of 7.75% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 12 years.
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65; 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

Discount Rate

A single discount rate of 4.13% was used to measure the total OPEB liability. This was an increase of 0.22 percent in the discount rate since the previous year. Because the investments are held in cash and there is no intentional objective to advance fund the benefits, the Single Discount Rate is equal to the prevailing municipal bond rate.

The source of the municipal bond rate is the Fidelity "20-year Municipal GO AA Index" as of August 31, 2023, using the Fixed Income Market Data/Yield Curve/ Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% lower than and 1% higher than the discount rate that was used (4.13%) in measuring the Net OPEB Liability.

	1% Decrease Discount in Rate (3.13%)	Discount Rate (4.13%)	1% Increase Discount in Rate (5.13%)
Total TRS net OPEB liability	\$ 26,074,313,528	\$ 22,138,305,064	\$ 18,926,429,065
District's proportionate share of the net OPEB liability	\$ 16,484,045	\$ 13,995,721	\$ 11,965,190

Healthcare Cost Trend Rate Sensitivity Analysis

The schedule on the next page shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the health trend rate assumed:

	1% Decrease Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
Total TRS net OPEB liability	\$ 18,229,786,300	\$ 22,138,305,064	\$ 27,166,627,825
District's proportionate share of the net OPEB liability	\$ 11,524,776	\$ 13,995,721	\$ 17,174,600

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

At August 31, 2024, the District reported a liability of \$13,995,721 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	\$ 13,995,721
State's proportionate share that is associated with the District	<u>16,887,988</u>
Total	<u>\$ 30,883,709</u>

The Net OPEB Liability was measured as of August 31, 2022 and rolled forward to August 31, 2023 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 employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2022 through August 31, 2023.

At August 31, 2024, the District's proportion of the collective Net OPEB Liability was 0.06321948%, compared to 0.0616513856% as of August 31, 2023.

Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 3.91% as of August 31, 2022 to 4.13% as of August 31, 2023, accompanied by revised demographic and economic assumptions based on the TRS experience study.

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

For the year ended August 31, 2024, the District recognized OPEB benefit of \$3,610,295. Additionally, the District recognized revenue of \$661,745 for support provided by the State.

Frenship Independent School District

Notes to Financial Statements

August 31, 2024

At August 31, 2024, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 633,200	\$ 11,774,748
Changes in actuarial assumptions	1,910,314	8,569,951
Difference between projected and actual investment earnings	6,047	-
Changes in proportion and difference between District contributions and the proportionate share of contributions	2,300,222	-
Contributions paid to TRS subsequent to the measurement date	583,632	-
Total	<u>\$ 5,433,415</u>	<u>\$ 20,344,699</u>

\$583,632 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended August 31, 2025.

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

Year Ended August 31,	OPEB Expense Amount
2025	\$ (3,420,550)
2026	(2,778,629)
2027	(1,909,582)
2028	(2,386,982)
2029	(2,062,037)
Thereafter	(2,937,136)
Total	<u>\$ (15,494,916)</u>

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. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amounts of \$403,134, \$357,640 and \$246,676 for the years ended August 31, 2024, 2023 and 2022, respectively.

Note 12 - Health Care and Workers' Compensation Coverage

During the year ended August 31, 2024, employees of the District were covered by a third-party commercial health insurance (the Plan). The District has paid premiums of \$325 per month per employee to the plan, and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator acting on behalf of a licensed insurer. The plan was authorized by Section 21.922, Texas Education Code, and was documented by contractual agreement. The plan is accounted for in the internal service fund. The contract between the District and the third-party administrator is renewable annually on September 1, and terms of coverage and premium costs are included in the contractual provisions. During the year ended August 31, 2024, employees of the District were covered for workers' compensation insurance through an interlocal agreement with South Plains School Workers' Compensation Program. Rates are determined upon payroll information provided by the District and paid by the District annually.

Note 13 - Revenues from Local and Intermediate Sources

For the year ended August 31, 2024, revenues from local and intermediate sources for governmental fund types consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 40,113,986	\$ 28,387,537	\$ -	\$ -	\$ 68,501,523
Athletic activities	272,955	-	-	88,336	361,291
Tuition and fees	321,034	-	-	105,332	426,366
Investment income	3,598,793	809,284	8,128,197	-	12,536,274
Revenues from foundations, other non-profit organizations, gifts and bequests	-	-	-	1,283,771	1,283,771
Penalties, interest, and other tax related income	353,635	198,798	-	-	552,433
Other	602,768	2,290	-	343,263	948,321
Total	<u>\$ 45,263,171</u>	<u>\$ 29,397,909</u>	<u>\$ 8,128,197</u>	<u>\$ 1,820,702</u>	<u>\$ 84,609,979</u>

Note 14 - Unavailable Revenue and Unearned Revenue

Unavailable revenue at year-end in the fund financial statements consisted of the following:

	General Fund	Debt Service	Nonmajor Governmental Funds	Total
Unavailable tax collections	\$ 1,152,568	\$ 816,188	\$ -	\$ 1,968,756
Total	<u>\$ 1,152,568</u>	<u>\$ 816,188</u>	<u>\$ -</u>	<u>\$ 1,968,756</u>

Unearned revenue at year-end in the fund financial statements consisted of the following:

	General Fund	Debt Service	Nonmajor Governmental Funds	Total
Unearned state revenue	\$ -	\$ -	\$ 381,409	\$ 381,409
Unearned federal revenue	-	-	7,476	7,476
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 388,885</u>	<u>\$ 388,885</u>

Note 15 - Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2024, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Note 16 - General Fund Federal Source Revenues

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

	ALN	Total
E-RATE	N/A	\$ 71,762
School Health and Related Services	N/A	183,490
Indirect costs		
Title I, Part A	84.010A	21,798
IDEA Part B, Formula	84.027A	105,571
Career and Technical - Basic Grant	84.048	4,878
Title III, Part A	84.365A	1,749
Title II, Part A	84.367A	15,876
Title IV, Part A	84.424A	6,652
Total		<u>\$ 411,776</u>

Note 17 - Subsequent Events

On November 5, 2024, the voters in the District passed two bond propositions. Proposition B is a \$189.5 million bond that will fund the construction of two new elementary schools to accommodate the increase in student enrollment. Proposition B will also fund renovations to existing campuses, improve safety and security, and address student transportation needs. Proposition C is a \$10 million technology bond to help the District maintain 1:1 technology for both students and staff by purchasing additional technology devices and replacing older devices.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

Proposed Form of Opinion of Bond Counsel

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

FRENSHIP INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$146,685,000¹

AS BOND COUNSEL for the Frenship Independent School District (the **Issuer**), the issuer of the Bonds described above (the **Bonds**), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing, unless redeemed prior to maturity in accordance with the terms of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

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

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to principles of sovereign immunity, bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer, and ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds have been levied and pledged for such purpose, without limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the **Code**). Except as stated above, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

¹ Preliminary, subject to pricing.



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

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the order adopted by the Issuer to authorize the issuance of the Bonds, relating to, among other matters, the use of the project being financed and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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



within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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.

The regular session of the 89th Texas Legislature (the “Legislature”) convened on January 14, 2025, and is scheduled to conclude on June 2, 2025. As of the date of this disclosure, the regular session is underway. The Texas Governor may call one or more special sessions at the conclusion of the regular session. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the State Board of Education (the “SBOE”), the Permanent School Fund Corporation (the “PSF Corporation”), the Act, and Texas school finance generally. No representation is made regarding any actions the Legislature has taken or may take, but the TEA, SBOE, and PSF Corporation monitor and analyze legislation for any developments applicable thereto.

History and Purpose

The PSF supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be “permanent,” and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund was established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions, and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

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

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

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see “Capacity

Limits for the Guarantee Program”). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed by any court, nor has the Texas Attorney General (the “Attorney General”) been requested to issue an opinion, with respect to its constitutional validity.

Audited financial information for the PSF is provided annually through the PSF Corporation’s Annual Comprehensive Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Texas School Land Board’s (the “SLB”) land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the annual comprehensive report of the State of Texas. The Annual Report includes the Message From the Chief Executive Officer of the PSF Corporation (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2024, 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, 2024, 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, 2024, and for a description of the financial results of the PSF for the year ended August 31, 2024, the most recent year for which audited financial information regarding the Fund is available. The 2024 Annual Report speaks only as of its date and the PSF Corporation has not obligated itself to update the 2024 Annual Report or any other Annual Report. The PSF Corporation posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation’s Investment Policy Statement (the “IPS”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the PSF Corporation’s web site at <https://texaspsf.org> and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, are available from the SEC at www.sec.gov/edgar. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation’s web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the SBOE and the PSF Corporation the authority and responsibility for investment of the PSF’s financial assets. The SBOE consists of 15 members who are elected by territorial districts in the State to four-year terms of office. The PSF Corporation is a special-purpose governmental corporation and instrumentality of the State entitled to sovereign immunity, and is governed by a nine-member board of directors (the “PSFC Board”), which consists of five members of the SBOE, the Land Commissioner, and three appointed members who have substantial background and expertise in investments and asset management, with one member being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate.

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

The Texas Constitution provides that the Fund shall be managed through the exercise of the judgment and care under the circumstances then prevailing which persons of ordinary prudence, discretion, and intelligence exercise in the management of their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, considering the probable income therefrom as well as the probable safety of their capital (the “Prudent Person Standard”). In accordance with the Texas Constitution, the SBOE views the PSF as a perpetual endowment, and the Fund is managed as an endowment fund with a long-term investment horizon. For a detailed description of the PSFC Board’s investment objectives, as well as a description of the PSFC Boards’s roles and responsibilities in managing and administering the Fund, see the IPS and Board meeting materials (available on the PSF Corporation’s website).

As described below, the Total Return Constitutional Amendment restricts the annual pay-out from the Fund to both (i) 6% of the average of the market value of the Fund, excluding real property, on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, and (ii) the total-return on all investment assets of the Fund over a rolling ten-year period.

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

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

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor or a certified public accountant audits the financial statements of the PSF, which are separate from other financial statements of the State. Additionally, not less than once each year, the PSFC Board must submit an audit report to the Legislative Budget Board (“LBB”) regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization does not affect the State Auditor’s authority to conduct an audit of the PSF Corporation in accordance with State laws.

For each biennium, beginning with the 2024-2025 State biennium, 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 2026 and 2027. As described therein, the LAR is designed to provide the PSF Corporation with the ability to operate as a stand-alone state entity in the State budget while retaining the flexibility to fulfill its fiduciary duty and provide oversight and transparency to the Legislature and Governor.

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a “total-return-based” approach that provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the “Distribution Rate”), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding State fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the “Ten Year Total Return”). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0707 (2009) (“GA-0707”), with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

The Texas Constitution also provides authority to the GLO or another entity (described in statute as the SLB or the PSF Corporation) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an amount each year to the ASF from the revenue derived during the current year from such land or properties. The Texas Constitution limits the maximum transfer to the ASF to \$600 million in each year from the revenue derived during that year from the PSF from the GLO, the SBOE or another entity to the extent such entity has the responsibility for the management of revenues derived from such land or other properties. Any amount transferred to the ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

The following table shows amounts distributed to the ASF from the portions of the Fund administered by the SBOE (the “PSF(SBOE)”), the PSF Corporation (the “PSF(CORP)”), and the SLB (the “PSF(SLB)”).

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023²</u>	<u>2024</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156
PSF(SBOE) Distribution	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-
PSF(SLB) Distribution	-	-	-	-	300	600	600 ³	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	432	440	430

¹ In millions of dollars. Source: Annual Report for year ended August 31, 2024.

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

³ In September 2020, the SBOE approved a special, one-time transfer of \$300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

In November 2024, the SBOE approved a \$3.6 billion distribution to the ASF for State fiscal biennium 2026-2027. In making its determination of the 2026-2027 Distribution Rate, the SBOE took into account the planned distribution to the ASF by the PSF Corporation of \$1.2 billion for the biennium.

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

<u>State Fiscal Biennium</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>	<u>2024-25</u>	<u>2026-27</u>
<u>SBOE Distribution Rate¹</u>	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32%	3.45%

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 PSF Corp approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2026-27.

PSF Corporation Strategic Asset Allocation

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

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

The table below sets forth the current strategic asset allocation of the Fund that was adopted September 2024 (which is subject to change from time to time):

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

The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2023 and 2024, as set forth in the Annual Report for the 2024 fiscal year. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF(SLB) were generally combined (referred to herein as the PSF(CORP)) for investment management and accounting purposes.

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Comparative Investment Schedule – PSF(CORP)

Fair Value (in millions) August 31, 2024 and 2023				
ASSET CLASS	August 31, 2024	August 31, 2023	Amount of Increase (Decrease)	Percent Change
EQUITY				
Domestic Small Cap	\$3,651.3	\$ 2,975.1	\$ 676.2	22.7%
Domestic Large Cap	<u>8,084.6</u>	<u>7,896.5</u>	<u>188.1</u>	<u>2.4%</u>
Total Domestic Equity	11,735.9	10,871.6	864.3	8.0%
International Equity	<u>4,131.1</u>	<u>7,945.5</u>	<u>(3,814.4)</u>	<u>-48.0%</u>
TOTAL EQUITY	15,867.0	18,817.1	(2,950.1)	-15.7%
FIXED INCOME				
Domestic Fixed Income	-	5,563.7	-	-
US Treasuries	-	937.5	-	-
Core Bonds	8,151.6	-	-	-
Bank Loans	2,564.1	-	-	-
High Yield Bonds	2,699.5	1,231.6	1,467.9	119.2%
Emerging Market Debt	-	<u>869.7</u>	-	-
TOTAL FIXED INCOME	13,415.2	8,602.5	4,812.7	55.9%
ALTERNATIVE INVESTMENTS				
Absolute Return	3,106.0	3,175.8	(69.8)	-2.2%
Real Estate	6,101.0	6,525.2	(424.2)	-6.5%
Private Equity	8,958.8	8,400.7	558.1	6.6%
Emerging Manager Program	-	134.5	-	-
Real Return	-	1,663.7	-	-
Private Credit	2,257.9	-	-	-
Real Assets	<u>4,648.1</u>	<u>4,712.1</u>	<u>(64.0)</u>	<u>-1.4%</u>
TOT ALT INVESTMENTS	25,071.8	24,612.0	459.8	1.9%
UNALLOCATED CASH	<u>2,583.2</u>	<u>348.2</u>	<u>2,235</u>	<u>641.9%</u>
TOTAL PSF(CORP) INVESTMENTS	56,937.2	\$ 52,379.8	\$ 4,557.4	8.7%

Source: Annual Report for year ended August 31, 2024.

The table below sets forth the investments of the PSF(SLB) for the year ended August 31, 2024.

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2024

	As of <u>8-31-24</u>
Investment Type	
Investments in Real Assets	
Sovereign Lands	\$ 277.47
Discretionary Internal Investments	457.01
Other Lands	153.15
Minerals ^{(2), (3)}	<u>4,540.61⁽⁶⁾</u>
Total Investments ⁽⁴⁾	5,428.23
Cash in State Treasury ⁽⁵⁾	0
Total Investments & Cash in State Treasury	\$ 5,428.23

¹ Unaudited figures from Table 5 in the FY 2024 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

² Historical Cost of investments at August 31, 2024 was: Sovereign Lands \$838,730.24; Discretionary Internal Investments \$318,902,420.97; Other Lands \$37,290,818.76; and Minerals \$13,437,063.73.

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

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

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

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

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

The School District Bond Guarantee Program

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

In the event of default, holders of guaranteed school district bonds will receive all payments as and when may become 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, as applicable. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the "Comptroller"). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding "intercept" feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a "bond enhancement agreement" or a "credit agreement," unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

The Charter District Bond Guarantee Program

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

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

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2025 fiscal year, the ratio is 7.86%. At February 27, 2025, there were 188 active open-enrollment charter schools in the State and there were 1,222 charter school campuses authorized under such charters, though as of such date, 264 of such campuses are not currently serving students for various reasons; therefore, there are 958 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 as and when they become 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, as applicable. 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, as applicable. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

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

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of January 31, 2025 the cost value of the Guarantee Program was \$48,560,433,760 (unaudited), thereby producing an IRS Limit of \$242,802,168,800 in principal amount of guaranteed bonds outstanding.

As of January 31, 2025, the estimated State Capacity Limit is \$169,961,518,160, which is lower than the IRS Limit, making the State Capacity Limit the current Capacity Limit for the Fund.

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG 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 7.86% in February 2025. 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 CDBG 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 CDBG Rules also require the Education Commissioner to make an investigation of the accreditation status and financial status for a charter district applying for a bond guarantee.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At January 31, 2025, the Charter District Reserve Fund contained \$120,355,020, which represented approximately 2.44% 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.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value⁽¹⁾	Market Value⁽¹⁾
2020	\$36,642,000,738	\$46,764,059,745
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023	43,915,792,841	59,020,536,667
2024 ⁽²⁾	46,276,260,013	56,937,188,265

⁽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, 2024, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.2 million, and \$318.9 million, respectively, and market values of approximately \$4,540.6 million, \$277.4 million, \$153.1 million, and \$457.0 million, respectively.

Permanent School Fund Guaranteed Bonds	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
2020	\$90,336,680,245
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603 ⁽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, 2024 (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 \$196,294,405,488, of which \$70,478,423,885 represents interest to be paid. As shown in the table above, at August 31, 2024, there were \$125,815,981,603 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$169,961,518,160 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of January 31, 2025, 7.69% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of January 31, 2025, the amount of outstanding bond guarantees represented 76.33% of the Capacity Limit (which is currently the State Capacity Limit). January 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

<u>School District Bonds</u>			<u>Charter District Bonds</u>			<u>Totals</u>
<u>Fiscal</u> <u>Year Ended</u> <u>8/31</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount (\$)</u>	<u>No. of</u> <u>Issues</u>	<u>Principal</u> <u>Amount (\$)</u>
2020	3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
2021	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682
2024 ⁽²⁾	3,330	121,046,871,603	103	4,769,110,000	3,433	125,815,981,603

⁽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 January 31, 2025 (based on unaudited data, which is subject to adjustment), there were \$129,723,799,121 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,437 school district issues, aggregating \$124,794,149,121 in principal amount and 109 charter district issues, aggregating \$4,929,650,000 in principal amount. At January 31, 2025 the projected guarantee capacity available was \$39,780,221,830 (based on unaudited data, which is subject to adjustment).

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2024

The following discussion is derived from the Annual Report for the year ended August 31, 2024, including the Message from the Chief Executive Officer of the Fund, the Management's Discussion and Analysis, and other schedules contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the PSF Corporation are referred to throughout this MD&A as the PSF(CORP). The Fund's non-financial real assets are managed by the SLB and these assets are referred to throughout as the PSF(SLB) assets.

At the end of fiscal year 2024, the PSF(CORP) net position was \$57.3 billion. During the year, the PSF(CORP) continued implementing the long-term strategic asset allocation, diversifying the investment mix to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(CORP) is invested in global markets and liquid and illiquid assets experience volatility commensurate with the related indices. The PSF(CORP) is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted, and implemented to make the cost structure more effective and efficient. The PSF(CORP) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2024, net of fees, were 10.12%, 7.31%, and 6.32%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). See "Comparative Investment Schedule - PSF(CORP)" for the PSF(CORP) holdings as of August 31, 2024.

Effective February 1, 2024, Texas PSF transitioned into a new strategic asset allocation. The new allocation of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include private credit, absolute return, private equity, real estate, natural resources, and infrastructure. For a description of the accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2024 Annual Report which is included by reference herein.

PSF Returns Fiscal Year Ended 8-31-2024¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(CORP) Portfolio	10.12	9.28
Domestic Large Cap Equities	27.30	27.14
Domestic Small/Mid Cap Equities	18.35	18.37
International Equities	18.82	18.08
Private Credit	1.41	0.93
Core Bonds	7.08	7.30
Absolute Return	11.50	8.87
Real Estate	(6.42)	(7.22)
Private Equity	4.62	4.23
High Yield	12.03	12.53
Natural Resources	12.36	6.42
Infrastructure	4.41	3.63
Bank Loans	3.02	3.23
Short Term Investment Portfolio	2.42	2.28

¹ Time weighted rates of return adjusted for cash flows for the PSF(CORP) investment assets. Does not include SLB managed real estate or real assets. Returns are net of fees. Source: Annual Report for year ended August 31, 2024.

² Benchmarks are as set forth in the Annual Report for year ended August 31, 2024.

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2024 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. In fiscal year 2024, \$2.2 billion was distributed to the ASF, \$600 million of which was distributed by the PSF(CORP) on behalf of the SLB.

Other Events and Disclosures

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

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

As of August 31, 2024, 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

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

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA has made the following agreement for the benefit of the issuers, holders, and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with respect to guaranteed bonds. Nothing in the TEA Undertaking obligates the TEA to make any filings or disclosures with respect to guaranteed bonds, as the obligations of the TEA under the TEA Undertaking pertain solely to the Guarantee Program. The issuer or an "obligated person" of the guaranteed bonds has assumed the applicable obligation under Rule 15c2-12 to make all disclosures and filings relating directly to guaranteed bonds, and the TEA takes no responsibility with

respect to such undertakings. Under the TEA Undertaking, the TEA is obligated to provide annually certain updated financial information and operating data, and timely notice of specified material events, to the MSRB.

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

Annual Reports

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

The TEA and the PSF Corporation may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. In the event audits are not available by the filing deadline, unaudited financial statements will be provided by such deadline, and audited financial statements will be provided when available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund are required to be prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

The Fund is composed of two primary segments: the financial assets (PSF(CORP)) managed by PSF Corporation, and the non-financial assets (PSF(SLB)) managed by the SLB. Each of these segments is reported separately und different bases of accounting.

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

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

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

Event Notices

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

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

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

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

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