



(See "CONTINUING DISCLOSURE INFORMATION" herein)

## PRELIMINARY OFFICIAL STATEMENT

Dated December 3, 2025

**Ratings:**  
Moody's: "Aaa" / "A1"  
PSF Guarantee: "Approval Received"  
(See "OTHER INFORMATION - Ratings"  
and "THE PERMANENT SCHOOL FUND  
GUARANTEE PROGRAM" herein)

### NEW ISSUE - Book-Entry-Only

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

### THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

**\$28,585,000\***

### **CLEVELAND INDEPENDENT SCHOOL DISTRICT (Liberty, Montgomery and San Jacinto Counties, Texas) UNLIMITED TAX REFUNDING BONDS, SERIES 2025**

**Dated Date: December 15, 2025**

**Due: As shown on Page 2**

**Interest Accrual Date: Delivery Date (defined below)**

**PAYMENT TERMS** . . . Interest on the \$28,585,000\* Cleveland Independent School District Unlimited Tax Refunding Bonds, Series 2025 (the "Bonds") will accrue from December 30, 2025\* (the "Delivery Date") and will be payable on February 15 and August 15 of each year commencing on February 15, 2026, 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 U.S. Bank Trust Company, National Association, Houston, 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 Chapters 1207 and 1371 of the Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on November 17, 2025 (the "Bond Order"), 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"). The Bonds are direct obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Authority for Issuance"). **The District has applied for and received 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 (i) to refund a portion of the District's outstanding debt described in Schedule I hereto for debt service savings and (ii) for the payment of the costs associated with the issuance of the Bonds.

**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 Norton Rose Fulbright US LLP, 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, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on or about December 30, 2025\*.

**FHN FINANCIAL CAPITAL MARKETS**

**BOK FINANCIAL SECURITIES, INC.**

\* Preliminary, subject to change.

**MATURITY SCHEDULE\***

**CUSIP<sup>(1)</sup> Prefix:** \_\_\_\_\_

<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP<sup>(1)</sup> Suffix</u>	<u>Maturity (2/15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>
2026	\$ 585,000				2039	\$ 2,015,000		
***	***	***	***	***	2040	2,115,000		
2034	1,570,000				2041	2,225,000		
2035	1,650,000				2042	2,340,000		
2036	1,730,000				2043	2,460,000		
2037	1,825,000				2044	2,585,000		
2038	1,915,000				2045	2,715,000		
					2046	2,855,000		

**(Interest to accrue from the Delivery Date)**

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright © 2025 CUSIP Global Services. All rights reserved. CUSIP data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the District, the Underwriters or their agents or counsel assume responsibility for the accuracy of such numbers. CUSIP numbers for the Bonds are subject to change after the issuance as a result of various post-issuance events, including, but not limited to, a partial defeasance of the Bonds.

\* 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”) herein. 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”).

*For purposes of compliance with Rule 15c2-12, as amended (“Rule 15c2-12” or the “Rule”), of the United States Securities and Exchange Commission (the “SEC”), 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 Rule 15c2-12.*

*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 Municipal 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 the schedule and 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 MUNICIPAL 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 IN “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” OR UNDER THE CAPTION “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 FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS (See “OTHER INFORMATION – Forward-Looking Statements Disclaimer” herein).*

***Remainder of page intentionally left blank.***

## TABLE OF CONTENTS

<b>PRELIMINARY OFFICIAL STATEMENT SUMMARY .....</b>	<b>5</b>
<b>DISTRICT OFFICIALS, STAFF AND CONSULTANTS.....</b>	<b>7</b>
ELECTED OFFICIALS.....	7
SELECTED ADMINISTRATIVE STAFF .....	7
CONSULTANTS AND ADVISORS .....	7
<b>INTRODUCTION .....</b>	<b>8</b>
<b>PLAN OF FINANCING.....</b>	<b>8</b>
<b>THE BONDS .....</b>	<b>9</b>
<b>THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM .....</b>	<b>14</b>
<b>STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS.....</b>	<b>14</b>
<b>CURRENT PUBLIC SCHOOL FINANCE SYSTEM .....</b>	<b>15</b>
<b>CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT .....</b>	<b>19</b>
<b>AD VALOREM PROPERTY TAXATION.....</b>	<b>20</b>
<b>TAX RATE LIMITATIONS .....</b>	<b>24</b>
TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT .....	26
TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY .....	27
TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY .....	28
TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY .....	28
TABLE 5 - TEN LARGEST TAXPAYERS .....	28
TABLE 6 - ESTIMATED OVERLAPPING DEBT .....	29
<b>DEBT INFORMATION.....</b>	<b>30</b>
TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS.....	30
TABLE 8 - INTEREST AND SINKING FUND BALANCE PROJECTION .....	30
TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS.....	30
TABLE 10 - OTHER OBLIGATIONS .....	31
<b>FINANCIAL INFORMATION .....</b>	<b>32</b>
TABLE 11 – CHANGES IN NET POSITION.....	32
TABLE 11-A – GENERAL FUND REVENUES AND EXPENDITURES HISTORY .....	33
TABLE 12 - CURRENT INVESTMENTS .....	36
<b>TAX MATTERS .....</b>	<b>37</b>
<b>CONTINUING DISCLOSURE INFORMATION.....</b>	<b>38</b>
<b>OTHER INFORMATION .....</b>	<b>40</b>
RATINGS .....	40
LITIGATION .....	40
REGISTRATION AND QUALIFICATION OF BONDS FOR SALE.....	40
LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS.....	41
LEGAL MATTERS .....	41
MUNICIPAL ADVISOR.....	42
UNDERWRITING .....	42
VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS .....	42
FORWARD-LOOKING STATEMENTS DISCLAIMER .....	42
MISCELLANEOUS .....	43
<b>SCHEDULE OF REFUNDED BONDS .....</b>	<b>Schedule I</b>
<b>APPENDICES</b>	
GENERAL INFORMATION REGARDING THE DISTRICT .....	A
EXCERPTS FROM THE CLEVELAND INDEPENDENT SCHOOL DISTRICT ANNUAL FINANCIAL REPORT.....	B
FORM OF BOND COUNSEL'S OPINION .....	C
THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.....	D

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

## 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 (defined below) 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.

<b>THE DISTRICT</b> .....	The Cleveland Independent School District (the “District”) is a political subdivision of the state of Texas (the “State”) located in Liberty, Montgomery and San Jacinto Counties and is approximately 144 square miles in area (see “INTRODUCTION - Description of the District”).
<b>THE BONDS</b> .....	The \$28,585,000* Unlimited Tax Refunding Bonds, Series 2025 (the “Bonds”) will mature on February 15 in the years 2026 and 2034 through 2046*, inclusive, unless the initial purchasers thereof (the “Underwriters”) elect to combine two or more consecutive maturities into one or more Term Bonds (defined herein) (see “THE BONDS – Description of the Bonds”).
<b>PAYMENT OF INTEREST</b> .....	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 February 15, 2026, until stated maturity or prior redemption (see “THE BONDS – Description of the Bonds” and “THE BONDS – Optional Redemption”).
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371 of the Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the “Board”) on November 17, 2025, (the “Bond Order”) 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”).
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the District has applied for and received 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” and “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
<b>PERMANENT SCHOOL FUND GUARANTEE</b> .....	The District has applied for and received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “Appendix D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
<b>REDEMPTION</b> .....	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 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”).
<b>NOT QUALIFIED TAX-EXEMPT OBLIGATIONS</b> .....	The Bonds will not be designated as “Qualified Tax-Exempt Obligations” for financial institutions.
<b>TAX EXEMPTION</b> .....	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.
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District’s outstanding debt described in Schedule I hereto for debt service savings and (ii) for the payment of the costs associated with the issuance of the Bonds.

\* Preliminary, subject to change.

**RATINGS** ..... The Bonds have been rated “Aaa” by Moody’s Ratings (“Moody’s”) by virtue of the guarantee of the Permanent School Fund of the State of Texas and “A1” by Moody’s without regard to credit enhancement. The presently outstanding tax supported debt of the District is rated “A1” by Moody’s and “AA-” by Fitch Ratings, Inc. (“Fitch”) without regard to credit enhancement. The District also has issues outstanding which are rated “Aaa” by Moody’s and “AAA” by Fitch by virtue of the guarantee of the Permanent School Fund of the State of Texas. **An application for a contract rating on the Bonds was submitted to Moody’s only** (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:

Karen Billingsley  
Chief Financial Officer  
***Cleveland Independent School District***  
1901 E. Houston Street  
Cleveland, Texas 77327  
(281) 592-8717

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

or

***Remainder of page intentionally left blank***

## DISTRICT OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Shaquille Sampson President, Position #2	1.5 Years	May 2027	Program Specialist I, ACA Coordinator
Bethany Porter Vice President, Position #1	1.5 Years	May 2027	Children's Director
Wendy McNair Secretary, Position #6	2.5 Years	May 2026	Librarian
Jennifer Peña Member, Position #3	1.5 Years	May 2027	Homemaker
Pauline M. Johnson Member, Position #4	0.5 Years	May 2028	Retired
Jessica K. Allen Member, Position #5	0.5 Years	May 2028	Medical
Marvin Searles, Sr. Member, Position #7	5.5 Years	May 2026	Retired

### SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with the District</u>	<u>Total School District Service</u>
Dr. Glenn Barnes <sup>(1)</sup>	Superintendent	21 Years	26 Years
Karen Billingsley	Chief Financial Officer	25 Years	25 Years

(1) The Board of Trustees voted in April 2025 to select Dr. Barnes as the District's new Superintendent, beginning in May 2025.

### CONSULTANTS AND ADVISORS

Auditors ..... Mitchell T Fontenote CPA, Inc.  
Port Neches, Texas

Bond Counsel ..... Norton Rose Fulbright US LLP  
Dallas, Texas

Municipal Advisor ..... Hilltop Securities Inc.  
Dallas, Texas

**PRELIMINARY OFFICIAL STATEMENT  
RELATING TO  
\$28,585,000\*  
CLEVELAND INDEPENDENT SCHOOL DISTRICT  
UNLIMITED TAX REFUNDING BONDS, SERIES 2025**

**INTRODUCTION**

This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of \$28,585,000\* Cleveland Independent School District Unlimited Tax Refunding Bonds, Series 2025 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (defined herein), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the Cleveland 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 Municipal Advisor, Hilltop Securities Inc., Dallas, Texas.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the final Official Statement (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 District is a political subdivision located primarily in Liberty County, Texas, with territory extending into Montgomery and San Jacinto Counties. The District is governed by a seven-member Board of Trustees (the “Board”) who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. 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 144 square miles in Liberty, Montgomery and San Jacinto Counties, encompassing the City of Cleveland, Texas.

**PLAN OF FINANCING**

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District’s outstanding debt described in Schedule I (the “Refunded Bonds”) for debt service savings and (ii) for the payment of the costs associated with the issuance of the Bonds.

**REFUNDED BONDS . . .** The principal and interest due on the Refunded Bonds are to be paid on the redemption date set forth in Schedule I (the “Redemption Date”) from funds to be deposited pursuant to a certain escrow agreement (the “Escrow Agreement”) between the District and U.S. Bank Trust Company, National Association, Houston, Texas (the “Escrow Agent”). The Order provides that from the proceeds of the sale of the Bonds received from the underwriters of the Bonds listed on the cover page hereof (the “Underwriters”), and other available District Funds, if any, the District will deposit with the Escrow Agent the amount which, together with the Defeasance Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Defeasance Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on the Redemption Date. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and used to purchase some or all of the following types of obligations: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (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 of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and/or (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Defeasance Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds.

Frost CPA LLC, in conjunction with Public Finance Partners LLC (the “Verification Agent”), will verify at the time of delivery of the Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Defeasance Securities will mature and pay interest in such amounts which, together with uninvested funds in the Escrow Fund, will be sufficient to pay the principal of and interest on the Refunded Bonds on the Redemption Date. Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Bonds (see “OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations”).

\* Preliminary, subject to change.



By the deposit of the Defeasance Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Defeasance Securities and any cash held for such purpose by the Escrow Agent, and the Refunded Bonds will no longer be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure of the Escrow Agent to receive payment when due on the Defeasance Securities.

Defeasance of the Refunded Bonds will cancel the guarantee of the Texas Permanent School Fund with respect thereto.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Bonds, together with certain District funds, if any, 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 Escrow Fund	\$ -
Underwriters' Discount and Costs of Issuance <sup>(1)</sup>	-
Total Uses of Funds	<u>\$ -</u>

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

## THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds will be dated December 15, 2025 and mature on the dates and in the amounts shown on page 2 of this Official Statement. Interest on the Bonds 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 February 15 and August 15 of each year, commencing on February 15, 2026, 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 issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas (the "State"), including Chapters 1207 and 1371 of the Texas Government Code, as amended, and an order passed by the Board of the District on November 17, 2025 (the "Bond Order"), in which the Board delegated to certain officials of the District the authority to complete the sale of the Bonds through the execution of a "Pricing Certificate" which will contain the final terms of sale of the Bonds (the Bond Order and 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 received conditional approval 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" herein).

**PERMANENT SCHOOL FUND GUARANTEE . . .** In connection with the sale of the Bonds, the District submitted an application to the Texas Education Agency and has received 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.

**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" herein.

**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) Government Securities (as defined below) that have been certified by an independent certified public accounting firm, the Paying Agent/Registrar, the District's municipal advisor, or another qualified third party to 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 Government Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government 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 "Government Securities" means: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment

quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. The Pricing Officer may restrict the categories of eligible Government Securities in connection with the pricing of the Bonds. In the event the Pricing Officer restricts such eligible securities and obligations, the final Official Statement will reflect the new authorized Government Securities. 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 Government 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 defeased Bonds will no longer be guaranteed by the Texas Permanent School Fund.

**AMENDMENTS . . .** The District may amend the Order without the consent of or notice to any registered owners of the Bonds in any manner not detrimental to the interest of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without consent of the registered owners of all holders of any affected Bonds then outstanding, no such amendment, addition or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by holders for consent to any such amendment, addition, or rescission.

**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 Municipal 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 Municipal 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](http://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 U.S. Bank Trust Company, National Association, Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid, and any successor Paying Agent/Registrar shall be a 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 called for redemption, in whole or part, 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 does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, 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, as well as enforce rights of payment under the Permanent School Fund Guarantee, 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. See "Appendix D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due.

#### **THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**

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

#### **STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS**

**LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM...**On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the "Legislature" or "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.*, et al., 490 S.W.3d 826 (Tex. 2016) ("Morath"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the 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 Finance System as it is currently structured. The information contained under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change and only reflects the District’s understanding based on information available to the District as of the date of this Official Statement. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

Local funding for school districts is derived from collections of ad valorem taxes levied on property located within each school district’s boundaries. School districts are authorized to levy two types of property taxes: (i) a maintenance and operations (“M&O”) tax to pay current expenses and (ii) an interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts are prohibited from levying an M&O tax at a rate intended to create a surplus in M&O tax revenues to pay 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 LEGISLATIVE SESSION**

The regular session of the 89th Texas Legislature commenced on January 14, 2025 and concluded on June 2, 2025 (the “89th Regular Session”). The Legislature meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor of Texas (the “Governor”) may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded two special sessions since the conclusion of the 89th Regular Session (the 89th Regular Session, together with the two special sessions, are referred to herein as the “2025 Legislative Session”). Additional special sessions may be called by the Governor.

During the 89th Regular Session, the Legislature adopted 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 passed by both houses of the Legislature increases: (1) effective January 1, 2025, the State mandated general homestead exemption from \$100,000 to \$140,000, (2) effective January 1, 2025, the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) effective January 1, 2026, the exemption for tangible property used in the production of income from the current \$2,499 to \$125,000. Voters approved constitutional amendments authorizing the new exemptions at a statewide election held on November 4, 2025. Additionally, the Legislature passed legislation authorizing roughly \$8.5 billion in funding for public schools and providing districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation passed by the Legislature created an Education Savings Account (“ESA”) Program (commonly referred to as vouchers) for students

that attend private schools or are homeschooled. The legislation becomes effective September 1, 2025, when the State fiscal biennium begins, though families will not receive ESA funds until the 2026-2027 school year. The amount spent for purposes of the program for the 2025-2027 biennium may not exceed \$1 billion. Beginning on September 1, 2027, the legislation requires the Legislature to reappropriate funds for the program for each subsequent State fiscal biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District's attendance-based funding.

The District is still in the process of reviewing legislation passed during the 89th Regular Session. At this time, the District cannot make any representations as to the full impact of such legislation. Further, the District can make no representations or predictions regarding the scope of legislation that may be considered in any future special session or the potential impact of such legislation at this time, but it intends to monitor applicable legislation related thereto.

#### **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" (the "SCP") 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 2026, the State Compression Percentage is set at 63.22%.

*Maximum Compressed Tax Rate.* The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the "State Compression Percentage" (as discussed above) multiplied by \$1.00; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, the MCR is equal to the prior year's MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. For the 2025-2026 school year, the Legislature reduced the maximum MCR, establishing \$0.6322 as the maximum rate and \$0.5689 as the floor.

In calculating and making available school districts' MCRs for the 2025-2026 school year, the TEA calculated and made available the rates as if the increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 89th Legislature, Regular Session, 2025, took effect. Such calculation for the 2025-2026 school year expires September 1, 2026. Pursuant to voter approval at a Statewide election held on November 4, 2025, (1) the State mandated general homestead exemption under Section 1-b(c), Article VIII, Texas Constitution was increased from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled under Section 1-b(c), Article VIII, Texas Constitution was increased from \$10,000 to \$60,000. The constitutional amendment takes retroactive effect for the tax year beginning January 1, 2025.

*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.



## 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 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.

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, other than students in average daily attendance who do not reside in the district and are enrolled in a full-time virtual program, 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 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 plus the guaranteed yield increment adjustment (the "GYIA") for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than the school district's MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school district), (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation and retention in disadvantaged or rural school districts. A school district's total Tier One funding divided by the district's Basic Allotment is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

The fast growth allotment weights change to 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$320 million for each year of the 2026-2027 State fiscal biennium.

*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 Basic Allotment multiplied by 0.02084. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield on each Golden Penny levied of \$129.52 per student in WADA. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment multiplied by 0.008. For the 2026-27 State fiscal biennium, school districts are guaranteed a yield of \$49.72 per student in WADA for each Copper Penny levied.

*Existing Debt Allotment, Instructional 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. A school district may use additional State aid received from an IFA award only to pay the principal of and interest on the bonds for which the district received the aid. 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 2026-2027 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 Legislature for the 2026-2027 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 2026-2027 State fiscal biennium on new bonds issued by school districts in the 2026-2027 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. See "— State Funding for School Districts" and "— Tax Rate and Funding Equity".

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 or a renovated portion of an instructional facility to be used for the first time to provide high cost and under-subscribed career and technology education programs, as determined by the Commissioner. During the 2025 Legislative Session, the Legislature appropriated funds in the amount of \$150,000,000 for each fiscal year of the 2026-2027 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.

For the 2026-2027 school year, school districts will be held harmless and entitled to additional state aid to the extent that state and local revenue used to service eligible debt is less than the state and local revenue that would have been available to the district under state law providing for state aid to districts to account for increases in the general residence homestead exemption and the elderly or disabled tax ceiling, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred.

#### **LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT**

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49 of 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 in excess of entitlement, Chapter 49 school districts are generally subject to a process known as "recapture," which requires a Chapter 49 school district to exercise certain options to remit local M&O tax revenues collected in excess of the Chapter 49 school district's

funding entitlements to the State (for redistribution to other school districts) or otherwise expending the respective M&O tax revenues for the benefit of students in school districts that are not Chapter 49 school districts, as described in the subcaption “Options for Local Revenue Levels in Excess of Entitlement.” 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. A district that enters into an agreement to exercise an option to reduce the district’s local revenue level in excess of entitlement under options (3), (4), or (5) for the 2025-2026 school year and that has not previously held an election to exercise said options may request and may receive approval from the Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district’s excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. A district that receives approval of a request to delay the date of an election shall pay for credit purchased in equal monthly payments as determined by the Commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the Commissioner of the district’s election to pay through a lump sum not later than March 15, 2026.

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 2025-26 fiscal year, the District has not been designated as an “excess local revenue” district by the TEA. Accordingly, the District is not subject to recapture and, therefore, is not currently required to exercise one of the wealth equalization options permitted under applicable State law.

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.

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

## 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. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Session" for a discussion of certain legislation affecting ad valorem taxation.*

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

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

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.

An appraisal district is prohibited from increasing the appraised value of real property during the 2025 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5.16 million (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20% 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. After the 2025 tax year, through December 31, 2026 (unless extended by the State Legislature), the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

**STATE MANDATED HOMESTEAD EXEMPTIONS.** . . State law grants, with respect to each school district in the State, (1) a \$140,000 exemption of the appraised value of all homesteads, (2) a \$60,000 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.

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

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption described in (1), above, 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.

**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. Pursuant to legislation enacted during the 2025 Legislative Session and approved by voters at a Statewide election held on November 4, 2025, effective January 1, 2026, a person is entitled to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or outside the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as retail manufactured housing inventory, or a dealer’s motor vehicle, vessel and outboard motor or 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. Beginning with the 2026 tax year, all intangible personal property is exempt from State taxation.

**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% to 100% 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 (Chapter 313, Texas Tax Code, as amended), allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement under Chapter 313, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87th Texas Legislature did not vote to extend this program, which expired by its terms effective December 31, 2022.

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.

**TAX ABATEMENT AGREEMENTS . . .** Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

In the 88th Legislative Session, House Bill 5 ("HB 5" or "The Texas Jobs, Energy, Technology, and Innovation Act") was adopted to create an economic development program, subject to state oversight, which would attract jobs and investment to Texas through school district property tax abatement agreements with businesses. HB5 was codified as Chapter 403, Subchapter T, Texas Government Code ("Chapter 403") and had an effective date of January 1, 2024. Under Chapter 403, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. Chapter 403 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt services taxes securing bonds cannot be abated under Chapter 403. Eligible projects must involve manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects and projects must create and maintain jobs, as well as meet certain minimum investment requirements. The District is still in the process of reviewing Chapter 403 and cannot make any representations as to what impact, if any, Chapter 403 will have on its finances or operations.

**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 (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real 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 1.2 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 \$61,349,201 for the 2025 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

**LEVY AND COLLECTION OF TAXES.** . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) 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 THE PROPERTY TAX CODE** . . . As required by law, the District grants the mandated residential homestead exemption of \$140,000 on qualifying homesteads and the State mandated \$60,000 residence homestead for persons 65 years of age or older and the disabled.

The District has not granted any part of the additional exemption of up to 20% of the market value of residence homesteads. The District has granted an additional \$3,000 exemption of the market value of the residence homestead of persons 65 years of age or older and the disabled.

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 Liberty County Tax Office collects taxes for the District.

The District does not permit split payments of taxes, and discounts for early payment of taxes are not allowed.

The District does not tax freeport property.

The District has not adopted a tax abatement policy or entered into any tax limitation agreements.

The District does not participate in any Tax Increment Finance (“TIF”) Zones.

## **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 September 16, 2000, 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 (subject to compression of the nine available copper pennies in a year in which the State increases the guaranteed yield on those pennies) 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.

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

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds 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 refunding bonds pursuant to Chapter 1207 and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of "new debt".

**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 (60<sup>th</sup>) 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 (71<sup>st</sup>) 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 (60<sup>th</sup>) 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 (71<sup>st</sup>) 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 (60<sup>th</sup>) 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 I&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**

2025/26 Market Valuation Established by the Appraisal District (excluding totally exempt property)		\$ 5,704,284,505
Less Exemptions/Reductions at 100% Market Value <sup>(1)</sup> :		
State Mandated Residential Homestead Exemptions	\$ 713,559,516	
State Mandated Over 65 Homestead Exemptions	50,364,549	
State Mandated Disabled Persons Homestead Exemptions	5,867,795	
Disabled Veterans Exemptions	16,663,796	
Over 65-Local Exemptions	1,941,479	
Productivity Loss	285,917,710	
Capped Value Loss	94,077,195	
Leased Vehicle Exemptions	23,513	
Freeze Value Loss	32,157,788	(1,200,573,341)
2025/26 Taxable Assessed Valuation		\$ 4,503,711,164
Debt Payable from Ad Valorem Taxes estimated as of 12/30/25		
Outstanding Unlimited Tax Bonds <sup>(2)(3)</sup>	\$ 269,739,785	
The Bonds <sup>(3)</sup>	28,585,000	
Total Debt Payable from Ad Valorem Taxes estimated as of 12/30/25 <sup>(2)(3)</sup>		\$ 298,324,785
Ratio Tax Supported Debt to Taxable Assessed Valuation		6.62%
Current Estimated District Population - 40,839		
Per Capita Taxable Assessed Valuation - \$110,280		
Per Capita General Obligation Debt - \$7,305		

(1) Valuation shown includes the \$140,000 State-mandated general residence homestead exemption and the \$60,000 State-mandated homestead exemption of persons sixty-five (65) years of age or older which received voter approval at a Statewide election held on November 4, 2025. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 LEGISLATIVE SESSION" for more information.

(2) Projected, excludes the Refunded Bonds.

(3) Preliminary, subject to change.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2026 <sup>(1)</sup>		2025		2024	
	Value	% of Total	Value	% of Total	Value	% of Total
Real, Residential, Single-Family	\$ 2,602,357,279	45.62%	\$ 2,422,317,947	44.80%	\$ 2,001,648,024	41.83%
Real, Residential, Multi-Family	37,551,350	0.66%	32,921,030	0.61%	29,744,960	0.62%
Real, Vacant Lots/Tracts	1,221,533,810	21.41%	1,293,831,307	23.93%	1,276,356,160	26.67%
Acreage (Land Only)	300,215,685	5.26%	290,818,394	5.38%	288,055,830	6.02%
Farm & Ranch Improvements	295,134,122	5.17%	287,223,521	5.31%	240,788,624	5.03%
Real, Commercial and Industrial	357,358,165	6.26%	329,389,868	6.09%	295,811,957	6.18%
Oil, Mineral & Gas and Non-Producing Minerals	1,809,846	0.03%	1,412,382	0.03%	2,817,300	0.06%
Utilities	116,997,910	2.05%	103,677,100	1.92%	89,791,280	1.88%
Tangible Personal, Business & Industrial	182,609,139	3.20%	149,832,664	2.77%	145,953,726	3.05%
Tangible Personal, Mobile Homes	470,976,409	8.26%	483,390,415	8.94%	338,074,510	7.06%
Real Property and Special, Inventory	117,740,790	2.06%	12,133,992	0.22%	76,681,430	1.60%
Total Appraised Value Before Exemptions	\$ 5,704,284,505	100.00%	\$ 5,406,948,620	100.00%	\$ 4,785,723,801	100.00%
Less: Total Exemptions/Reductions	(1,200,573,341)		(1,047,315,866)		(881,843,634)	
Adjustments	-		-		42,041,027	
Taxable Assessed Value	<u>\$ 4,503,711,164</u>		<u>\$ 4,359,632,754</u>		<u>\$ 3,945,921,194</u>	

  

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2023		2022	
	Value	% of Total	Value	% of Total
Real, Residential, Single-Family	\$ 1,630,312,951	39.20%	\$ 1,186,213,715	38.13%
Real, Residential, Multi-Family	26,362,403	0.63%	22,785,821	0.73%
Real, Vacant Lots/Tracts	1,260,941,049	30.32%	880,306,221	28.30%
Acreage (Land Only)	254,387,132	6.12%	222,431,106	7.15%
Farm & Ranch Improvements	230,427,649	5.54%	203,479,363	6.54%
Real, Commercial and Industrial	264,762,176	6.37%	207,552,223	6.67%
Oil, Mineral & Gas and Non-Producing Minerals	3,167,377	0.08%	1,476,715	0.05%
Utilities	82,495,620	1.98%	76,992,010	2.47%
Tangible Personal, Business & Industrial	134,757,168	3.24%	129,022,659	4.15%
Tangible Personal, Mobile Homes	259,248,994	6.23%	168,740,898	5.42%
Real Property and Special, Inventory	11,991,430	0.29%	12,060,630	0.39%
Total Appraised Value Before Exemptions	\$ 4,158,853,949	100.00%	\$ 3,111,061,361	100.00%
Less: Total Exemptions/Reductions	(586,234,792)		(427,585,911)	
Adjustments	(17,597,498)		(740,539)	
Taxable Assessed Value	<u>\$ 3,555,021,659</u>		<u>\$ 2,682,734,911</u>	

(1) Valuation shown includes the \$140,000 State-mandated general residence homestead exemption and the \$60,000 State-mandated homestead exemption of persons sixty-five (65) years of age or older which received voter approval at a Statewide election held on November 4, 2025. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 LEGISLATIVE SESSION” for more information.

NOTE: 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 <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Fiscal Year	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2022	34,526	\$ 2,682,734,911	\$ 77,702	\$ 305,904,989	11.40%	\$ 8,860
2023	35,705	3,555,021,659	99,566	304,259,989	8.56%	8,521
2024	37,317	3,945,921,194	105,741	301,189,989	7.63%	8,071
2025	38,494	4,359,632,754	113,255	298,239,989	6.84%	7,748
2026	40,839	4,503,711,164 <sup>(3)</sup>	110,280	295,680,000 <sup>(4)</sup>	6.57% <sup>(4)</sup>	7,240 <sup>(4)</sup>

(1) Source: Municipal Advisory Council of Texas.

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

(3) Valuation shown includes the \$140,000 State-mandated general residence homestead exemption and the \$60,000 State-mandated homestead exemption of persons sixty-five (65) years of age or older which received voter approval at a Statewide election held on November 4, 2025. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 LEGISLATIVE SESSION" for more information.

(4) Projected, includes the Bonds but excludes the Refunded Bonds. Preliminary, subject to change.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ended 8/31	TAX RATE			TAX COLLECTIONS		
	Local	Interest &	Total	Tax Levy	% Current	% Total
	Maintenance	Sinking	Rate		Collections	Collections
2022	\$ 0.87200	\$ 0.37500	\$ 1.24700	\$ 33,453,704	94.79%	98.84%
2023	0.85460	0.35720	1.21180	43,079,752	94.50%	97.30%
2024	0.66920	0.35720	1.02640	40,500,935	92.23%	95.94%
2025	0.66690	0.35720	1.02410	44,074,594	94.61% <sup>(1)</sup>	97.72% <sup>(1)</sup>
2026	0.66690	0.35720	1.02410	45,399,011	In process of collection	

(1) Unaudited collections as of Fiscal Year Ending August 31, 2025.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Colony Ridge Development LLC <sup>(1)</sup>	Developer	\$ 206,477,566	4.58%
Entergy Texas Inc.	Electric Utility	51,010,910	1.13%
Grand Prix Pipeline LLC	Oil & Gas Pipeline	29,807,210	0.59%
Oneok Arbuckle	Oil & Gas Pipeline	26,727,370	0.66%
CZ GA I LLC	Developer	18,290,130	0.25%
McKinley Development Co. Inc.	Developer	13,238,610	0.25%
Walmart Real Estate	Commercial Land	11,529,420	0.26%
Union Pacific Railroad Co.	Railroad	11,460,910	0.12%
Tennessee Gas Pipeline	Oil & Gas Pipeline	11,056,859	0.29%
HM South Texas Concrete Transport LLC	Real Estate	10,613,370	0.41%
		<u>\$ 390,212,355</u>	<u>8.55%</u>

(1) This development previously provided rapid population growth within the District's boundaries, resulting in overcrowding campuses and staffing shortages. While growth is still occurring, it has slowed significantly in recent months.

**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>	Total Tax Supported Debt As Of 11/30/2025	Estimated % Applicable	District's Overlapping Tax Supported Debt As Of 11/30/2025
Cleveland ISD	\$ 298,324,785 <sup>(1)</sup>	100.00%	\$ 298,324,785 <sup>(1)</sup>
City of Cleveland	11,630,000	93.18%	10,836,834
Liberty County	22,085,000	34.31%	7,577,364
Montgomery County	516,260,000	0.04%	206,504
San Jacinto County	405,000	7.03%	28,472
Total Direct and Overlapping Tax Supported Debt			\$ 316,973,958
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			7.04%
Per Capita Direct and Overlapping Tax Supported Debt			\$ 7,762

(1) Projected as of December 30, 2025 (the "Delivery Date"), includes the Bonds but excludes the Refunded Bonds. Preliminary, subject to change.

## DEBT INFORMATION

**TABLE 7 - PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS**

Fiscal Year	Outstanding Debt <sup>(1)</sup>			The Bonds <sup>(2)</sup>			Total Debt Service Requirements <sup>(2)</sup>	% of Principal Retired
Ending	Principal	Interest	Total	Principal	Interest	Total		
2026	\$ 2,059,785	\$ 12,285,065	\$ 14,344,850	\$ 585,000	\$ 926,298	\$ 1,511,298	\$ 15,856,148	0.89%
2027	3,045,000	11,203,300	14,248,300	-	1,400,000	1,400,000	15,648,300	1.91%
2028	3,395,000	11,053,200	14,448,200	-	1,400,000	1,400,000	15,848,200	3.05%
2029	4,385,000	10,870,525	15,255,525	-	1,400,000	1,400,000	16,655,525	4.52%
2030	5,075,000	10,652,169	15,727,169	-	1,400,000	1,400,000	17,127,169	6.22%
2031	5,275,000	10,426,544	15,701,544	-	1,400,000	1,400,000	17,101,544	7.98%
2032	6,000,000	10,193,025	16,193,025	-	1,400,000	1,400,000	17,593,025	10.00%
2033	5,945,000	9,948,550	15,893,550	-	1,400,000	1,400,000	17,293,550	11.99%
2034	4,685,000	9,733,150	14,418,150	1,570,000	1,360,750	2,930,750	17,348,900	14.09%
2035	5,340,000	9,522,200	14,862,200	1,650,000	1,280,250	2,930,250	17,792,450	16.43%
2036	5,725,000	9,276,300	15,001,300	1,730,000	1,195,750	2,925,750	17,927,050	18.93%
2037	5,795,000	9,026,425	14,821,425	1,825,000	1,106,875	2,931,875	17,753,300	21.48%
2038	6,620,000	8,767,175	15,387,175	1,915,000	1,013,375	2,928,375	18,315,550	24.34%
2039	7,480,000	8,473,600	15,953,600	2,015,000	915,125	2,930,125	18,883,725	27.53%
2040	7,555,000	8,148,325	15,703,325	2,115,000	811,875	2,926,875	18,630,200	30.77%
2041	8,005,000	7,799,050	15,804,050	2,225,000	703,375	2,928,375	18,732,425	34.20%
2042	8,485,000	7,429,325	15,914,325	2,340,000	589,250	2,929,250	18,843,575	37.82%
2043	8,980,000	7,038,050	16,018,050	2,460,000	469,250	2,929,250	18,947,300	41.66%
2044	9,500,000	6,624,325	16,124,325	2,585,000	343,125	2,928,125	19,052,450	45.71%
2045	10,050,000	6,185,975	16,235,975	2,715,000	210,625	2,925,625	19,161,600	49.99%
2046	11,115,000	5,711,950	16,826,950	2,855,000	71,375	2,926,375	19,753,325	54.67%
2047	14,965,000	5,137,025	20,102,025	-	-	-	20,102,025	59.69%
2048	15,720,000	4,496,000	20,216,000	-	-	-	20,216,000	64.96%
2049	16,470,000	3,852,200	20,322,200	-	-	-	20,322,200	70.48%
2050	17,245,000	3,177,900	20,422,900	-	-	-	20,422,900	76.26%
2051	18,065,000	2,471,700	20,536,700	-	-	-	20,536,700	82.31%
2052	18,915,000	1,732,100	20,647,100	-	-	-	20,647,100	88.65%
2053	16,540,000	1,023,000	17,563,000	-	-	-	17,563,000	94.20%
2054	17,305,000	346,100	17,651,100	-	-	-	17,651,100	100.00%
	<u>\$ 269,739,785</u>	<u>\$ 212,604,253</u>	<u>\$ 482,344,037</u>	<u>\$ 28,585,000</u>	<u>\$ 20,797,298</u>	<u>\$ 49,382,298</u>	<u>\$ 531,726,336</u>	

(1) Excludes the Refunded Bonds and other obligations (see “Table 10 – Other Obligations”). Preliminary, subject to change.

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

**TABLE 8 - INTEREST AND SINKING FUND BALANCE PROJECTION**

Tax Supported Debt Service Requirements, Fiscal Year Ending 8/31/26		\$ 15,856,148
Unaudited Interest and Sinking Fund Balance (as of 8/31/25)	\$ 13,145,249	
Estimated Interest and Sinking Fund Tax Revenues	<u>17,298,777</u>	
Total Projections		<u>\$ 30,444,026</u>
Estimated Balance, Fiscal Year Ending 8/31/26		<u>\$ 14,587,878</u>

**TABLE 9 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

As of the date of this Preliminary Official Statement, the District does not have any authorized but unissued unlimited tax bonds.

**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 leased copy machines beginning September 29, 2022 for a period of 5 years. The District has a bargain purchase option of \$1 at the end of the lease. The lease allows for unlimited black and white copies. Color copies are billed at \$0.035 after the first 6,000. The District has no intention to cancel the lease.

The District leased a storage building on August 1, 2021. The lease is not renewable and there are no variable usage payments.

Annual requirements to amortize long-term obligations and related interest are as follows:

Fiscal Year Ending August 31	Principal	Interest	Total
2025	257,610	27,407	285,017
2026	267,732	17,285	285,017
2027	278,251	6,766	285,017
2028	23,675	76	23,751
	<u>\$ 827,268</u>	<u>\$ 51,534</u>	<u>\$ 878,802</u>

**PENSION FUND . . .** Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 8.25%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the District's Annual Financial Report" - Note III, H.)

The following table shows contribution rates by type of contributor for the fiscal years 2023 and 2024 and the contributions by type of contributions reported by TRS which were received by TRS during the TRS measurement year (FY 2023). The reported contributions from the members and the employers are included in the calculation of the district's proportionate share of the net pension liability.

	<b><u>Contribution Rates</u></b>	
	<b><u>2023</u></b>	<b><u>2024</u></b>
Active Employer	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%
District's 2024 Employer Contributions		\$ 878,941
District's 2024 Member Contributions		643,207
2024 NECE (State) Contributions		1,174,524

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see Note III, I to the District's audited financial statements attached hereto as Appendix B.

**OTHER POST-EMPLOYMENT BENEFITS . . .** As a result of its participation in the System and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

## FINANCIAL INFORMATION

**TABLE 11 – CHANGES IN NET POSITION**

	Fiscal Year Ended August 31,				
	2024	2023	2022	2021	2020
<b>REVENUES:</b>					
<b>Program Revenues:</b>					
Charges for Services	\$ 639,050	\$ 1,135,413	\$ 304,795	\$ 250,780	\$ 166,561
Operating Grants and Contributions	29,761,548	26,558,955	14,970,273	16,348,599	18,101,614
<b>General Revenues:</b>					
Property Taxes, Levied for General Purposes	25,587,695	30,348,765	23,299,372	20,111,894	16,628,679
Property Taxes, Levied for Debt Service	13,673,280	12,690,592	10,019,081	8,581,888	6,393,520
State Aid - Formula Grants	105,293,167	93,971,510	92,319,177	68,786,134	52,292,694
Grants and Contributions (not restricted)	2,305,407	3,689,449	7,584,441	1,625,700	1,418,060
Investment Earnings	4,078,605	3,631,852	574,260	3,202,478	1,880,250
Miscellaneous	1,428,800	2,099,821	2,436,626	1,276,189	1,146,114
<b>Total Revenues</b>	<b>\$ 182,767,552</b>	<b>\$ 174,126,357</b>	<b>\$ 151,508,025</b>	<b>\$ 120,183,662</b>	<b>\$ 98,027,492</b>
<b>EXPENSES:</b>					
Instruction	\$ 91,278,986	\$ 90,469,802	\$ 75,431,457	\$ 63,738,007	\$ 49,183,024
Instr. Resources & Media Services	714,245	1,448,179	1,878,506	1,117,287	1,329,330
Curriculum and Staff Development	4,826,853	4,267,303	3,027,145	1,980,172	922,029
Instructional Leadership	2,576,172	2,308,829	1,463,935	1,212,317	1,059,222
School Leadership	10,292,934	11,620,875	8,103,951	6,066,099	4,688,055
Guidance/Counseling Services	8,278,344	7,426,928	4,633,546	4,309,282	3,756,875
Social Work/Health Services	543,784	283,495	189,695	179,114	67,989
Health Services	1,781,704	1,874,282	1,218,113	1,019,957	670,775
Student Transportation	9,118,189	9,588,539	6,805,179	6,011,139	3,274,310
Food Services	9,552,115	8,535,342	6,387,783	4,852,232	4,752,602
CoCurricular/Extracurricular Activities	2,289,341	2,590,823	1,914,918	1,370,184	1,409,629
General Administration	4,918,476	4,231,775	4,239,410	2,841,760	2,723,811
Plant Maintenance and Operations	18,722,627	18,128,435	11,782,808	8,534,122	6,943,116
Security and Monitoring Services	3,765,628	4,037,930	2,360,376	1,677,015	1,383,135
Data Processing Services	1,582,541	5,782,092	3,349,233	2,369,822	1,660,854
Community Services	207,689	148,104	8,594	42,571	15,242
Debt Service	11,601,669	11,576,863	11,612,355	12,010,035	8,044,008
Payments to Fiscal Agents	-	4,005	-	-	-
Other Intergovernmental Charges	1,135,595	928,147	737,226	587,723	570,992
<b>Total Expenses</b>	<b>\$ 183,186,892</b>	<b>\$ 185,251,748</b>	<b>\$ 145,144,230</b>	<b>\$ 119,918,838</b>	<b>\$ 92,454,998</b>
Increase in Net Position	\$ (419,340)	\$ (11,125,391)	\$ 6,363,795	\$ 264,824	\$ 5,572,494
Net Position Beginning	36,617,013	47,742,404	41,395,719	41,130,895	35,558,401
Prior Period Adjustment	-	-	(17,110)	-	-
<b>Net Position at August 31</b>	<b>\$ 36,197,673</b>	<b>\$ 36,617,013</b>	<b>\$ 47,742,404</b>	<b>\$ 41,395,719</b>	<b>\$ 41,130,895</b>

Source: The District's audited financial statements.



**TABLE 11-A – GENERAL FUND REVENUES AND EXPENDITURES HISTORY**

	Fiscal Years Ended August 31,				
	2024	2023	2022	2021	2020
<b>Revenues:</b>					
Local and Intermediate Sources	\$29,681,111	\$ 33,799,303	\$ 25,285,607	\$ 21,879,378	\$ 17,923,191
State Sources	111,382,445	100,326,648	97,269,488	72,585,026	55,393,018
Federal Sources	1,012,364	1,059,570	2,076,829	1,892,298	1,037,642
Total Revenues	<u>\$ 142,075,920</u>	<u>\$ 135,185,521</u>	<u>\$ 124,631,924</u>	<u>\$ 96,356,702</u>	<u>\$ 74,353,851</u>
<b>Expenditures:</b>					
Instruction	\$ 75,204,530	\$ 76,010,759	\$ 63,956,739	\$ 57,217,879	\$ 39,827,374
Instructional Resources and Media Services	657,822	1,063,566	511,258	1,003,995	1,252,487
Curriculum and Instructional Staff Development	1,581,795	1,902,230	1,555,838	1,483,622	474,356
Instructional Leadership	2,003,141	1,675,374	1,047,564	953,159	510,930
School Leadership	9,020,520	10,073,642	7,012,077	5,659,744	3,847,568
Guidance, Counseling and Evaluation Services	4,673,023	4,766,631	2,944,300	2,919,014	2,334,155
Social Work Services	185,999	218,624	88,976	164,077	30,903
Health Services	1,536,868	1,637,207	1,148,965	956,110	609,851
Student (Pupil) Transportation	8,949,236	10,070,716	9,270,045	5,830,354	3,481,493
Extracurricular Activities	2,062,920	2,241,918	1,604,006	1,324,175	1,302,025
General Administration	4,131,541	3,868,566	3,884,707	2,601,393	2,197,872
Facilities Maintenance and Operations	15,354,849	15,352,505	10,644,561	8,283,140	6,415,327
Security and Monitoring Services	3,233,654	3,468,404	2,282,649	1,545,116	1,273,424
Data Processing Services	1,327,993	4,404,046	2,455,172	1,859,440	1,543,456
Community Services	288	46,672	527	1,203	1,139
Debt Service - Principal on Long Term Debt	388,003	329,654	271,671	-	-
Debt Service - Interest on Long Term Debt	45,102	47,790	18,919	-	-
Facilities Acquisition and Construction	1,246,906	4,738,847	796,913	2,892,126	1,802,423
Other Intergovernmental Charges	1,067,669	859,201	685,739	571,115	552,671
Total Expenditures	<u>\$ 132,671,859</u>	<u>\$ 142,776,352</u>	<u>\$ 110,180,626</u>	<u>\$ 95,265,662</u>	<u>\$ 67,457,454</u>
Other Resources and (Uses) & Special Items	<u>\$ -</u>	<u>\$ 276,486</u>	<u>\$ 1,550</u>	<u>\$ -</u>	<u>\$ -</u>
Excess (Deficiency) of					
Revenues Over Expenditures	\$ 9,404,061	\$ (7,314,345)	\$ 14,452,848	\$ 1,091,040	\$ 6,896,397
Beginning Fund Balance on					
September 1	<u>\$ 50,489,828</u>	<u>\$ 57,804,173</u>	<u>\$ 43,351,325</u>	<u>\$ 42,260,285</u>	<u>\$ 35,363,888</u>
Ending Fund Balance on					
August 31 <sup>(1)(2)</sup>	<u>\$ 59,893,889</u>	<u>\$ 50,489,828</u>	<u>\$ 57,804,173</u>	<u>\$ 43,351,325</u>	<u>\$ 42,260,285</u>

(1) The District's unaudited Fiscal Year Ending August 31, 2025 General Fund balance is approximately \$63 million.

(2) The District adopted a deficit budget for the current fiscal year which is projected to be approximately \$2 million.

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 for the General, Food Service 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 may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the District or obligations under a lease, installment sale, or other agreement of the District) in investments authorized by State law in accordance with investment policies approved by the governing body of the District. Both State law and the District's investment policies are subject to change.

**AUTHORIZED INVESTMENTS** . . . Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued,

assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body of the District or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA<sup>m</sup>" or an equivalent by at least one nationally recognized rating service, if the governing body of the District authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The District may also contract with an investment management firm (x) registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or (y) with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order or resolution.

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

**INVESTMENT POLICIES . . .** Under State law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for District funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All District funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

**ADDITIONAL PROVISIONS . . .** Under State law the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument 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; (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 entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or 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) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the District's investment policy; (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 September 30, 2025\*, the District's investable funds were invested in the following categories:

Description of Investment	Percent	Market Value
Money Market Accounts	83.11%	\$ 57,138,456
Investment Pools	16.89%	11,613,991
	100.00%	\$ 68,752,447

\* Unaudited.

## TAX MATTERS

**TAX EXEMPTION . . .** The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. A form of Bond Counsel’s opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust (“FASIT”), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer’s applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Bonds. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Bonds.

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

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

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with “subchapter C” earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

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

The purchase price of certain Bonds (the “Premium Bonds”) paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser’s tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the Bond).

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

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

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 or operating data in accordance with its 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](http://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**

The Bonds have been rated “Aaa” by Moody’s Ratings (“Moody’s”) by virtue of the guarantee of the Permanent School Fund of the State of Texas and “A1” by Moody’s without regard to credit enhancement. The presently outstanding tax supported debt of the District is rated “A1” by Moody’s and “AA-” by Fitch Ratings, Inc. (“Fitch”) without regard to credit enhancement. The District also has issues outstanding which are rated “Aaa” by Moody’s and “AAA” by Fitch by virtue of the guarantee of the Permanent School Fund of the State of Texas. **An application for a contract rating on the Bonds was submitted to Moody’s only.** 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 of the Bonds.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations revise their rating methodologies and criteria for municipal issuers such as the District. A revision in a rating agency’s rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while the Bonds remain outstanding could undertake such an evaluation process.

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

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



## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public 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 to 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 Municipal 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. 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 “PLAN OF FINANCING” (except under the subcaption “Sources and Uses of Proceeds”), “THE BONDS” (excluding the information under the subcaptions “Permanent School Fund Guarantee”, “Book-Entry-Only System” and “Bondholders’ Remedies”), “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 two sentences 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, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

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.

## **MUNICIPAL ADVISOR**

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

The Municipal Advisor to the District has provided the following sentence for inclusion in this Official Statement. The Municipal 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 Municipal 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.

One of the Underwriters of the Bonds is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

## **VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Frost CPA LLC, in conjunction with Public Finance Partners LLC (the "Verification Agent"), will deliver to the District its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Defeasance Securities to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds. Such verification will be relied upon by Bond Counsel in rendering its opinion with respect to defeasance of the Refunded Bonds.

In delivering the verification report, the Verification Agent will rely on the accuracy, completeness and reliability of all information provided by, and on all decisions and approvals of, the District. In addition, the Verification Agent will rely on any information provided by the District's retained advisors, consultants or legal counsel.

## **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 the Rule.

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**SCHEDULE I – SCHEDULE OF REFUNDED BONDS**  
**(preliminary, subject to change)**

**Unlimited Tax School Building Bonds, Series 2016**

<u>Original Dated Date</u>	<u>Original Maturity (2/15)</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>	<u>Principal Amount Remaining</u>	<u>Redemption Date</u>
March 1, 2016	2034	5.000%	\$ 1,695,000	\$ 1,695,000	\$ 0	February 15, 2026
	2035	5.000%	1,780,000	1,780,000	0	February 15, 2026
	2036	5.000%	1,870,000	1,870,000	0	February 15, 2026
	2037 <sup>(1)</sup>	5.000%	1,970,000	1,970,000	0	February 15, 2026
	2038 <sup>(1)</sup>	5.000%	2,070,000	2,070,000	0	February 15, 2026
	2039 <sup>(2)</sup>	5.000%	2,175,000	2,175,000	0	February 15, 2026
	2040 <sup>(2)</sup>	5.000%	2,285,000	2,285,000	0	February 15, 2026
	2041 <sup>(2)</sup>	5.000%	2,405,000	2,405,000	0	February 15, 2026
	2042 <sup>(3)</sup>	5.000%	2,525,000	2,525,000	0	February 15, 2026
	2043 <sup>(3)</sup>	5.000%	2,655,000	2,655,000	0	February 15, 2026
	2044 <sup>(3)</sup>	5.000%	2,790,000	2,790,000	0	February 15, 2026
	2045 <sup>(3)</sup>	5.000%	2,935,000	2,935,000	0	February 15, 2026
	2046 <sup>(3)</sup>	5.000%	3,085,000	3,085,000	0	February 15, 2026
			<u><b>\$ 30,240,000</b></u>	<u><b>\$ 30,240,000</b></u>	<u><b>\$ -</b></u>	

(1) Represents mandatory sinking fund redemption amount of a term bond with a stated maturity of February 15, 2038.

(2) Represents mandatory sinking fund redemption amount of a term bond with a stated maturity of February 15, 2041.

(3) Represents mandatory sinking fund redemption amount of a term bond with a stated maturity of February 15, 2046.

## **APPENDIX A**

### GENERAL INFORMATION REGARDING THE DISTRICT

**THE DISTRICT . . .** The District is a political subdivision of the State of Texas and is located in the northwest corner of Liberty County, approximately 47 miles north of downtown Houston, with 144 square miles of land included in its corporate boundary. The District’s boundaries also overlap into portions of Montgomery and San Jacinto Counties.

The District is governed by an elected Board of Trustees (the “Board”) comprised of seven members serving three year staggered terms. Elections are held every year on the first Saturday of May. The Board is charged with policy-making and supervisory functions and delegates administrative responsibilities to a superintendent who is the chief administrative officer of the District. Certain support services are supplied by consultants and advisors.

#### **CAMPUS INFORMATION**

<u>Campus</u>	<u>Number of Schools</u>	<u>Capacity</u>	<u>Number of Portables</u>
Elementary Schools	6	9,130	35
Middle Schools	2	5,055	10
High Schools	1	6,075	28
Totals	<u>9</u>	<u>20,260</u>	<u>73</u>

Source: District staff

#### **DISTRICT ENROLLMENT**

<u>School Year</u>	<u>Total Enrollment</u>	<u>Average Daily Attendance</u>
2021/22	11,385	9,910.57
2022/23	11,877	10,362.68
2023/24	12,242	10,799.18
2024/25	12,608	11,148.13
2025/26	12,663	11,347.88

Source: District staff.

#### **SCHOOL AND EMPLOYEE INFORMATION**

##### **Teacher Information**

Number of teachers holding masters degrees	152
Number of teachers holding bachelors degrees	480

##### **Employee Information**

Number of Employees	1862
Number of Teachers	793

##### **Pupil/Teacher ratios:**

District-Wide Average	24:1
-----------------------	------

Source: District staff.

# LABOR FORCE ESTIMATES

	Annual Averages				
	2025 <sup>(1)</sup>	2024	2023	2022	2021
<b>Liberty County</b>					
Civilian Labor Force	43,473	42,682	41,627	38,899	37,099
Total Employment	40,801	40,416	39,442	36,708	33,913
Unemployment	2,672	2,266	2,185	2,191	3,186
Percent Unemployment	6.1%	5.3%	5.2%	5.6%	8.6%
<b>Montgomery County</b>					
Civilian Labor Force	363,980	358,512	349,039	327,549	310,147
Total Employment	347,277	344,299	335,808	315,088	292,920
Unemployment	16,703	14,213	13,231	12,461	17,227
Percent Unemployment	4.6%	4.0%	3.8%	3.8%	5.6%
<b>San Jacinto County</b>					
Civilian Labor Force	11,937	11,790	11,461	11,056	10,845
Total Employment	11,256	11,164	10,878	10,477	9,992
Unemployment	681	626	583	579	853
Percent Unemployment	5.7%	5.3%	5.1%	5.2%	7.9%
<b>State of Texas</b>					
Civilian Labor Force	15,857,279	15,608,932	15,217,552	14,741,150	14,319,776
Total Employment	15,213,480	14,971,373	14,608,665	14,159,995	13,512,599
Unemployment	643,799	637,559	608,887	581,155	807,177
Percent Unemployment	4.1%	4.1%	4.0%	3.9%	5.6%

(1) As of August 2025

Source: Texas Workforce Commission.

**APPENDIX B**

EXCERPTS FROM THE  
CLEVELAND INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2024

The information contained in this Appendix consists of excerpts from the Cleveland 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.





MITCHELL T FONTENOTE CPA, INC.

Certified Public Accountants

## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Cleveland Independent School District  
Cleveland, Texas

### **Report on the Audit of the Financial Statements**

#### ***Opinions***

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

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

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of 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 Cleveland Independent School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

#### ***Auditor's Responsibilities for the Audit of the Financial Statements***

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

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

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

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

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and required pension and open schedules 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 Cleveland Independent School District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements 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 the Required TEA Schedules 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 basic 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 have also issued our report dated January 7, 2025, on our consideration of the Cleveland Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Cleveland Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cleveland Independent School District's internal control over financial reporting and compliance.

*Mitchell T Fontenote CPA, Inc.*

Port Neches, Texas  
January 7, 2025

In this section of the Annual Financial Report, we, the managers of the CLEVELAND INDEPENDENT SCHOOL DISTRICT (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2024. We encourage readers to consider the information presented here in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements that begin on page 11.

## FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$36,197,673 at August 31, 2024.
- During the year, the District's expenses were \$419,340 more than the \$182,767,552 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$59,893,889. Of this amount, \$39,893,889 is for unrestricted use by the District.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements include three components: (1) management's discussion and analysis (this section), (2) the basic financial statements, and (3) required supplementary information.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business. They include the Statement of Net Position and the Statement of Activities that provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base.

The *Statement of Activities* presents information showing how the District's net position changed during the current fiscal year. All changes in net position are reported for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenue and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (governmental activities) as opposed to business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges.

**Fund Financial Statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objects. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide detailed information about the District's most significant funds, *not* the District as a whole.

- 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.

## OVERVIEW OF THE FINANCIAL STATEMENTS - Continued

The District has the following kinds of funds:

- **Governmental Funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains several individual governmental funds organized according to their type. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures and changes in fund balances for the District's most significant funds. The District's major governmental funds are the General Fund and Debt Service Fund. Data for the remaining governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget. The Texas Education Agency also requires the District to present a budgetary comparison statement for one of its special revenue funds (food service) and the debt service fund.

- **Proprietary Funds.** The district will use proprietary funds to account for activities for which it charges users (whether outside customers or other units of the District). Proprietary funds use the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, when a district utilizes enterprise funds, (one category of proprietary funds) these are the business-type activities reported in the government-wide statements, but they contain more detail and additional information, such as cash flows. Internal service funds (the other category of proprietary funds) report activities that provide supplies and services for a district's other programs and activities, such as a district's self-insurance programs. The District does not have any enterprise funds.
- **Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 21-22.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 23-48 of this report.

**Required Supplementary Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on page 49-58 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Net Position (Table I) and Changes in Net Position (Table II) of the District's governmental activities.

The District's combined net position was \$36,197,673 at August 31, 2024. (See Table I)

**Table I**  
**Net Position**

	Governmental Activities		
	2024	2023	Change
Current and Other Asset	\$ 113,278,723	\$ 128,110,470	\$ (14,831,747)
Capital Assets	331,296,789	329,949,427	1,347,362
Total Assets	444,575,512	458,059,897	(13,484,385)
Total Deferred Outflows	62,153,607	46,792,345	(15,361,262)
Long-term Liabilities	415,467,541	400,191,167	15,276,374
Other Liabilities	22,678,033	37,964,564	(15,286,531)
Total Liabilities	438,145,574	438,155,731	(10,157)
Total Deferred Inflows	32,385,872	30,079,498	(2,306,374)
Net Position:			
Net Investment in Capital Asset	(9,776,934)	(15,917,526)	6,140,592
Restricted	39,826,126	48,949,574	(9,123,448)
Unrestricted	6,148,481	3,584,965	2,563,516
Total Net Position	\$ 36,197,673	\$ 36,617,013	\$ (419,340)

Approximately (\$9.78) million of the District's net position represent investments in capital assets net of related debt. Restricted net position is amounts contractually set aside for various purposes totaling \$39.83 million. The unrestricted net position represents resources available to fund the programs of the District next year. Currently the unrestricted net position is \$6.15 million due to the inclusion of the net pension and OPEB liabilities.

**Changes in net position.** The Districts total revenues were \$182.8 million. A portion, 21 percent, of the District's revenue comes from local property taxes, 59 percent comes from grants and contributions, while only 17 percent relates to charges for services and operating grants, and the remaining 3 percent relates to investment earnings and other miscellaneous revenue.

Total Cost of all programs and services was \$183,186,892. The net position of the District's governmental activities for the current year decreased by \$419,340 (see Table II on page 8 of this report).

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2024

Key elements of the governmental activities of the District are reflected in the following table.

**Table II**  
**Statement of Activities**

	Governmental Activities		
	2024	2023	Change
Revenues			
Program Revenues			
Charges for Services	\$ 639,050	\$ 1,135,413	\$ (496,363)
Operating Grants and Contributions	29,761,548	26,558,955	3,202,593
General Revenues			
Property Taxes	39,260,975	43,039,357	(3,778,382)
Grants and Contributions	107,598,574	97,660,959	9,937,615
Investment Earnings	4,078,605	3,631,852	446,753
Miscellaneous	1,428,800	2,099,821	(671,021)
Total Revenue	182,767,552	174,126,357	8,641,195
Expenses			
Instruction	91,278,986	90,469,802	809,184
Instrucional Resources and Media	714,245	1,448,179	(733,934)
Curriculum and Staff Development	4,826,853	4,267,303	559,550
Instructional Leadership	2,576,172	2,308,829	267,343
School Leadership	10,292,934	11,620,875	(1,327,941)
Guidance, Counseling and Evaluation	8,278,344	7,426,928	851,416
Social Work Services	543,784	283,495	260,289
Health Services	1,781,704	1,874,282	(92,578)
Student Transportation	9,118,189	9,588,539	(470,350)
Food Services	9,552,115	8,535,342	1,016,773
Extracurricular Activities	2,289,341	2,590,823	(301,482)
General Adminsitration	4,918,476	4,231,775	686,701
Facilities Maintenance and Operations	18,722,627	18,128,435	594,192
Security and Monitoring Services	3,765,628	4,037,930	(272,302)
Data Processing Services	1,582,541	5,782,092	(4,199,551)
Community Services	207,689	148,104	59,585
Debt Services - Interest	11,591,375	11,576,863	14,512
Debt Services - Bond Issuance Cost	10,294	4,005	6,289
Other Intergovernmental Charges	1,135,595	928,147	207,448
Total Expenses Governmental Activities	183,186,892	185,251,748	(2,064,856)
Increase (Decrease) in Net Position	(419,340)	(11,125,391)	10,706,051
Net Position - Beginning	36,617,013	47,742,404	(11,125,391)
Net Position - Ending	\$ 36,197,673	\$ 36,617,013	\$ (419,340)

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
AUGUST 31, 2024

Table III presents the cost of each of the District's largest 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.

**Table III**  
**Net Cost of Selected District Functions**

	Total Cost of Services			Net Cost of Services		
	2024	2023	Change	2024	2023	Change
Instruction	\$ 91,278,986	\$ 90,469,802	\$ 809,184	\$ 81,176,726	\$ 80,835,030	\$ 341,696
School Leadership	10,292,934	11,620,875	(1,327,941)	9,626,285	10,897,285	(1,271,000)
Student Transportation	9,118,189	9,588,539	(470,350)	8,589,514	9,078,536	(489,022)
Food Services	9,552,115	8,535,342	1,016,773	(1,113,778)	(1,582,353)	468,575
Facilities Maint and Op.	18,722,627	18,128,435	594,192	17,804,568	17,346,368	458,200
Debt Service	11,591,375	11,576,863	14,512	11,591,375	11,576,863	14,512

### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented on page 13) reported a combined fund balance of \$85.7 million, which is an increase from last year.

Over the course of the year, the Board of Trustees revised the District's budget as needed. These budget items fall into two categories. The first category involved moving funds from program areas that did not need or use all of the resources originally appropriated to them. The second category involved changes in state program revenues.

### GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its budget as necessary. With these adjustments, actual expenditures were \$11,913,105 below final budget amounts. The most significant positive variance resulted from lower instruction expenditures.

On the other hand, resources available were \$4,164,754 above the final budgeted amount. Revenues from state sources accounted for most of this variance resulting in actual revenues \$4,027,434 more than budgeted revenues.



## CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

**Capital Assets.** At August 31, 2024, the District had \$331.3 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, furniture and equipment used for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$1,347,362 (including additions and deductions) over last year.

**Table IV**  
**Capital Assets - Governmental Funds**

	2024	2023
Land	\$ 17,197,431	\$ 13,208,404
Buildings and Improvements	338,475,833	299,707,588
Equipment and Vehicles	18,763,615	17,662,203
Construction in Progress	22,397,760	54,750,148
Right-to-Use Assets	1,461,837	1,461,837
Subscription Based IT Assets	413,583	413,583
Totals at Historical Cost	398,710,059	387,203,763
Buildings and Improvements	(57,041,863)	(49,141,209)
Equipment	(9,542,172)	(7,681,340)
Right-to-use Assets	(663,801)	(349,070)
Subscription Based IT Assets	(165,434)	(82,717)
Total Accumulated Depreciation	(67,413,270)	(57,254,336)
Net Capital Assets	\$ 331,296,789	\$ 329,949,427

**Long-Term Debt.** At year-end, the District had \$301.19 million in general obligation debt at a coupon interest rate of 3.00% to 5.00% outstanding at year-end. The District's general obligation bonds carried the highest possible rating, according to national rating agencies.

## ECONOMIC FACTORS AND NEW YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2024-2025 budget and tax rate. One of those factors continues to be property values, changes in enrollment, the economy, projects of future budget years, and legislative mandates. Amounts available for appropriation in the General Fund for 2024-2025 are \$148.87 million. The District has adopted a General Fund budget of \$157.01 million for the 2024-2025 fiscal year. If these estimates are realized, the District's budgetary General Fund balance is expected to decrease by the close of 2024-2025 school year.

## 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 as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's administration office.

## BASIC FINANCIAL STATEMENTS

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2024

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 89,431,356
1220 Property Taxes - Delinquent	6,107,671
1230 Allowance for Uncollectible Taxes	(610,767)
1240 Due from Other Governments	18,030,049
1290 Other Receivables, Net	119,046
1410 Prepayments	201,368
Capital Assets:	
1510 Land	17,197,431
1520 Buildings, Net	281,433,970
1530 Furniture and Equipment, Net	9,221,443
1550 Right-to-Use Leased Assets, Net	798,036
1553 SBITA Assets, Net	248,149
1580 Construction in Progress	22,397,760
1000 Total Assets	444,575,512
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	769,760
1705 Deferred Outflow Related to TRS Pension	31,600,219
1706 Deferred Outflow Related to TRS OPEB	29,783,628
1700 Total Deferred Outflows of Resources	62,153,607
<b>LIABILITIES</b>	
2110 Accounts Payable	2,307,263
2140 Interest Payable	617,637
2150 Payroll Deductions and Withholdings	1,409,424
2160 Accrued Wages Payable	9,799,955
2180 Due to Other Governments	8,540,264
2300 Unearned Revenue	3,490
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	1,557,545
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	340,247,865
2540 Net Pension Liability (District's Share)	52,660,090
2545 Net OPEB Liability (District's Share)	21,002,041
2000 Total Liabilities	438,145,574
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	1,856,526
2606 Deferred Inflow Related to TRS OPEB	30,529,346
2600 Total Deferred Inflows of Resources	32,385,872
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets and Right-to-Use Lease Assets	(9,776,934)
Restricted:	
3820 Restricted for Federal and State Programs	9,444,286
3850 Restricted for Debt Service	13,763,804
3860 Restricted for Capital Projects	16,618,036
3900 Unrestricted	6,148,481
3000 Total Net Position	\$ 36,197,673

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2024

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for	Operating	Primary Gov.
	Expenses	Services	Grants and Contributions	Governmental Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 91,278,986	\$ 226,270	\$ 9,875,990	\$ (81,176,726)
12 Instructional Resources and Media Services	714,245	-	53,862	(660,383)
13 Curriculum and Instructional Staff Development	4,826,853	-	2,754,176	(2,072,677)
21 Instructional Leadership	2,576,172	-	387,243	(2,188,929)
23 School Leadership	10,292,934	-	666,649	(9,626,285)
31 Guidance, Counseling, and Evaluation Services	8,278,344	-	2,808,600	(5,469,744)
32 Social Work Services	543,784	-	332,484	(211,300)
33 Health Services	1,781,704	-	142,229	(1,639,475)
34 Student (Pupil) Transportation	9,118,189	-	528,675	(8,589,514)
35 Food Services	9,552,115	329,095	10,336,798	1,113,778
36 Extracurricular Activities	2,289,341	83,685	68,373	(2,137,283)
41 General Administration	4,918,476	-	189,967	(4,728,509)
51 Facilities Maintenance and Operations	18,722,627	-	918,059	(17,804,568)
52 Security and Monitoring Services	3,765,628	-	410,468	(3,355,160)
53 Data Processing Services	1,582,541	-	92,997	(1,489,544)
61 Community Services	207,689	-	194,978	(12,711)
72 Debt Service - Interest on Long-Term Debt	11,591,375	-	-	(11,591,375)
73 Debt Service - Bond Issuance Cost and Fees	10,294	-	-	(10,294)
99 Other Intergovernmental Charges	1,135,595	-	-	(1,135,595)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 183,186,892	\$ 639,050	\$ 29,761,548	(152,786,294)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			25,587,695
DT	Property Taxes, Levied for Debt Service			13,673,280
SF	State Aid - Formula Grants			105,293,167
GC	Grants and Contributions not Restricted			2,305,407
IE	Investment Earnings			4,078,605
MI	Miscellaneous Local and Intermediate Revenue			1,428,800
TR	Total General Revenues			152,366,954
CN	Change in Net Position			(419,340)
NB	Net Position - Beginning			36,617,013
NE	Net Position - Ending			\$ 36,197,673

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2024

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 64,399,405	\$ 16,927,353	\$ 8,048,725	\$ 89,375,483
1220 Property Taxes - Delinquent	4,319,918	1,787,753	-	6,107,671
1230 Allowance for Uncollectible Taxes	(431,992)	(178,775)	-	(610,767)
1240 Due from Other Governments	12,500,211	-	5,529,838	18,030,049
1260 Due from Other Funds	7,813,478	-	-	7,813,478
1290 Other Receivables	80,363	38,683	-	119,046
1410 Prepayments	201,368	-	-	201,368
1000 Total Assets	<u>\$ 88,882,751</u>	<u>\$ 18,575,014</u>	<u>\$ 13,578,563</u>	<u>\$ 121,036,328</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 688,182	\$ -	\$ 1,003,616	\$ 1,691,798
2150 Payroll Deductions and Withholdings Payable	1,409,424	-	-	1,409,424
2160 Accrued Wages Payable	9,291,170	-	508,785	9,799,955
2170 Due to Other Funds	8,374,478	-	-	8,374,478
2180 Due to Other Governments	5,337,682	3,202,232	350	8,540,264
2300 Unearned Revenue	-	-	3,490	3,490
2000 Total Liabilities	<u>25,100,936</u>	<u>3,202,232</u>	<u>1,516,241</u>	<u>29,819,409</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	3,887,926	1,608,978	-	5,496,904
2600 Total Deferred Inflows of Resources	<u>3,887,926</u>	<u>1,608,978</u>	<u>-</u>	<u>5,496,904</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	9,444,286	9,444,286
3470 Capital Acquisition and Contractual Obligation	-	-	2,618,036	2,618,036
3480 Retirement of Long-Term Debt	-	13,763,804	-	13,763,804
Committed Fund Balance:				
3510 Construction	14,000,000	-	-	14,000,000
3545 Other Committed Fund Balance	6,000,000	-	-	6,000,000
3600 Unassigned Fund Balance	39,893,889	-	-	39,893,889
3000 Total Fund Balances	<u>59,893,889</u>	<u>13,763,804</u>	<u>12,062,322</u>	<u>85,720,015</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 88,882,751</u>	<u>\$ 18,575,014</u>	<u>\$ 13,578,563</u>	<u>\$ 121,036,328</u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2024

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 85,720,015</b>
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, 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.	1,408
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$387,203,763 and the accumulated depreciation was (\$57,254,336). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position.	(16,623,071)
3 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 outlays and debt principal payments is to increase net position.	16,584,871
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$22,728,763, a Deferred Resource Inflow in the amount of \$2,401,160 and a net pension liability in the amount of \$35,186,384. The impact of this on Net Position is (\$14,858,781). Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$8,057,616). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$22,916,397) .	(22,916,397)
5 The District participates in the TRS-Care plan for retirees through TRS. The District's share of the TRS plan resulted in a net OPEB liability of \$21,002,041, a deferred outflow of \$29,783,628 and a deferred inflow of \$30,529,346. This resulted in a difference between the ending fund balance and the ending net position of (\$21,747,759).	(21,747,759)
6 The 2024 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(10,318,298)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	5,496,904
<b>29 Net Position of Governmental Activities</b>	<b>\$ 36,197,673</b>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2024

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 29,681,111	\$ 14,677,418	\$ -
5800 State Program Revenues	111,382,445	1,391,686	-
5900 Federal Program Revenues	1,012,364	-	-
5020 Total Revenues	142,075,920	16,069,104	-
EXPENDITURES:			
Current:			
0011 Instruction	75,204,530	-	-
0012 Instructional Resources and Media Services	657,822	-	-
0013 Curriculum and Instructional Staff Development	1,581,795	-	-
0021 Instructional Leadership	2,003,141	-	-
0023 School Leadership	9,020,520	-	-
0031 Guidance, Counseling, and Evaluation Services	4,673,023	-	-
0032 Social Work Services	185,999	-	-
0033 Health Services	1,536,868	-	-
0034 Student (Pupil) Transportation	8,949,236	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	2,062,920	-	-
0041 General Administration	4,131,541	-	-
0051 Facilities Maintenance and Operations	15,354,849	-	-
0052 Security and Monitoring Services	3,233,654	-	-
0053 Data Processing Services	1,327,993	-	-
0061 Community Services	288	-	-
Debt Service:			
0071 Principal on Long-Term Liabilities	388,003	3,070,000	-
0072 Interest on Long-Term Liabilities	45,102	13,007,481	-
0073 Bond Issuance Cost and Fees	-	10,294	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	1,246,906	-	-
Intergovernmental:			
0099 Other Intergovernmental Charges	1,067,669	-	-
6030 Total Expenditures	132,671,859	16,087,775	-
1200 Net Change in Fund Balances	9,404,061	(18,671)	-
0100 Fund Balance - September 1 (Beginning), As Previously Reported	50,489,828	13,782,475	13,781,417
1300 Adjustments and Restatements	-	-	(13,781,417)
Fund Balance - September 1, as Restated and Adjusted	50,489,828	13,782,475	-
3000 Fund Balance - August 31 (Ending)	\$ 59,893,889	\$ 13,763,804	\$ -

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

		Total	
Other		Governmental	
Funds		Funds	
\$	1,097,184	\$	45,455,713
	2,625,248		115,399,379
	22,932,263		23,944,627
	26,654,695		184,799,719
	7,402,800		82,607,330
	32,351		690,173
	2,705,012		4,286,807
	321,251		2,324,392
	333,492		9,354,012
	2,644,802		7,317,825
	325,258		511,257
	89,420		1,626,288
	302,153		9,251,389
	8,955,783		8,955,783
	14,205		2,077,125
	64,935		4,196,476
	608,090		15,962,939
	308,675		3,542,329
	195,138		1,523,131
	194,978		195,266
	-		3,458,003
	-		13,052,583
	-		10,294
	11,261,129		12,508,035
	-		1,067,669
	35,759,472		184,519,106
	(9,104,777)		280,613
	7,385,682		85,439,402
	13,781,417		-
	21,167,099		85,439,402
\$	12,062,322	\$	85,720,015



CLEVELAND INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2024

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$ 280,613
The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.	(1,152)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2024 capital outlays and debt principal payments is to increase net position.	16,584,871
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(10,318,298)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	213,396
Current year changes due to GASB 68 increased revenues in the amount of \$4,608,264 but also increased expenditures in the amount of \$12,665,880. The net effect on the change in the ending net position was a decrease in the amount of (\$8,057,616).	(8,057,616)
Current year changes due to GASB 75 decreased revenues in the amount of \$6,592,148 but also decreased expenditures in the amount of \$7,470,994. The net effect on the change in the ending net position was a increase in the amount of \$878,846.	878,846
<b>Change in Net Position of Governmental Activities</b>	<u><u>\$ (419,340)</u></u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
AUGUST 31, 2024

	Governmental Activities -
	Internal Service Fund
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 55,873
Due from Other Funds	561,000
	<hr/>
Total Assets	616,873
	<hr/>
LIABILITIES	
Current Liabilities:	
Accounts Payable	615,465
	<hr/>
Total Liabilities	615,465
	<hr/>
NET POSITION	
Unrestricted Net Position	1,408
	<hr/>
Total Net Position	\$ 1,408
	<hr/> <hr/>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2024

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 347,613
Total Operating Revenues	347,613
OPERATING EXPENSES:	
Other Operating Costs	348,765
Total Operating Expenses	348,765
Operating Income (Loss)	(1,152)
Total Net Position - September 1 (Beginning)	2,560
Total Net Position - August 31 (Ending)	\$ 1,408

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2024

EXHIBIT D-3

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 347,613
Cash Payments for Suppliers	(292,562)
Net Cash Provided by Operating Activities	55,051
Net Increase in Cash and Cash Equivalents	55,051
Cash and Cash Equivalents at Beginning of Year	822
Cash and Cash Equivalents at End of Year	\$ 55,873
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss):	\$ (1,152)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	52,203
Decrease (increase) in Due from Other Funds	4,000
Net Cash Provided by Operating Activities	\$ 55,051

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2024

	Private Purpose Trust Fund	Total Custodial Funds
<hr/>		
ASSETS		
Cash and Cash Equivalents	\$ 2,159	\$ 203,952
Total Assets	<u>2,159</u>	<u>\$ 203,952</u>
NET POSITION		
Restricted for Other Purposes	<u>2,159</u>	<u>203,952</u>
Total Net Position	<u><u>\$ 2,159</u></u>	<u><u>\$ 203,952</u></u>

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

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2024

	Private Purpose Trust Fund	Total Custodial Funds
<b>ADDITIONS:</b>		
Miscellaneous Revenue - Student Activities	\$ -	\$ 498,454
Earnings from Temporary Deposits	24	-
Total Additions	24	498,454
<b>DEDUCTIONS:</b>		
Other Deductions	-	441,937
Total Deductions	-	441,937
Change in Fiduciary Net Position	24	56,517
Total Net Position - September 1 (Beginning)	2,135	147,435
Total Net Position - August 31 (Ending)	\$ 2,159	\$ 203,952

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

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

*Other Post-Employment Benefits.* The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resource 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.

CLEVELAND INDEPENDENT SCHOOL DISTRICT applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. For investment pools, the District's investments are accounted for using the cost amortization method.

*Changes in Accounting and Changes To or Within the Financial Reporting Entity.* As required by GASB 100, the district must disclose in these notes any change in accounting principles, changes in accounting estimates, and changes to or within the financial reporting entity. The impact of all of these changes described below are presented in the financial statements as an Adjustment and/or Restatement of the beginning net position, fund balance, or fund net position as applicable at the earliest period presented.

**Change to the Financial Reporting Entity** – These changes can result from (1) the additional or removal of a fund accounting for continuing operations within the primary government, (2) a change in a fund's presentation as major or nonmajor, (3) the addition or removal of a component unit from the financial reporting unit (with certain exceptions), and (4) a change in a component unit's presentation as blended or discretely presented. The effects of these changes are reported in the financial statements as adjustments to beginning net position, fund balance, or fund net position, as applicable as of the beginning of the reporting period.

At the end of each fiscal year, the District determines which funds will be reported as major funds in the Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance. The remaining non-major funds are reported as "Other Funds" in the respective statements. The variance in major funds results in a restatement of beginning fund balance as follows:

	Major Funds	Non-Major Funds	Total
Fund Balance Beginning	78,053,720	7,385,682	85,439,402
Adjustment for Prior Year Major Fund	(13,781,417)	13,781,417	-
Fund Balance Beginning, Restated	<u>\$ 64,272,303</u>	<u>\$ 21,167,099</u>	<u>\$ 85,439,402</u>

**A. REPORTING ENTITY**

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

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the CLEVELAND INDEPENDENT SCHOOL DISTRICT nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The District has no business-type activities.

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

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

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

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

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

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

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



**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

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

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

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

Fiduciary funds include Trust Funds and Custodial Funds. Data from fiduciary funds are not included in the government-wide statements.

**D. FUND ACCOUNTING**

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

Governmental Funds:

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

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

Proprietary Funds:

3. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has an Internal Service Fund to account for its participation in a workers' compensation shared risk pool.

Fiduciary Funds:

4. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District utilizes this fund type to account for money collected and held for the purpose of awarding scholarships to selected students.
5. **Custodial Fund** – The District accounts for resources held for others in a custodial capacity in custodial funds. These funds are used to account for assets held by the District as a custodian for student and other organizations. The District's has the following Custodial Funds:
  - Student Activities** – The student activities fund is used to record funds held for student organizations.

**E. OTHER ACCOUNTING POLICIES**

1. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.
2. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures. With GASB 87, the initial measure of a new right-to-use lease arrangement is reported in governmental fund types as an other source during the current period. Monthly payments are reported as principal and interest payments during the reporting period in the fund level statements.
3. Capital assets, which include land, buildings, furniture, and equipment, right-to-use lease assets, and subscription-based information technology assets are reported in the applicable governmental columns in the government-wide financial statements.

Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The right-to-use lease asset capitalization level is determined by the Board. The term of the lease must be the non-cancelable period during which the District has the right to use the tangible assets of another entity plus any periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87. If the lease is in a governmental fund, the full amount of the lease asset will be reported as an expenditure in the fund level statements the year the agreement is made. The recording of the lease asset and liability is reported in the government-wide statements.

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

The subscription-based information technology asset capitalization level is determined by the Board. The term of the subscription must be the non-cancelable period during which the District has the right to use the information technology asset of another entity plus any periods in which either party has the sole option to extend the lease if it is reasonably certain the option will be exercised plus any periods in which either party has the sole option to terminate the subscription if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 96. If the subscription is in a governmental fund, the full amount of the lease asset will be reported as an expenditure in the fund level statements the year the agreement is made. For existing contracts that were evaluated as subscriptions for this year of implementation, the recording of the subscription-based information technology asset and liability would not be reported in governmental fund statements but would be reported in the government wide statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Buildings, furniture and equipment, and leased assets of the District are depreciated using the straight-line method over the following estimated useful lives or, for the lease asset, for the term of the lease if the estimated useful life is longer than the term of the lease if there is an option to purchase which is expected to be exercised:

Assets	Years
Buildings & Improvements	15-30
Furniture & Equipment	3-25
Vehicles	5-10

4. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's Board. Assignments of fund balance are amounts set aside by the District's Superintendent or his designee with the intent they be used for specific purposes.
5. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
6. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District reports deferred outflows of resources related to TRS.
7. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. The District reports deferred inflows related to TRS.

## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Cont'd**

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

## **II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

### **A. BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other two reports are in Exhibit J2 and J3.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through adoption by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at scheduled meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

## **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

### **A. CASH, CASH EQUIVALENTS AND INVESTMENTS**

#### **Cash and Cash Equivalents**

##### **District Policies and Legal and Contractual Provisions Governing Deposits**

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

The District classifies investment pools as cash and cash equivalents for reporting purposes. As of August 31, 2024, the following are the District's cash and cash equivalents with respective maturities and credit rating:

Name	Maturity	Ratings	Book Value	Fair Value	Percentage
Cash and Cash Equivalents	N/A	N/A	\$ 78,506,163	\$ 78,506,163	87.58%
Investment Pools (cash equivalent)	N/A	AAA	11,131,304	11,131,304	12.42%
Totals			<u>\$ 89,637,467</u>	<u>\$ 89,637,467</u>	<u>100.00%</u>

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

#### **Investments**

##### **District Policies and Legal and Contractual Provisions Governing Investments**

##### **Compliance with the Public Funds Investment Act**

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

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

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

Additional policies and contractual provisions governing investments for CLEVELAND INDEPENDENT SCHOOL DISTRICT are specified below:

**Credit Risk** To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2024, the district's investments pools (cash and cash equivalents) were rated AAA.

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

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

*Concentration of Credit Risk* To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District's policy requires that its investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions.

*Interest Rate Risk* This is the risk that changes in interest rates will adversely affect the fair value of an investment. To reduce exposure to changes in interest rates that could adversely affect the value of investments, the District shall use final and weighted-average-maturity limits and diversification. The District shall monitor interest rate risk using weighted average maturity and specific identification.

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earnings investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

*Public Funds Investment Pools* Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperating Act Chapter 79 of the Texas Government Code and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool, 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service, and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported in an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is a 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

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

As of August 31, 2024, CLEVELAND INDEPENDENT SCHOOL DISTRICT did not have any investments subject to the fair value measurement.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**B. PROPERTY TAXES**

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

**C. DELINQUENT TAXES RECEIVABLE**

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

**D. INTERFUND BALANCES AND TRANSFERS**

As of August 31, 2024, the District's interfund balances were as follows:

Receivable Fund	Payable Fund	Amount	Description
General Fund	General Fund - Payroll	7,813,478	Reimbursement transfers
Internal Service	General Fund	561,000	Reimbursement transfers
		<u>\$ 8,374,478</u>	

Interfund transfers are defined as "flow of assets without equivalent flows of assets in return and without requirement of repayment." The District had no interfund transfers during the fiscal year ended August 31, 2024.

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2024

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**E. CAPITAL ASSET ACTIVITY**

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

	09/01/2023	Increases	Decreases	Reclassify	08/31/2024
Capital Assets, Not Depreciated					
Land	\$ 13,208,404	\$ 3,919,777	\$ (39,500)	\$ 108,750	\$ 17,197,431
Construction in Progress	54,750,148	5,477,048	-	(37,829,436)	22,397,760
Total Capital Assets, Not Depreciated	\$ 67,958,552	\$ 9,396,825	\$ (39,500)	\$ (37,720,686)	\$ 39,595,191
Capital Assets, Depreciated					
Buildings & Improvements	299,707,588	1,776,715	(729,156)	37,720,686	338,475,833
Furniture and Equipment	17,662,203	1,101,412	-	-	18,763,615
Right-to-Use Lease Assets	1,461,837	-	-	-	1,461,837
Subscription Based IT Assets	413,583	-	-	-	413,583
Total Capital Assets, Depreciated	319,245,211	2,878,127	(729,156)	37,720,686	359,114,868
Less: Accumulated Depreciation					
Buildings & Improvements	(49,141,209)	(8,060,018)	159,364	-	(57,041,863)
Equipment	(7,681,340)	(1,860,832)	-	-	(9,542,172)
Right-to-Use Lease Assets	(349,070)	(314,731)	-	-	(663,801)
Subscription Based IT Assets	(82,717)	(82,717)	-	-	(165,434)
Total Accumulated Depreciation	(57,254,336)	(10,318,298)	159,364	-	(67,413,270)
Governemental Activities Capital Assets, Net	\$ 329,949,427	\$ 1,956,654	\$ (609,292)	\$ -	\$ 331,296,789

Depreciation was allocated as follows:

Function Description	Depreciation	Right-to-Use Lease Amortization	Subscription Based IT Amortization	Total
Instruction	\$ 5,233,609	\$ -	\$ -	\$ 5,233,609
Instrucitonal Resources and Media	43,910	-	-	43,910
Curriculum and Staff Development	272,734	-	-	272,734
Instructional Leadership	147,882	-	-	147,882
School Leadership	595,119	-	-	595,119
Guidance, Counseling and Evaluation	465,573	-	-	465,573
Social Work Services	32,527	-	-	32,527
Health Services	103,467	-	-	103,467
Student Transportation	588,590	-	-	588,590
Food Services	569,783	-	-	569,783
Extracurricular Activities	160,267	-	-	160,267
General Adminsitration	289,176	-	-	289,176
Facilities Maintenance and Operations	1,015,590	314,731	82,717	1,413,038
Security and Monitoring Services	225,369	-	-	225,369
Data Processing Services	96,904	-	-	96,904
Community Services	12,423	-	-	12,423
Other Intergovernmental Charges	67,927	-	-	67,927
Total	\$ 9,920,850	\$ 314,731	\$ 82,717	\$ 10,318,298



CLEVELAND INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2024

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**F. BONDS AND LONG-TERM NOTES PAYABLE**

The District's long-term liabilities consist of general obligation bonds and refunding bonds. The general obligation bonds are issued to provide for the acquisition of capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the District. The current requirements for the general obligation bonds are accounted for in the Debt Service Fund.

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

Series	Original Issue	Final Maturity	Annual Installments	Percentage Rate	Outstanding Balance
Series 2006 Refunding	\$ 9,324,989	2026	\$174,785 - \$190,204	4.0%-4.375%	\$ 364,989
Series 2015 Refunding	7,370,000	2031	\$835,000-\$1,120,000	4.00%	4,875,000
Series 2016 Building	30,715,000	2046	\$1,695,000-\$3,085,000	3.0%-5.0%	30,290,000
Series 2017 Building	4,015,000	2037	\$180,000-\$285,000	3.0%-4.0%	2,955,000
Series 2018 Building	31,200,000	2047	\$20,000-\$5,465,000	3.0%-5.0%	30,785,000
Series 2018A Building	37,160,000	2048	\$135,000-\$4,615,000	4.0%-5.0%	37,160,000
Series 2020 Refunding	16,945,000	2033	\$580,000-\$2,975,000	4.0%-5.0%	14,685,000
Series 2020A Building	114,155,000	2052	\$765,000-\$16,130,000	4.0%-5.0%	114,155,000
Series 2020B Building	65,920,000	2054	\$675,000-\$17,305,000	4.00%	65,920,000
					<u>\$ 301,189,989</u>

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2024, for CLEVELAND INDEPENDENT SCHOOL DISTRICT, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities					
General obligation bonds	\$ 304,259,989	\$ -	\$ (3,070,000)	\$ 301,189,989	\$ 1,210,204
Accretion on CAB Bonds	1,714,526	90,803	-	1,805,329	-
Other District Obligations:					
Discounts and premiums	39,425,422	-	(1,716,065)	37,709,357	-
Net Pension Liability	35,186,384	21,429,472	(3,955,766)	52,660,090	-
Net OPEB Liability	18,116,108	6,076,230	(3,190,297)	21,002,041	-
Lease Liability	1,126,935	-	(299,667)	827,268	257,610
Subscription Based IT	361,803	-	(88,336)	273,467	89,731
Total District Obligations	<u>\$ 400,191,167</u>	<u>\$ 27,596,505</u>	<u>\$ (12,320,131)</u>	<u>\$ 415,467,541</u>	<u>\$ 1,557,545</u>

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Net Pension Liability	Governmental	General Fund
Net OPEB Liability	Governmental	General Fund

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District. The Texas Education Code generally limits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness would exceed \$0.50 per \$100 of assessed valuation of taxable property within the District.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2024.

Debt service requirements for bonds are as follows:

Year Ended August 31,	Principal	Accumulated Acretion	Interest	Total
2025	1,210,204	911,063	13,834,071	15,955,338
2026	2,059,785	894,266	13,797,065	16,751,116
2027	3,045,000	-	12,715,300	15,760,300
2028	3,395,000	-	12,565,200	15,960,200
2029	4,385,000	-	12,382,525	16,767,525
2030-2034	28,675,000	-	58,471,063	87,146,063
2035-2039	40,825,000	-	51,018,325	91,843,325
2040-2044	55,185,000	-	40,189,575	95,374,575
2045-2049	74,340,000	-	25,687,900	100,027,900
2050-2054	88,070,000	-	8,750,800	96,820,800
	<u>\$ 301,189,989</u>	<u>\$ 1,805,329</u>	<u>\$ 249,411,824</u>	<u>\$ 552,407,142</u>

Interest payments are due on 2/15 and 8/15. Accrued interest related to bonded debt has been recorded in the amount of \$617,637 for the days remaining until year-end after 8/15 interest payment.

In previous years, the District has refunded bonds that resulted in deferred charges related to bond refunding. The deferred charges are recorded as deferred outflows of resources on the statement of net position and amortized, using the straight-line method, over the remaining life of the refunded bonds. As of August 31, 2024, the balance of the deferred charges are as follows:

Refunded Bond	Original Deferred Charge	Life	Beginning Balance	Increases	Decreases	Ending Balance
Series 2007	\$ 381,563	18	\$ 21,317	\$ -	\$ (21,183)	\$ 134
Series 2010	2,426,554	23	633,448	-	(70,383)	563,065
Series 2015	550,746	16	240,976	-	(34,415)	206,561
			<u>\$ 895,741</u>	<u>\$ -</u>	<u>\$ (125,981)</u>	<u>\$ 769,760</u>

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd

Lease agreements are summarized as follows:

Description	Date	Payment	Payment	Interest	Total Lease	Balance
Copiers (Xerox)	9/29/2022	5	\$ 23,751	3.86%	\$ 1,294,115	\$ 827,268
Storage Building	8/1/2021	3 years	\$ 4,800	3.86%	\$ 162,923	\$ -
						<u>\$ 827,268</u>

The District leased copy machines beginning September 29, 2022, for a period of 5 years. The district has a bargain purchase option of \$1 at the end of the lease. The lease allows for unlimited black and white copies. Color copies are billed at \$0.035 after the first 6,000. The district does not intend to cancel the lease.

The District leased a storage building on August 1, 2021. The lease is not renewable and there are no variable usage payments.

Annual requirements to amortize long-term obligations and related interest are as follows:

August 31	Principal	Interest	Total
2025	\$ 257,610	\$ 27,407	\$ 285,017
2026	267,732	17,285	285,017
2027	278,251	6,766	285,017
2028	23,675	76	23,751
	<u>827,268</u>	<u>51,534</u>	<u>878,802</u>

### G. SUBSCRIPTION BASED INFORMATION TECHNOLOGY AGREEMENTS

GASB pronouncement 96 requires the subscription based information technology agreements (SBITA) be accounted for as SBITA assets and SBITA liabilities.

Cleveland ISD has some arrangements subject to the requirements of GASB 96. These agreements can be described in groups - those related to the provision of assisting students, those related to the training of teaching and support personnel, and those used for administrative purposes. The district makes monthly, quarterly or annual payments and the agreements are for varying terms. The SBITA liability is the present value of these payments using the district's incremental borrowing rate. The liability is amortized providing the principal and interest components of the payments over the SBITA term. The SBITA asset is measured as the SBITA Liability plus any capitalized expenditures/expenses incurred in the initial implementation stage. The SBITA asset is depreciated (amortized) using a straight-line depreciation method over the term of the SBITA arrangement.

#### Total Amount of the Subscription Assets and Accumulated Amortization:

	Term (Months)	Total Asset	Total Accumulated Amortization
<b>Governmental Funds:</b>			
Administrative Software	24-36	\$ 413,583	\$ 165,434
<b>Total Governmental Activities</b>		<u>\$ 413,583</u>	<u>\$ 165,434</u>

#### Outflows of Resources:

Outflows of resources related to SBITA liabilities could result from additional payments during the reporting period related to the subscription. These payments are not included in calculating the SBITA liability. There were no outflows of resources paid for these SBITA arrangements.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

#### **The SBITA Liabilities and Associated Principal and Interest Requirements:**

	Interest Rate	Term (Months)	Beginning Balance	Ending Balance
<b>Governmental Funds:</b>				
Administrative Software	3.86%	24-36	\$ 361,803	\$ 273,467
<b>Total Governmental Activities</b>			<u>\$ 361,803</u>	<u>\$ 273,467</u>

The future principal and interest SBITA arrangement payments as of fiscal year-end are as follows:

	Principal	Interest	Total
<b>Governmental Funds:</b>			
2025	\$ 89,731	\$ 10,797	\$ 100,528
2026	91,148	14,909	106,057
2027	92,588	19,303	111,891
	<u>\$ 273,467</u>	<u>\$ 45,009</u>	<u>\$ 318,476</u>

#### **Commitments and Impairments:**

There were no additional commitments made before the commencement of the SBITA term(s). There were also no impairments or modifications to be reported during this fiscal year.

### **H. DEFINED BENEFIT PENSION PLAN**

**Summary of Significant Accounting Policies.** The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS 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.

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

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

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**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](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 benefit 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 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, Title 8, 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 16, Section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent 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 thru 2025. Contribution rates can be found in the TRS 2023 ACFR, Note 11, on page 88.

The following table shows contribution rates by type of contributor for the fiscal years 2023 and 2024 and the contributions by type of contributions reported by TRS which were received by TRS during the TRS measurement year (FY 2023). The reported contributions from the members and the employers are included in the calculation of the district's proportionate share of the net pension liability.

	Contribution Rates	
	2023	2024
Member	8.00%	8.25%
Non-Employer Contributing Entity (State)	8.00%	8.25%
Employers	8.00%	8.25%
District's 2024 Employer Contributions		\$ 4,698,238
District's 2024 Member Contributions		\$ 8,163,769
2024 On-Behalf Contributions		\$ 5,013,397

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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. 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 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.

In addition to the employer contributions listed above, there is a surcharge and employer is subject to:

- All public schools, charter schools, and regional educational service centers must contribute 1.8 percent of the members' salary beginning in fiscal year 2023, gradually increasing to 2 percent in fiscal year 2025. This surcharge amount is 1.9% for fiscal year 2024.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

#### ***Net Pension Liability***

Components of the net pension liability of the plan as of August 31, 2023, are disclosed below: (From TRS Annual Comprehensive Financial Report 2023, p. 89.)

Total Pension Liability	\$ 255,860,886,500
Less: Plan Fiduciary Net Position	(187,170,535,558)
Net Pension Liability	<u>\$ 68,690,350,942</u>
Net Position as Percentage of Total Pension Liability	<u>73.15%</u>

#### ***Actuarial Assumptions.***

The total pension liability in the August 31, 2022 actuarial valuation was determined using the following actuarial assumptions: Actuarial Assumptions can be found in the 2023 TRS ACFR, Note 11, page 89.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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	7.00%
Municipal Bond Rate as of August 2020	4.13% - The source for this rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity's Index's "20-Year Municipal Go AA Index"
Last year ending August 31 in Projection Period (100 years)	2122
Inflation	2.30%
Salary Increases	2.95% to 8.95% including inflation
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 TRS actuarial valuation report dated November 22, 2022.

**Discount Rate.** A single discount rate of 7.00 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 9.50 percent of payroll in fiscal year 2024 increasing to 9.56 percent 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 rate of return on pension plan investments is 7.00 percent. 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 asset allocation as of August 31, 2023 (see page 56 of the 2023 TRS ACFR) are summarized below:

CLEVELAND INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2024

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

Asset Class	Target Allocation %**	Long-Term Expected Geometric Real Rate of Return***	Expected Contribution to Long-Term Portfolio Returns
<b>Global Equity</b>			
USA	18.0%	4.0%	1.0%
Non-U.S. Developed	13.0%	4.5%	0.9%
Emerging Markets	9.0%	4.8%	0.7%
Private Equity *	14.0%	7.0%	1.5%
<b>Stable Value</b>			
Government Bonds	16.0%	2.5%	0.5%
Absolute Return*	0.0%	3.6%	0.0%
Stable Value Hedge	5.0%	4.1%	0.2%
<b>Real Return</b>			
Real Estate	15.0%	4.9%	1.1%
Energy, Natural Resources	6.0%	4.8%	0.4%
Commodities	0.0%	4.4%	0.0%
<b>Risk Parity</b>	8.0%	4.5%	0.4%
<b>Asset Allocation Leverage</b>			
Cash	2.0%	3.7%	0.0%
Asset Allocation Leverage	-6.0%	4.4%	-0.1%
Inflation Expectation			2.3%
Volatility Drag****			-0.9%
<b>Expected Return</b>	<b>100.00%</b>		<b>8.00%</b>

\*Absolute Return Includes Credit Sensitive Investments.

\*\*Target allocations are based on the FY2023 policy model.

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

\*\*\*\*The volatility drag results from the converseion between arithmetic and geometric mean returns.

**Discount Rate Sensitivity Analysis.** The following table presents the District's net pension liability of the plan using the discount rate of 7.00 percent, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

	1% Decrease in Discount Rate 6.00%	Discount Rate 7.00%	1% Increase in Discount Rate 8.00%
District's proportionate share of the net pension liability	\$ 78,729,751	\$ 52,660,090	\$ 30,983,153

**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 \$52,660,090 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:



CLEVELAND INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
AUGUST 31, 2024

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

District's proportionate share of the collective net pension liability	\$	52,660,090
State's proportionate share that is associated with the District		63,723,261
Total	\$	<u>116,383,351</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 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 0.0766630093% which was an increase of 0.0173941726% from its proportion measured as of August 31, 2022.

**Changes In Actuarial Assumptions 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.

**Changes in Benefits** - 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 \$9,621,661 and revenue of \$5,013,397 for support provided by the State in the Government Wide Statement of Activities.

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: (The amounts shown below will be he cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	1,876,297	637,656
Changes in actual assumptions	4,980,613	1,218,870
Difference between projected and actual investment earnings	7,663,321	-
contributions and the proportionate share of contributions	12,381,750	-
Contributions paid to TRS subsequent to the measurement date	4,698,238	-
Total	\$ 31,600,219	\$ 1,856,526

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd

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

Measurement year ended Aug 31	Pension Expense	Balance of Deferred Outflows (Inflows)
2024	\$ 6,265,801	\$ 18,779,654
2025	4,717,842	14,061,812
2026	9,055,917	5,005,895
2027	3,872,545	1,133,350
2028	1,133,350	-
Thereafter	-	-

#### I. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

**Plan Description.** The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined benefit other post-employment (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 benefit terms as needed under Chapter 1575.052. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

**OPEB Plan Fiduciary Net Position.** Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at [http://www.trs.texas.gov/Pages/about\\_publications.aspx](http://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-employment benefit changes, including automatic COLAs.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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

TRS-Care Monthly Premium Rates			
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 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor as reported for the district by TRS for the TRS measurement year. The district and member contributions reported are included in the calculation of the district's proportionate share of the Net TRS-Care liability for the measurement period.

Contribution Rates		
	2023	2024
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federa/private Funding Remitted by Employers	1.25%	1.25%
District's 2024 Employer Contributions		\$ 878,941
District's 2024 Member Contributions		\$ 643,207
2024 NECE (State) Contributions		\$ 1,174,524

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.

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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 actuarial valuation that was rolled forward to August 31, 2023:

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

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.

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
Ad Hoc Post-Employment Benefits Changes	None
From 2023 TRS ACFR, Note 9, page 79.	

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

**Discount Rate.** A single discount rate of 4.13 percent was used to measure the total OPEB liability. This was an increase of 0.22 percent in the discount rate since the previous year. The Discount Rate can be found in the 2023 TRS ACFR on page 80. 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.

#### **Sensitivity of the Net OPEB Liability:**

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (4.13%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate 3.13%	Discount Rate 4.13%	1% Increase in Discount Rate 5.13%
District's proportionate share of the net OPEB liability	\$ 24,736,031	\$ 21,002,041	\$ 17,955,017

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

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

	1% Decrease in Healthcare Trend	Current Single Healthcare Trend	1% Increase in Healthcare Trend
District's proportionate share of the net OPEB liability	\$ 17,294,130	\$ 21,002,041	\$ 25,772,282

**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 \$21,002,041 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction in 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:

	Total
District's Proportionate share of the collective Net OPEB Liability	\$ 21,002,041
State's proportionate share that is associated with the District	25,342,191
Total	<u>\$ 46,344,232</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 employer's proportion of the net OPEB liability was based on the employer's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2022 through August 31, 2023.

At August 31, 2023 the employer's proportion of the collective net OPEB liability was 0.0948674304% compared to the 0.0756603082% as of August 31, 2022. This is an increase of 0.0192071222 %.

**Changes in Actuarial Assumptions Since the Prior Actuarial Valuation** – The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability (TOL) since the prior measurement period: These can be found in the 2023 TRS ACFR on page 80.

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

**Changes in Benefit Terms:** There were no changes in benefit terms since the prior measurement date.

For the year ended AUGUST 31, 2024, the District recognized OPEB expense of \$5,417,625 and revenue of \$1,174,524 for support provided by the State.

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd

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 actuarial experience	950,183	17,669,239
Changes in actual assumptions	2,866,626	12,860,107
Difference between projected and actual investment earnings	9,074	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	25,078,804	-
Contributions paid to TRS subsequent to the measurement date	878,941	-
Total	\$ 29,783,628	\$ 30,529,346

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

Year ended August 31,	OPEB Expense	Deferred Outflows (Inflows)
2024	\$ (1,743,533)	\$ 118,874
2025	(780,262)	899,136
2026	523,846	375,290
2027	(236,151)	611,441
2028	(427,803)	1,039,244
Thereafter	1,039,244	-

### J. HEALTH CARE COVERAGE - ACTIVE EMPLOYEES

During the year ended August 31, 2024, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$287-\$674 per month per employee to the plan (of which the State provided \$75 per month per employee) and employees, at their option, authorized payroll withholdings to pay contributions or premium for dependents. TRS manages TRS Active Care. The Plan is administered by Aetna while Caremark was assigned the prescription drug plan.

### K. UNAVAILABLE/UNEARNED REVENUE

Unavailable revenue at year end consisted of the following:

	General Fund	Debt Service Fund	Total
Property Taxes	3,887,926	1,608,978	5,496,904
Total Unavailable Revenue	\$ 3,887,926	\$ 1,608,978	\$ 5,496,904

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

#### **L. 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.

	State Entitlements	Federal Grants	Total
General Fund	12,483,261	16,950	12,500,211
Special Revenue	315,008	5,214,830	5,529,838
	<u>\$ 12,798,269</u>	<u>\$ 5,231,780</u>	<u>\$ 18,030,049</u>

#### **M. LITIGATION**

None.

#### **N. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through January 7, 2025, the date the financial statements were available to be issued.

#### **O. FUND BALANCE**

In accordance with Government Accounting Standards Board 54, Fund Balance Reporting and Governmental Fund Type Definitions, the District classifies governmental fund balances as follows:

- Non-Spendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. The District has \$0 classified as Non-Spendable
- Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation. The District has \$25,826,126 classified as Restricted.
- Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal action of the highest level of decision-making authority and does not lapse at year-end. The district has \$20,000,000 classified as Committed.
- Assigned includes fund balance amounts that are intended to be used for specific purposes that are neither considered restricted or committed. The District has \$0 classified as Assigned.
- Unassigned includes positive fund balance within the General Fund which has not been classified within the above-mentioned categories and negative fund balances in other governmental funds. The District has \$39,893,889 classified as Unassigned.

The elected board of trustees, for the entity, has the authority to commit, assign, and restrict fund balances. In some instances a restriction is a result of meeting contractual or otherwise legal requirements, for example debt service requirements contained in the bond covenant.

#### **P. RISK MANAGEMENT**

The District's risk management program includes coverages through third party insurance providers for property, automobile liability, school professional liability, crime, workers' compensation, and other miscellaneous bonds. During the year ended August 31, 2024, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents, and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS Cont'd**

**Q. SELF-INSURANCE FUND**

The District participates in a workers' compensation plan through a Fixed Cost/Loss Fund Program administered by Claims Administrative Services, Inc (CAS). The District's ultimate liability is the ending liability in its loss fund. CAS has excess insurance for the pool and the current self-insured retention is \$1 million.

A reconciliation of the estimated claim liability is as follows:

Year Ended August 31	Beginning Liability	Estimated Current Year Claims	Claim Payments	Ending Liability
2020	\$ 303,820	\$ 266,209	\$ 169,725	\$ 400,304
2021	400,304	133,497	105,498	428,303
2022	428,303	191,877	193,704	426,476
2023	426,476	415,559	278,773	563,262
2024	563,262	348,648	296,445	615,465



**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION



Norton Rose Fulbright US LLP  
2200 Ross Avenue, Suite 3600  
Dallas, Texas 75201-7932  
United States

Tel +1 214 855 8000  
Fax +1 214 855 8200  
nortonrosefulbright.com

[CLOSING DATE]

IN REGARD to the authorization and issuance of the “Cleveland Independent School District Unlimited Tax Refunding Bonds, Series 2025,” dated December 15, 2025, in the aggregate principal amount of \$\_\_\_\_\_ (the “Bonds”), we have examined into their issuance by the Cleveland Independent School District (the “District”) solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on February 15 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the “Order” and, jointly with the Pricing Certificate, the “Bond Order”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Bond Order, an Escrow Agreement (the “Escrow Agreement”) between the District and U.S. Bank Trust Company, National Association (the “Escrow Agent”), a special report of Frost CPA LLC, in conjunction with Public Finance Partners LLC (the “Verification Agent”), and an examination of the initial Bond executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District; and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certification.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Bond Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium,

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Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "Cleveland Independent School District Unlimited Tax Refunding Bonds, Series 2025,"  
dated December 15, 2025

or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and, assuming the due authorization, execution or acceptance, and delivery thereof by the Escrow Agent, is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a trust fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the special report of the Verification Agent as to the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Bond Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

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

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; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

**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](http://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](http://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 Board’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 Fund<sup>1</sup>**

<b><u>Fiscal Year Ending</u></b>	<b><u>2015</u></b>	<b><u>2016</u></b>	<b><u>2017</u></b>	<b><u>2018</u></b>	<b><u>2019</u></b>	<b><u>2020</u></b>	<b><u>2021</u></b>	<b><u>2022</u></b>	<b><u>2023<sup>2</sup></u></b>	<b><u>2024</u></b>
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 <sup>3</sup>	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	432	440	430

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

<sup>2</sup> Reflects the first fiscal year in which distributions were made by the PSF Corporation.

<sup>3</sup> 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.

<b><u>State Fiscal Biennium</u></b>	<b><u>2010-11</u></b>	<b><u>2012-13</u></b>	<b><u>2014-15</u></b>	<b><u>2016-17</u></b>	<b><u>2018-19</u></b>	<b><u>2020-21</u></b>	<b><u>2022-23</u></b>	<b><u>2024-25</u></b>	<b><u>2026-27</u></b>
<b><u>SBOE Distribution Rate<sup>1</sup></u></b>	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32%	3.45%

<sup>1</sup> 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.

**Comparative Investment Schedule – PSF(CORP)**

Fair Value (in millions) August 31, 2024 and 2023				
<u>ASSET CLASS</u>	<u>August 31, 2024</u>	<u>August 31, 2023</u>	<u>Amount of Increase (Decrease)</u>	<u>Percent Change</u>
<b>EQUITY</b>				
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>
<b>TOTAL EQUITY</b>	<b>15,867.0</b>	<b>18,817.1</b>	<b>(2,950.1)</b>	<b>-15.7%</b>
<b>FIXED INCOME</b>				
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>	-	-
<b>TOTAL FIXED INCOME</b>	<b>13,415.2</b>	<b>8,602.5</b>	<b>4,812.7</b>	<b>55.9%</b>
<b>ALTERNATIVE INVESTMENTS</b>				
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>
<b>TOT ALT INVESTMENTS</b>	<b>25,071.8</b>	<b>24,612.0</b>	<b>459.8</b>	<b>1.9%</b>
<b>UNALLOCATED CASH</b>				
<b>CASH</b>	<b><u>2,583.2</u></b>	<b><u>348.2</u></b>	<b><u>2,235</u></b>	<b><u>641.9%</u></b>
<b>TOTAL PSF(CORP) INVESTMENTS</b>	<b>56,937.2</b>	<b>\$ 52,379.8</b>	<b>\$ 4,557.4</b>	<b>8.7%</b>

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)<sup>1</sup>**

<u>Fair Value (in millions) August 31, 2024</u>	
Investment Type	As of <u>8-31-24</u>
Investments in Real Assets	
Sovereign Lands	\$ 277.47
Discretionary Internal Investments	457.01
Other Lands	153.15
Minerals <sup>(2), (3)</sup>	<u>4,540.61</u> <sup>(6)</sup>
Total Investments <sup>(4)</sup>	5,428.23
Cash in State Treasury <sup>(5)</sup>	0
Total Investments & Cash in State Treasury	\$ 5,428.23

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

<sup>2</sup> 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.

<sup>3</sup> Includes an estimated 1,000,000.00 acres in freshwater rivers.

<sup>4</sup> Includes an estimated 1,747,600.00 in excess acreage.

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

<sup>6</sup> 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 CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 ("SB 1480") was enacted. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of September 1, 2017, and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the CDBGP Capacity was calculated as the Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. SB 1480 amended the CDBGP Capacity calculation so that the Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby increasing the CDBGP Capacity.

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.86% 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 CDBGP Capacity, SB 1480 provided that the Education Commissioner's investigation of a charter district application for guarantee may include an evaluation of whether the charter district bond security documents provide a security interest in real property pledged as collateral for the bond and the repayment obligation under the proposed guarantee. The Education Commissioner may decline to approve the application if the Education Commissioner determines that sufficient security is not provided. The Act and the CDBGP Rules also require the Education Commissioner to make an investigation of the accreditation status and financial status for a charter district applying for a bond guarantee.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At January 31, 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 <sup>(1)</sup>	Market Value <sup>(1)</sup>
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 <sup>(2)</sup>	46,276,260,013	56,937,188,265

<sup>(1)</sup> 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.

<sup>(2)</sup> 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	
At 8/31	Principal Amount <sup>(1)</sup>
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 <sup>(2)</sup>

<sup>(1)</sup> 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.

<sup>(2)</sup> 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<sup>(1)</sup>**

<u>School District Bonds</u>			<u>Charter District Bonds</u>			<u>Totals</u>
Fiscal Year Ended	No. of	Principal	No. of	Principal	No. of	Principal
<u>8/31</u>	<u>Issues</u>	<u>Amount (\$)</u>	<u>Issues</u>	<u>Amount (\$)</u>	<u>Issues</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 <sup>(2)</sup>	3,330	121,046,871,603	103	4,769,110,000	3,433	125,815,981,603

<sup>(1)</sup> 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.

<sup>(2)</sup> 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 8-31-2024<sup>1</sup>**

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return<sup>2</sup></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

<sup>1</sup> 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.

<sup>2</sup> 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](https://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](http://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 and on 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](http://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. On March 31, 2025, the TEA and the PSF Corporation became aware that the 2022 operating data was not timely filed with EMMA due to an administrative oversight. TEA and PSF Corporation took corrective action and filed a notice of late filing with EMMA on April 4, 2025. The annual operating data was previously posted to EMMA on March 31, 2023.

### **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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