PRELIMINARY OFFICIAL STATEMENT
DATED DECEMBER 9, 2025

NEW ISSUE - Book-Entry-Only

Ratings: Moody's: "Aaa" (PSF)
S&P: "AAA" (PSF)
(See "OTHER INFORMATION-Ratings," "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

In the opinion of Bond Counsel, under existing law, interest on the Bonds (defined below) (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.

$236,340,000*
CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Harris County, Texas)
Unlimited Tax Refunding Bonds, Series 2026

Dated Date: January 1, 2026
Interest Accrues from Date of Delivery (defined below) **Due: February 15, as shown on page ii herein**

This Official Statement is provided to furnish information in connection with the offering by the Cypress-Fairbanks Independent School District (the "District") of its $236,340,000 Unlimited Tax Refunding Bonds, Series 2026 (the "Bonds") being issued in accordance with the Constitution and general laws of the State of Texas (the "State"), including, particularly, Chapters 1207 and 1371, Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on April 14, 2025 in which the Board delegated pricing of the Bonds and certain other matters to an authorized official of the District who will approve and execute a pricing certificate that will contain the final pricing information for the Bonds. The Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District. **An application has been filed by the District with, and conditional approval has been received from, the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund Guarantee Program (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

Interest on the Bonds will accrue from the Date of Delivery (defined below), and will be payable on February 15, 2026, and semiannually thereafter on August 15 and February 15 of each year until stated maturity or prior redemption. The Bonds will be issued in principal denominations of $5,000 or any integral multiple thereof within a maturity (see "THE BONDS – General Description").

The Bonds are subject to optional redemption as described herein under "THE BONDS – Optional Redemption Provisions."

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

Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the District's outstanding bonds (the "Refunded Bonds") (see "Schedule I – SCHEDULE OF REFUNDED BONDS") in order to achieve present value debt service savings and (ii) the payment of costs of issuance of the Bonds (see "THE BONDS – Purpose").

CUSIP PREFIX: 232769
MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS & 9 DIGIT CUSIPS
See Maturity Schedule on page ii

The Bonds are offered when, as and if issued, and accepted by the underwriters named below (the "Underwriters"), subject to the approving opinion of the Attorney General of the State and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the District by its Disclosure Counsel, Bracewell LLP, Houston, Texas. Certain legal matters will be passed upon for the Underwriters by their counsel, Jackson Walker LLP, Houston, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about January 15, 2026 (the "Date of Delivery").

Jefferies
FHN Financial Capital Markets
Piper Sandler & Co.

BOK Financial Securities, Inc.
Huntington Securities, Inc.
SAMCO Capital Markets, Inc.

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* Preliminary, subject to change.

MATURITY SCHEDULE

$236,340,000*

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Harris County, Texas)
Unlimited Tax Refunding Bonds, Series 2026

Maturity Date (2/15)[(a)]	Principal Amount*	Interest Rate	Initial Yield[(b)]	CUSIP No. 232769[(c)]
2026	$18,990,000			
2027	55,095,000			
2028	40,640,000			
2029	5,585,000			
2030	7,200,000			
2031	14,820,000			
2032	7,580,000			
2033	7,445,000			
2034	7,825,000			
2035	8,230,000			
2036	7,410,000			
2037	17,595,000			
2038	18,490,000			
2039	19,435,000			

(Interest Accrues from Date of Delivery)

(a) The Bonds maturing on and after February 15, 2036*, are subject to redemption prior to maturity, at the option of the District, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2035*, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Optional Redemption Provisions”).

(b) The initial yields are established by and are the sole responsibility of the Underwriters, and may subsequently be changed.

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

* Preliminary, subject to change.

USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

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

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

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

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

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

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

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

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

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this Official Statement for any purpose.

TABLE OF CONTENTS

The cover page hereof, the maturity schedule, "Selected Data From The Official Statement", this Table of Contents, Schedule I and appendices included herein and any addenda, supplement or amendment hereto, are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The District	The Cypress-Fairbanks Independent School District (the "District") is a political subdivision of the State of Texas (the "State") located in Harris County, Texas (see "APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT" and "APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT").
Authority for Issuance	The District is issuing its $236,340,000* Unlimited Tax Refunding Bonds, Series 2026 (the "Bonds") in accordance with the Constitution and general laws of the State, including, particularly, Chapters 1207 and 1371, Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on April 14, 2025 (the "Bond Order") in which the Board delegated pricing of the Bonds and certain other matters to an authorized official of the District who will approve and execute a pricing certificate (the "Pricing Certificate," together with the Bond Order, the "Order") that will contain the final pricing information for the Bonds.
The Bonds	The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see "THE BONDS – General Description").
Payment of Interest	Interest on the Bonds will accrue from the Date of Delivery (shown on the cover page) and will be payable beginning on February 15, 2026, and semiannually thereafter on August 15 and February 15 of each year until stated maturity or prior redemption (see "THE BONDS – General Description").
Security	The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied, without legal limit as to rate or amount, against all taxable property located within the District (see "THE BONDS – Security"). Also see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for a discussion of recent developments in State law affecting the financing of school districts in the State. Additionally, an application has been filed with, and the District has received conditional approval from, the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
Optional Redemption	The Bonds maturing on and after February 15, 2036*, are subject to redemption prior to maturity, at the option of the District, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2035*, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Optional Redemption Provisions").
Purpose of the Bonds	Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the District's outstanding bonds (the "Refunded Bonds") (see "Schedule I – SCHEDULE OF REFUNDED BONDS") in order to achieve present value debt service savings and (ii) the payment of costs of issuance related to the Bonds (see "THE BONDS – Purpose").
Tax Matters	In the opinion of Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See "TAX MATTERS" herein, including information regarding potential alternative minimum tax consequences for corporations.
Permanent School Fund	An application has been filed by the District with, and conditional approval has been received from, the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund Guarantee

*Preliminary, subject to change.

Program (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

Ratings The Bonds are rated "Aaa" by Moody's Ratings ("Moody's") and "AAA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), based upon the Permanent School Fund Guarantee. Moody's and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State "Aaa" and "AAA", respectively (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER INFORMATION - Ratings"). The District's underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) is "Aa1" by Moody's and "AA" by S&P.

The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, by either of them, may have an adverse effect on the market price of the Bonds. See "OTHER INFORMATION – Ratings."

Book-Entry-Only System The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000, or integral multiples thereof, of principal amount. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal amount of the Bonds at maturity 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 "BOOK-ENTRY-ONLY SYSTEM").

Paying Agent/Registrar The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, National Association (see "TRANSFER, REGISTRATION AND EXCHANGE – Paying Agent/Registrar").

Continuing Disclosure of Information Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and to provide timely notice of certain specified events which will be available to investors as described in the section captioned "CONTINUING DISCLOSURE OF INFORMATION." Also see "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.

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

Legality Delivery of the Bonds is subject to the approval by the Attorney General of Texas and the rendering of an opinion in substantially the form attached hereto as "APPENDIX D – FORM OF LEGAL OPINION OF BOND COUNSEL" by Bracewell LLP, Houston, Texas, Bond Counsel.

For additional information regarding the District, please contact:

Karen Smith, CPA Chief Financial Officer Cypress-Fairbanks Independent School District 11440 Matzke Road Cypress, Texas 77429 Phone: (281) 897-3856	or	Terrell Palmer President Post Oak Municipal Advisors LLC 820 Gessner Road, Suite 1350 Houston, Texas 77024 Phone: (713) 328-0991

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS[1]

Name	Length of Service	Term Expires November	Occupation
Cleveland Lane, Jr. Member	[2]	2029	Professor of Practice
Lesley Guilmart Member	[2]	2029	Transformation Specialist
Justin Ray Member	2 Years	2027	Oil and Gas Professional
Julie Hinaman Member	6 Years	2027	Community Volunteer
Christine Kalmbach Member	2 Years	2027	Realtor
Todd LeCompte Member	2 Years	2027	Business Owner
Kendra Camarena Member	[2]	2029	Director of Partner Engagement

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(1) Board officers will be updated after the December 2025 Board Meeting electing new officers.
(2) Elected November 4, 2025.

CERTAIN DISTRICT OFFICIALS

Name	Position	Length of Service with District
Douglas Killian, Ed.D.[a]	Superintendent of Schools	2 Years
Karen Smith, CPA	Chief Financial Officer	17 Years
Matt Morgan	Chief Operations Officer	25 Years
Teresa Hull[b]	Chief of Staff	32 Years
Amanda Boles, CPA	Assistant Superintendent of Business and Financial Services	5 Years
David Piwonka[c]	Tax Assessor/Collector	12 Years

(a) Dr. Killian has over 20 years of superintendent experience with other Texas school districts.
(b) Retiring December 31, 2025. Replacement has not been named.
(c) Mr. Piwonka is not an employee of the District.

CONSULTANTS AND ADVISORS

Auditors (Certified Public Accountants) .... Weaver and Tidwell, L.L.P.
Houston, Texas

Bond Counsel ....Bracewell LLP
Houston, Texas

Financial Advisor .... Post Oak Municipal Advisors LLC
Houston, Texas

Disclosure Counsel ....Bracewell LLP
Houston, Texas

PRELIMINARY OFFICIAL STATEMENT
RELATING TO

$236,340,000[*]
CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Harris County, Texas)

Unlimited Tax Refunding Bonds, Series 2026

INTRODUCTION

This Official Statement, including Appendices A, B, and C and Schedule I, has been provided by the Cypress-Fairbanks Independent School District (the "District"), in connection with the offering by the District of its $236,340,000[*] Unlimited Tax Refunding Bonds, Series 2026 (the "Bonds").

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

There follows in this Official Statement descriptions of the Bonds and the Order (as defined herein), and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges by writing the District's Financial Advisor, Post Oak Municipal Advisors LLC, 820 Gessner Road, Suite 1350, Houston, Texas 77024.

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

THE BONDS

Authorization

The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas ("State"), including, particularly, Chapters 1207 and 1371, Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on April 14, 2025 (the "Bond Order") in which the Board delegated pricing of the Bonds and certain other matters to an authorized official of the District who will approve and execute a pricing certificate (the "Pricing Certificate," and together with the Bond Order, the "Order") that will contain the final pricing information for the Bonds.

Purpose

Proceeds from the sale of the Bonds will be used for (i) refunding a portion of the District's outstanding bonds (the "Refunded Bonds") (see "Schedule I – SCHEDULE OF REFUNDED BONDS") in order to achieve present value debt service savings and (ii) the payment of costs of issuance related to the Bonds.

Refunded Bonds

The Refunded Bonds, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent") pursuant to an escrow agreement between the District and the Escrow Agent (the "Escrow Agreement").

The Order (defined herein) provides that from the proceeds of the sale of the Bonds to the underwriters listed on the cover page hereof (the "Underwriters") the District will deposit with the Escrow Agent an amount, together with other lawfully available funds, if any, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") and used to purchase a portfolio of securities authorized by Section 1207.062, Texas Government Code, which authorized securities include direct noncallable obligations of the United States of America rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent

[*]Preliminary, subject to change.

and guaranteed by the full faith and credit of the United States of America (the "Federal Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds.

Public Finance Partners LLC will verify at the time of delivery of the Bonds to the Underwriters that the Federal Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds on their scheduled redemption date and maturity dates. Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds. See "VERIFICATION OF ARITHMETICAL COMPUTATIONS."

By the deposit of the Federal Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, and the order authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such deposit, and in reliance on the above mentioned verification of arithmetical computation, the firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds, and the Refunded Bonds will no longer be outstanding, and the lien on and pledge of ad valorem taxes and other revenues as set forth in the order authorizing their issuance will be appropriately and legally defeased, except for the purpose of being paid from funds provided thereof, in the Escrow Agreement. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund.

General Description

Interest on the Bonds will accrue from the Date of Delivery shown on the cover page and will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent/registrar (the "Paying Agent/Registrar") for the Bonds is initially The Bank of New York Mellon Trust Company, National Association.

The Bonds are to mature on the dates and in the principal amounts shown on page ii hereof. The Bonds will be issued as fully registered obligations in principal denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the Date of Delivery, at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof commencing on February 15, 2026, and semiannually thereafter on each succeeding August 15 and February 15 until stated maturity or prior redemption.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal amount of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" for a more complete description of such system.

Security

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

Permanent School Fund Guarantee

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

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

Optional Redemption

The Bonds maturing on and after February 15, 2036* are subject to redemption prior to maturity, at the option of the District, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2035* or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption.

Notice of Redemption

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

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

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

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

Legality

The Bonds are offered when, as and if issued, and subject to the approval of legality by the Attorney General of the State and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel (see “OTHER INFORMATION – Legal Matters” and “APPENDIX D – FORM OF LEGAL OPINION OF BOND COUNSEL”).

Payment Record

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

Defeasance of Bonds*

The District reserves the right to defease, refund or discharge the Bonds in any manner now or hereafter provided by law. Upon defeasance, such defeased Bonds shall no longer be regarded to be outstanding or unpaid and the Bonds will no longer be guaranteed by the Texas Permanent School Fund Guarantee Program.

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* Preliminary, subject to change.

Sources and Uses of Funds

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

Sources:	
Principal Amount	$
[Net] Original Issue Premium	
[Transfer from Debt Service Fund]	
Total Sources of Funds	$
Uses:	
Deposit with Escrow Agent	$
Costs of Issuance [(1)]	
Underwriters' Discount	
Total Uses of Funds	$

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

TRANSFER, REGISTRATION AND EXCHANGE

Paying Agent/Registrar

The Bank of New York Mellon Trust Company, National Association, has been named to serve as initial Paying Agent/Registrar for the Bonds. 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 while any Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State, or any other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause notice of the change 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.

Registration if Book-Entry-Only System Should be Discontinued

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment must be acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond or Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Interest Payment

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

Replacement Bonds

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

REGISTERED OWNERS' REMEDIES

The Order does not provide for the appointment of a trustee to represent the interests of the holders of the Bonds upon any failure of the District to perform in accordance with the terms of the Order or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Order. Furthermore, the Order does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the District to observe any covenant under the Order. A registered owner of the Bonds could seek a judgment against the District if a default occurred in the payment of principal of or interest on any such Bond; however, such judgment could not be satisfied by execution against any property of the District and a suit for monetary damages could be vulnerable to the defense of governmental immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the District to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Order. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), which forms part of the authority for the issuance of the Bonds, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. However, the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Legislature (defined herein) has effectively waived the District's sovereign immunity from a suit for money damages beyond Chapter 1371, registered owners may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. In addition, the enforcement of a claim for the payment of a Bond would be subject to the applicable provisions of federal bankruptcy laws and any other statutes affecting the rights of creditors of political subdivisions and may be limited by general principles of equity.

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. The District is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or registered owners of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Initially, the only registered owner of the Bonds will be Cede & Co., as nominee of DTC. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Bonds.

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

Neither the District nor the Underwriters can or do give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants (defined herein), (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners (defined herein), or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

Redemption notices for the Bonds shall be sent to DTC. If less than all of the Bonds of 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. will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC’s procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.’s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation, or any litigation that may be associated with such legislation, on the District's financial condition, revenues or operations.

While the enactment of future legislation to address school funding in Texas could adversely affect the financial condition, revenues or operations of the District, the District does not anticipate that the security for payment of the Bonds, specifically, the District's obligation to levy an unlimited debt service tax and any Permanent School Fund guarantee of the Bonds would be adversely affected by any such legislation (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM").

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

2025 Legislative Session

The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the "89th Regular Session"). The Texas Legislature (the "Legislature") meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded two special sessions since the conclusion of the 89th Regular 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) the State mandated general homestead exemption from $100,000 to $140,000, (2) 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) the exemption for tangible personal property used in the production of income from the current $2,500 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.

Local Funding for School Districts

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

State Compression Percentage. The "State Compression Percentage" or "SCP" is the lesser of three alternative calculations: (i) 93% or a lower percentage set by appropriation for a school year; (ii) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (iii) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2026, the SCP is set at 63.22%.

Maximum Compressed Tax Rate. The "Maximum Compressed Tax Rate" or the "MCR" is the tax rate per $100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate (described below) to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the "State Compression Percentage" (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year'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. At a Statewide election held on November 4, 2025, voters approved constitutional amendments which increase: (1) the State mandated general homestead exemption 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 from $10,000 to $60,000. Such constitutional amendments take 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.

State Funding for School Districts

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

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

The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts.

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

Tier One. Tier One funding is the basic level of programmatic funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance, 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 and 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 a school district 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 districts), (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher compensation incentive allotment to increase teacher retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by 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 are 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to $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 2026-2027 State fiscal biennium, school districts are guaranteed a yield on each Copper Penny levied of $49.72 per student in WADA.

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 the program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Education Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) $100,000 or (b) $250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Education Commissioner. 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 Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the Legislature did appropriate funds for new IFA awards will continue to be funded.

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

Since future-year IFA awards were not funded by the State 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 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.

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 undersubscribed career and technology education programs, as determined by the Education Commissioner. In the 89th Regular 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 Education Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Education Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.

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 as such state law existed on January 1, 2025, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred.

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six (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 Education Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Education Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Education 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 Education 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 Education 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.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2025-2026 school year, the District was designated as an "excess local revenue" district by the TEA. In accordance with Chapter 49, the District has entered into an agreement to purchase attendance credits, however, the District is not required to make any recapture payments. The District is classified as a Chapter 49 school district due to its Tier Two enrichment pennies. Because the District only has five (5) Tier Two enrichment pennies and has not accessed the remaining twelve (12) pennies, it is not subject to recapture.

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

If the District were to consolidate (or consolidate its tax base for all purposes) with a district not designated as an excess local revenue district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of an annexing district.

Due to the expiration of federal stimulus funds, continued inflation, the lack of additional funding from the Texas Legislature for public education, and Texas Legislature's prohibition on repealing the District's existing 20% local optional homestead exemption (which prohibition expires on December 31, 2027), for the 2024-2025 fiscal year, the district realized a deficit of approximately $11.1 million, prior to the use of fund balance. This was down from the approximately $77.5 million deficit included in the District's adopted budget for the 2024-2025 fiscal year due to factors including the use of two disaster pennies, the receipt of FEMA funding, a property value audit, higher than budgeted investment earnings, and budget reductions, among other factors.

The Board adopted an approximately $45.5 million deficit budget for 2025-26, prior to utilizing fund balance. If such a deficit were realized, then – based on current budget assumptions – the District estimates that it would have approximately 4.95 months of general operating expenditures in the General Fund at the end of fiscal year 2025-2026. See "OTHER INFORMATION – Forward Looking Statements." The primary factors considered in preparing the District's budget for the 2025-2026 fiscal year were preserving the quality of instruction and services, prioritizing student and staff safety, retaining and recruiting quality staff, and maintaining the District's financial position. The District's tax rate for fiscal year 2025-2026 will decrease by two pennies to $1.0669 per $100 of assessed value for the 2025-2026 fiscal year. The total tax rate includes a maintenance and operations tax rate of $0.6669 and an interest and sinking tax rate of $0.40.

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 October 8, 1955 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

A school district's total tax rate is the combination of the M&O tax rate and the I&S tax rate. Generally, the highest rate at which a school district may levy taxes for any given year without holding an election to approve the tax rate is the "Voter-Approval Tax Rate," as described below.

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

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

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

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

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

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

AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes. 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 Harris Central Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board (see "- District and Taxpayer Remedies").

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

Through December 31, 2026, 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 $5,160,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

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

State Mandated Homestead Exemptions

State law grants, with respect to each school district in the State, (1) a $140,000 exemption of the appraised value of all homesteads, (2) a $60,000 exemption of the appraised value of the homesteads of persons 65 years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. Pursuant to a Statewide election held on November 4, 2025, voters approved an increase in the residential homestead exemptions as follows: (1) the State mandated general homestead exemption 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 from $10,000 to $60,000. These increases are effective and apply retroactively to the 2025 tax year.

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 clause (1) above that was granted in tax year 2022 through December 31, 2027. See "THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT".

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. Legislation passed by the Legislature during the 89th Regular Session and approved by voters provides a person an exemption from taxation by a taxing unit of $125,000 of the appraised value of 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 manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property. 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 damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Texas Legislature amended Section 11.35 of the Property Tax Code to clarify that "damage" for purposes of such statute is limited to physical damage. For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district 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. 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 service tax securing a series of 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.

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

District and Taxpayer Remedies

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at $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. See "AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

District's Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Harris County. The Appraisal District is governed by a board of nine directors appointed by the governing bodies of various political subdivisions that participate in the Appraisal District and elected by voters in Harris County, Texas. The District's taxes are collected by outsourcing under a contract with Linebarger Goggan Blair & Sampson, LLP.

The District grants a $15,000 local option exemption for persons over 65 years of age or disabled persons and additional homestead exemptions of 20% of appraised value of a residential homestead for all taxpayers. The value of property exempted from taxation by the $15,000 local option for the 2025 tax year was approximately $427,819,086 and the value of property exempted from taxation by the 20% residential homestead exemption for the 2025 tax year was approximately $9,627,911,663.

Pursuant to a Statewide election held on November 4, 2025, voters approved an increase in the residential homestead exemptions as follows: (1) the State mandated general homestead exemption 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 increased from $10,000 to $60,000. These increases are effective and apply retroactively to tax year 2025. Such state mandated homestead exemptions resulted in a reduction of approximately $20,338,426,783 of taxable assessed valuation from the 2025 tax roll.

The District does not tax non-business personal property.

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 Freeport Property. The District lost $3,520,674,849 of taxable value in 2025 as a result of such exemption.

The District passed a resolution repealing its Goods-in-Transit exemption.

The District has established four foreign trade zones within the District. The establishment of the foreign trade zones has no material effect on the ability of the District to pay debt service on the Bonds.

The loss of value due to property values based on Productivity Value and timber production on the 2025 tax roll is approximately $256,714,496.

The District does not participate in any tax limitation agreements.

Pursuant to the Texas Jobs, Energy, Technology & Innovations Act (created by HB5 – 88th Legislative Session) in August 2025, the District entered into a tri-party agreement with NRG and the Texas Governor's office which includes establishing a reinvestment zone and the construction of a new power plant within the boundaries of the existing NRG TH Wharton power production complex in Harris County, Texas (the "qualifying project"). Such agreement provides for a 10-year school district maintenance and operations (M&O) tax appraised value limitation of 50% on the qualifying project. No M&O or I&S taxes are paid on such qualifying project during the construction period. Over the 10 years of the agreement, it is estimated an additional $2,830,222,130 of I&S revenue will be generated from the project.

The Board has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code.

Split payments are not permitted. Discounts are not permitted.

WEATHER EVENTS

The District is located near the Texas Gulf Coast. Land located in this area is susceptible to, and land in the District has experienced on several occasions in the last five years, high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a future weather event significantly damaged all or part of the properties comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the District's tax rate. Texas law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as floods and upon a gubernatorial or presidential declaration of disaster (see "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"). There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

On May 16, 2024, the Cypress, Texas area where the District is located, experienced severe rain storms and a tornado with reported wind speeds of over 100 mph. Various District buildings and facilities sustained wind and water damage. The storm caused $3.9 million in damage to District property. The majority of such losses are expected to be reimbursed through FEMA or the District's wind insurance policy. The District applied for approximately $3.4 million in FEMA reimbursements for windstorm damage and has received approximately $294,000 to date.

On July 8, 2024, Hurricane Beryl ("Beryl") hit Houston, Texas and the surrounding area including the area where the District is located.

Beryl caused approximately $1.9 million in damages to District facilities. The losses will be reimbursed through FEMA. The District applied to FEMA for reimbursement of approximately $1.6 million for damages to its facilities but to date it has not received any reimbursements.

CYBERSECURITY

The District, like other school districts in the State, utilizes technology in conducting its operations. As a user of technology, the District potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the District may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the District. The District employs a multi-layered approach to combating cybersecurity threats. While the District deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the District's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the District to litigation and other legal risks, which could cause the District to incur other costs related to such legal claims or proceedings. To date, the District has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition.

EXPOSURE TO OIL AND GAS INDUSTRY

In the past, the greater Houston area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the District, resulting in a reduction in property tax revenue. The Bonds are secured by an ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds. Reductions in oil and gas revenues may also have an adverse effect on State revenues available during the next biennium, which may impact how the State funds education.

INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT

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

Legal Investments

Under State law, the District is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body of the District or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the United States Securities and Exchange Commission (the "SEC") and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the District may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

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

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

As a school district that qualifies as an issuer under Chapter 1371, the District is also authorized to purchase, sell and invest its funds in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding funds held for the payment of debt service, in corporate bonds or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board of Trustees of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment; (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds; and (3) identifies the funds eligible to be invested in corporate bonds. The District has taken these steps to authorize the investment of District funds in corporate bonds.

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

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

Additional Provisions

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategy; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the District to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Education; (4) require the qualified representative of firms offering to engage in an investment transaction with the District to: (a) receive and review the District's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the District and the business organization that are not authorized by the District's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the District's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District's investment policy; (6) provide specific investment training for the treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase 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.

Current Investments

As of September 30, 2025, the District's investable funds were invested in the following investment instruments:

Investment Instrument	Book Value	Percentage
State Pools	$1,153,120,158	98.72 %
Other	15,000,000	1.28
Total	$1,168,120,158	100.00%

Source: District records.

Accounting Policies

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

EMPLOYEE BENEFIT PLANS

The District's employees participate in a retirement plan (the "Plan") with the State. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover costs of the TRS retirement plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. For the year ended June 30, 2025, the State contributed $53,307,135 to TRS on behalf of the District, District employees paid $77,544,025 and other contributions into the Plan made from federal and private grants and the District for salaries above the statutory minimum were $38,310,460. For more detailed information concerning the Plan, see Note IV, C to the District's audited financial statements attached hereto as APPENDIX C.

Government Accounting Standards Board (GASB) Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability in the TRS pension plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. As of June 30, 2025, the District's proportionate share of the TRS net pension liability and deferred outflow for the contributions made by the District subsequent to the measurement date were $431,534,266 and $32,171,764 respectively. The changes related to pensions in the Statement of Net Position to implement GASB Statement Nos. 68 and 71 are reflected in the Statement of Activities, a government-wide financial statement. The changes related to pensions affect only the government-wide financial statement and do not affect the General Fund balance. To date, the District has met all funding requirements of the TRS pension plan.

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Plan"), a cost-sharing multiple-employer defined post employment benefits other than pensions ("OPEB") health care plan. The TRS-Care Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. The TRS-Care Plan is administered through a trust by the TRS Board of Trustees. Contribution rates are legally established in state statute by the Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care Plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding.

Funding for the TRS-Care Plan is provided by retiree premium contributions and contributions from the State, active employees, and school districts based upon public school district payroll. For the year ended June 30, 2025, the State contributed $11,007,713 to the TRS Care Plan on behalf of the District, District employees paid $6,109,526 and the District contributed $7,800,883. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Plan, see Note IV, D to the District's audited financial statements attached hereto as APPENDIX C.

GASB Statement No. 75 requires reporting entities, such as the District, to recognize their proportionate share of the net OPEB liability in the TRS-Care Plan and a deferred outflow for the contributions made by the District subsequent to the measurement date in the Statement of Net Position, a government-wide financial statement. As of June 30, 2025, the District's proportionate share of the net OPEB liability and deferred outflow for the contributions made by the District subsequent to the measurement date were $275,246,103 and $6,535,605, respectively. The changes related to the OPEB affect only the government-wide financial statements and do not affect the General Fund balance. The calculation of OPEB contributions is unaffected by the change. Such reporting began with the District's fiscal year ended June 30, 2018. To date, the District has met all funding requirements of the TRS-Care Plan.

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

TAX MATTERS

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

Tax Exemption

In the opinion of Bond Counsel under existing law, interest on the Bonds is (i) excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a tax requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Order pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the District and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the District and other such parties, respectively, which Bond Counsel has not independently verified. If the District fails to comply with the covenants in the Order or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the Date of Delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Bond Counsel will express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Order upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinion is further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinion is not a guarantee of results and are not binding on the Service; rather, such opinion represents Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinion. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

Additional Federal Income Tax Considerations

Collateral Tax Consequences. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

An "applicable corporation" (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its "adjusted financial statement income" (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation's "adjusted financial statement income," ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds.

Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium. If the issue price of a maturity of the Bonds exceeds the stated redemption price payable at maturity of such Bonds, such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above.

All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount. If the issue price of a maturity of the Bonds is less than the stated redemption price payable at maturity of such Bonds, (the "OID Bonds") the difference between (i) the amount payable at the maturity of each OID Bond, and (ii) the initial offering price to the public of such OID Bond constitutes original issue discount with respect to such OID Bond in the hands of any owner who has purchased such OID Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such OID Bond equal to that portion of the amount of such original issue discount allocable to the period that such OID Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Bonds under the captions "TAX MATTERS - Tax Exemption" and "TAX MATTERS - Additional Federal Income Tax Considerations - *Collateral Tax Consequences*" and "- *Tax Legislative Changes*" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriters have purchased the Bonds for contemporaneous sale to the public and (ii) all of the OID Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on page ii of this Official Statement. Neither the District nor Bond Counsel has made any investigation or offers any comfort that the OID Bonds will be offered and sold in accordance with such assumptions.

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

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

Tax Legislative Changes. Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("Rule 15c2-12"). Under the agreement, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the MSRB. This information will be publicly available on the MSRB's EMMA system at www.emma.msrb.org. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "APPENDIX E-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 certain specified events related to the guarantee to the MSRB.

Annual Reports

The District shall provide annually to the MSRB, within six (6) months after the end of each fiscal year of the District, financial information and operating data with respect to the District of the general type included in "APPENDIX A - FINANCIAL INFORMATION REGARDING THE DISTRICT" (Tables 1 and 3 through 12) and if not provided as part of such financial information and operating data, audited financial statements of the District, within 12 months after the end of the fiscal year when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the District may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall 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.

The District may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the SEC.

The District's current fiscal year end is June 30. Accordingly, it must provide the portion of the updated information that is due within six (6) months after the end of the fiscal year end by the last day of December in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this section.

Notices of Certain Events

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

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

Availability of Information from MSRB

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

Limitations, Disclaimers and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above and only for so long as the District remains an "obligated person" with respect to the Bonds within the meaning of Rule 15c2-12. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results, operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the District to comply with its agreement. Nothing in this paragraph is intended or shall act to disclaim, waive or limit the District's duties under federal securities laws.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds. The District may also repeal or amend the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or any court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, and the District also may amend the provisions of its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of Rule 15c2-12. If the District so amends the continuing disclosure agreement, it has agreed to include with the next financial information and operating data provided in accordance with its continuing disclosure agreement described above under "– Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS

Pursuant to the requirements of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, certain automatic reductions in federal spending took effect as of March 1, 2013. These required reductions in federal spending include a reduction to refundable credits under section 6431 of the Internal Revenue Code (the "Code") applicable to certain qualified bonds, including qualified school construction bonds issued pursuant to sections 54A and 54F of the Code for which an issuer elected to receive a direct credit subsidy payment pursuant to section 6431 of the Code.

For such qualified bonds eligible for the direct credit subsidy payment, the Office of Management and Budget ("OMB") set a sequester percentage (i.e. reduction) of 6.9% for fiscal year 2017, 6.6% for fiscal year 2018, 6.2% for fiscal year 2019 and 5.9% for fiscal year 2020. For fiscal year 2021, the OMB set the sequester percentage at 5.7%, which applies to any payments processed on or after October 1, 2021 and on or before September 30, 2030. The sequestration reduction rate will be applied unless and until a law is enacted that cancels or otherwise impacts the sequester, at which time the sequestration reduction rate is subject to change. The District makes no representation with respect to any future changes in funding subsidies on Build America Bonds.

The District has previously issued its Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010B (Direct Pay to Issuer), of which approximately $1,655,000 remains outstanding (the "Affected Bonds"). It is anticipated that the federal payments to the District for such Affected Bonds will be reduced as described above. Pursuant to the order authorizing the issuance of the Affected Bonds, the District is required to make interest and principal payments on the Affected Bonds regardless of whether any federal funding is received. The reductions in the payments received by the District have not materially adversely affected the financial condition or operations of the District. However, the District can make no prediction as to the length or long-term effects of the sequestration.

AUDITED FINANCIAL STATEMENTS

The report of Weaver and Tidwell, L.L.P. relating to the District's audited financial statements for the fiscal year ended June 30, 2025 is included in this Official Statement in APPENDIX C; however, Weaver and Tidwell, L.L.P. has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the District, including without limitation any of the information contained in this Official Statement and has not been asked to consent to inclusion of its report, or otherwise be associated with this Official Statement.

OTHER INFORMATION

Ratings

The Bonds are rated "Aaa" by Moody's Ratings ("Moody's") and "AAA" by S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), based upon the Permanent School Fund Guarantee. Moody's and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State "Aaa" and "AAA" respectively. The presently outstanding unenhanced tax-supported debt of the District is rated "Aa1" by Moody's and "AA" by S&P.

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 such rating companies, if in the judgment either or both of such rating companies, circumstances so warrant. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. Any such downward revision or withdrawal of such ratings, by either of them, may have an adverse effect on the market price of the Bonds.

Litigation

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

Registration and Qualification of Bonds for Sale

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency (see "– Ratings" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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 incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State 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 Bracewell LLP, Bond Counsel, in substantially the form attached hereto as APPENDIX D.

Though they represent the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect hereto or undertaken independently to verify any of the information contained herein except that in their capacity as Bond Counsel, such firm has reviewed the information appearing under captions or subcaptions, "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee," "Payment Record" and "Sources and Uses of Funds"), "TRANSFER, REGISTRATION AND EXCHANGE," and "CONTINUING DISCLOSURE OF INFORMATION" and such firm is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Order; further, such firm has reviewed the information appearing under the captions and subcaptions "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX MATTERS," "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" (first paragraph only), "OTHER INFORMATION – Legal Matters" (except for the last three sentences of the second paragraph thereof), "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas" and "OTHER INFORMATION – Registration and Qualification of Bonds for Sale" and such firm is of the opinion that legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Jackson Walker LLP, Houston, Texas. Additionally, certain legal matters will be passed upon for the District by its Disclosure Counsel, Bracewell LLP, Houston, Texas. The legal fees of such firms are contingent upon the sale and delivery of the Bonds.

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

Financial Advisor

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

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

Underwriting

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price of $______________ (representing the par amount of the Bonds plus a [net] reoffering premium of $______________, less an underwriting discount of $____________). The Underwriters' obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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.

Piper Sandler & Co., ("Piper") an underwriter of the Bonds, has entered into a distribution agreement ("Distribution Agreement") with Charles Schwab & Co., Inc. ("CS&Co") for the retail distribution of certain securities offerings including the Bonds, at the original issue prices. Pursuant to the Distribution Agreement, CS&Co. will purchase Bonds from Piper at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that CS&Co. sells.

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

Verification of Arithmetical Computations

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, 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 Federal Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

The verification performed by Public Finance Partners LLC will be solely based upon data, information and documents provided to Public Finance Partners LLC by Post Oak Municipal Advisors LLC, on behalf of the District. Public Finance Partners LLC has restricted its procedures to recalculating the computations provided by Post Oak Municipal Advisors LLC on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

Forward-Looking Statements

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

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

Concluding Statement

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

The Order authorizing the issuance of the Bonds also authorized designated officials of the District to approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto. The Order further authorizes the use of this Official Statement in the reoffering of the Bonds by the Underwriters.

Schedule I

SCHEDULE OF REFUNDED BONDS*

Unlimited Tax School Building and Refunding Bonds, Series 2015A

Original Maturity		Interest Rate	Principal Outstanding	Principal Refunded	Redemption Date	Redemption Price
2/15/2030		3.300%	$10,940,000	$10,940,000	1/20/2026	100.000%
2/15/2031		3.400%	7,735,000	7,735,000	1/20/2026	100.000%
2/15/2037	[(a)]	4.000%	9,805,000	9,805,000	1/20/2026	100.000%
2/15/2038	[(a)]	4.000%	10,205,000	10,205,000	1/20/2026	100.000%
2/15/2039	[(a)]	4.000%	10,625,000	10,625,000	1/20/2026	100.000%
			$49,310,000	$49,310,000		

[(a)] Represents a portion of a term bond maturing on February 15, 2040.

Unlimited Tax School Building and Refunding Bonds, Series 2016

Original Maturity	Interest Rate	Principal Outstanding	Principal Refunded	Redemption Date	Redemption Price
2/15/2027	5.000%	$41,710,000	$41,710,000	2/15/2026	100.000%
2/15/2028	5.000%	44,035,000	44,035,000	2/15/2026	100.000%
2/15/2029	5.000%	9,150,000	9,150,000	2/15/2026	100.000%
2/15/2031	3.500%	10,825,000	10,825,000	2/15/2026	100.000%
2/15/2032	4.000%	11,225,000	11,225,000	2/15/2026	100.000%
2/15/2033	4.000%	11,160,000	11,160,000	2/15/2026	100.000%
2/15/2034	3.500%	3,000,000	3,000,000	2/15/2026	100.000%
2/15/2034	4.000%	8,610,000	8,610,000	2/15/2026	100.000%
2/15/2035	4.000%	12,075,000	12,075,000	2/15/2026	100.000%
2/15/2036	4.000%	11,325,000	11,325,000	2/15/2026	100.000%
2/15/2037	4.000%	11,790,000	11,790,000	2/15/2026	100.000%
2/15/2038	4.000%	12,270,000	12,270,000	2/15/2026	100.000%
2/15/2039	4.000%	12,770,000	12,770,000	2/15/2026	100.000%
		$199,945,000	$199,945,000		

* Preliminary, subject to change.

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

Table 1
SELECTED FINANCIAL INFORMATION

2025 Certified Taxable Assessed Valuation...	$72,748,146,589	[a][b]
(100% of taxable assessed value as of January 1, 2025)		
Direct and Estimated Overlapping Debt:		
Outstanding Bonds (as of September 30, 2025)...	$3,484,020,000	
Plus: The Bonds...	236,340,000	*
Less: The Refunded Bonds...	(249,255,000)	*
Total Direct Tax Supported Debt...	$3,471,105,000	*
Plus: Estimated Overlapping Debt (as of September 30, 2025)...	3,411,613,547	
Total Direct Tax Supported and Estimated Overlapping Debt...	$6,882,718,547	*
Estimated Debt Service Fund Balance (as of September 30,2025; unaudited)...	$95,841,318	[c]

Debt Ratios [d]	% of 2025 Certified Taxable Assessed Valuation	2025/26 Est. Population [e] (576,740)	2025/26 Enrollment [f] (114,720)
Direct Tax Supported Debt...	4.77%	$6,018	$30,257
Direct Tax Supported Debt and Estimated Overlapping Debt...	9.46%	$11,934	$59,996

Debt Service Requirements [d]		
Average Annual Debt Service Requirements (2025/26 – 2048/49)...	$204,326,415	*
Maximum Annual Debt Service Requirements (2025/26)...	$329,379,448	*

Tax Collections		
Arithmetic Average	Current Years...	100.0%
(Tax Years 2020 – 2024)	Current and Prior Years...	99.4%

* Preliminary, subject to change.

[a] Certified by the Harris Central Appraisal District (the"Appraisal District"). See "AD VALOREM TAX PROCEDURES." Values may differ from those shown in the District's prior financial statements and elsewhere in this Official Statement due to subsequent adjustments.

[b] Value includes the application of a $140,000 State-mandated general homestead exemption and a $60,000 State-mandated exemption for persons 65 years of age and older and the disabled. See "AD VALOREM TAX PROCEDURES - State Mandated Homestead Exemptions."

[c] The amount represents unaudited information that has not been prepared or reviewed by the District's independent auditor. The unaudited information is derived from internal account balances of the District as calculated by the District and is subject to revision upon completion of the District's annual audit.

[d] Preliminary, subject to change. Includes the Bonds and excludes the Refunded Bonds.

[e] Source: Municipal Advisory Council of Texas.

[f] Source: Texas Education Agency - Public Education Information Management System.

Table 2
ESTIMATED GENERAL OBLIGATION OVERLAPPING DEBT STATEMENT

Taxing Jurisdiction	Gross Tax Debt as of 9/30/2025	Percentage Overlapping	Overlapping Amount
Barker-Cypress MUD	$24,635,000	100.00%	$24,635,000
Champions MUD	22,800,000	100.00%	22,800,000
Chimney Hill MUD	14,795,000	100.00%	14,795,000
Clay Road MUD	360,000	100.00%	360,000
Cy-Champ PUD	34,280,000	100.00%	34,280,000
Cypress Creek UD	12,115,000	99.57%	12,062,906
Cypress Hill MUD #1	48,960,000	100.00%	48,960,000
Emerald Forest UD	13,050,000	100.00%	13,050,000
Faulkey Gully MUD	17,105,000	45.27%	7,743,434
Grant Road PUD	25,150,000	100.00%	25,150,000
Harris Co	2,257,734,736	11.97%	270,250,848
Harris Co Dept of Ed	28,960,000	11.97%	3,466,512
Harris Co ESD #13	5,500,000	81.98%	4,508,900
Harris Co Flood Control District	937,165,000	11.97%	112,178,651
Harris Co FWSD #61	29,245,000	100.00%	29,245,000
Harris Co Hosp District	867,820,000	11.97%	103,878,054
Harris Co Imp District #14	30,100,000	100.00%	30,100,000
Harris Co MUD #25	3,020,000	100.00%	3,020,000
Harris Co MUD #70	12,490,000	100.00%	12,490,000
Harris Co MUD #71	30,405,000	0.72%	218,916
Harris Co MUD #102	4,295,000	100.00%	4,295,000
Harris Co MUD #105	80,385,000	90.54%	72,780,579
Harris Co MUD #127	19,800,000	100.00%	19,800,000
Harris Co MUD #149	20,525,000	100.00%	20,525,000
Harris Co MUD #156	5,775,000	100.00%	5,775,000
Harris Co MUD #157	26,185,000	100.00%	26,185,000
Harris Co MUD #162	220,000	100.00%	220,000
Harris Co MUD #165-DA#1	39,945,000	100.00%	39,945,000
Harris Co MUD #165-DA#2	66,485,000	100.00%	66,485,000
Harris Co MUD #165	328,180,000	100.00%	328,180,000
Harris Co MUD #166	14,990,000	100.00%	14,990,000
Harris Co MUD #167	55,795,000	100.00%	55,795,000
Harris Co MUD #168	9,565,000	100.00%	9,565,000
Harris Co MUD #170	1,005,000	100.00%	1,005,000
Harris Co MUD #171	16,722,179	100.00%	16,722,179
Harris Co MUD #172	15,335,000	100.00%	15,335,000
Harris Co MUD #173	10,475,000	100.00%	10,475,000
Harris Co MUD #183	10,065,000	100.00%	10,065,000
Harris Co MUD #185	250,000	98.23%	245,575
Harris Co MUD #188	14,195,000	100.00%	14,195,000
Harris Co MUD #196	25,940,000	100.00%	25,940,000
Harris Co MUD #208	405,000	100.00%	405,000
Harris Co MUD #220	5,765,000	94.30%	5,436,395
Harris Co MUD #230	12,365,000	100.00%	12,365,000
Harris Co MUD #239	7,560,000	100.00%	7,560,000
Harris Co MUD #248 (Defined Area)	5,755,000	100.00%	5,755,000
Harris Co MUD #248	13,905,000	100.00%	13,905,000
Harris Co MUD #250	540,000	100.00%	540,000
Harris Co MUD #257	9,220,000	100.00%	9,220,000
Harris Co MUD #261	2,640,000	100.00%	2,640,000
Harris Co MUD #264	1,975,000	100.00%	1,975,000
Harris Co MUD #276	4,800,000	100.00%	4,800,000
Harris Co MUD #284	17,805,000	100.00%	17,805,000
Harris Co MUD #341	3,790,000	100.00%	3,790,000
Harris Co MUD #354	1,395,000	100.00%	1,395,000
Harris Co MUD #358	9,380,000	100.00%	9,380,000
Harris Co MUD #360	3,925,000	100.00%	3,925,000
Harris Co MUD #364	2,510,000	100.00%	2,510,000
Harris Co MUD #365	525,000	100.00%	525,000
Harris Co MUD #370	9,945,000	100.00%	9,945,000
Harris Co MUD #371	8,635,000	100.00%	8,635,000
Harris Co MUD #374	27,700,000	100.00%	27,700,000
Harris Co MUD #389	6,035,000	100.00%	6,035,000
Harris Co MUD #391	37,305,000	100.00%	37,305,000
Harris Co MUD #396	8,960,000	100.00%	8,960,000
Harris Co MUD #397	12,435,000	100.00%	12,435,000

Table 2 (Continued)
ESTIMATED GENERAL OBLIGATION OVERLAPPING DEBT STATEMENT

Taxing Jurisdiction	Gross Tax Debt as of 9/30/2025	Percentage Overlapping	Overlapping Amount
Harris Co MUD #419	102,545,000	100.00%	102,545,000
Harris Co MUD #433	82,215,000	100.00%	82,215,000
Harris Co MUD #458	14,313,468	100.00%	14,313,468
Harris Co MUD #489	221,265,000	100.00%	221,265,000
Harris Co MUD #490	76,480,000	22.14%	16,932,672
Harris Co MUD #493	5,450,000	100.00%	5,450,000
Harris Co MUD #500	16,024,773	100.00%	16,024,773
Harris Co MUD #501	96,643,457	100.00%	96,643,457
Harris Co MUD #502	118,343,943	100.00%	118,343,943
Harris Co MUD #503	29,647,827	100.00%	29,647,827
Harris Co MUD #531	31,015,000	99.52%	30,866,128
Harris Co MUD #559	28,745,000	100.00%	28,745,000
Harris Co MUD #6	12,255,000	1.64%	200,982
Harris Co WC&ID #109	12,260,000	5.50%	674,300
Harris Co WC&ID #113	1,270,000	100.00%	1,270,000
Harris Co WC&ID #116	8,630,000	70.75%	6,105,725
Harris Co WC&ID #157	65,280,000	99.61%	65,025,408
Harris Co WC&ID #158	46,120,000	24.08%	11,105,696
Harris Co WC&ID #159	59,430,000	99.66%	59,227,938
Horsepen Bayou MUD	11,550,000	100.00%	11,550,000
Houston, City of	3,722,710,000	3.30%	122,849,430
Jackrabbit Road PUD	4,000,000	69.88%	2,795,200
Jersey Village, City of	35,790,000	100.00%	35,790,000
Langham Creek UD	47,065,000	100.00%	47,065,000
Lone Star College System	434,530,000	26.07%	113,281,971
NW Harris Co MUD #5	166,355,000	37.92%	63,081,816
NW Harris Co MUD #6	21,520,000	33.19%	7,142,488
NW Harris Co MUD #9	3,085,000	100.00%	3,085,000
NW Harris Co MUD #10	47,175,000	100.00%	47,175,000
NW Harris Co MUD #12	71,120,000	76.90%	54,691,280
NW Harris Co MUD #16	17,325,000	100.00%	17,325,000
NW Park MUD	21,210,000	11.60%	2,460,360
Port of Houston Authority	406,509,397	11.97%	48,659,175
Reid Rd MUD #1	5,080,000	100.00%	5,080,000
Reid Rd MUD #2	6,740,000	100.00%	6,740,000
Remington MUD #1	26,980,000	100.00%	26,980,000
Rolling Creek UD	32,715,000	92.47%	30,251,561
Rolling Fork PUD	4,125,000	100.00%	4,125,000
Spencer Rd PUD	11,290,000	100.00%	11,290,000
Sunbelt FWSD - Defined Area No. 1	5,200,000	100.00%	5,200,000
Timberlake Imp Dist	8,150,000	100.00%	8,150,000
W Harris Co MUD #1	5,000,000	100.00%	5,000,000
W Harris Co MUD #9	21,510,000	100.00%	21,510,000
W Harris Co MUD #10	9,545,000	100.00%	9,545,000
W Harris Co MUD #11	9,210,000	100.00%	9,210,000
W Harris Co MUD #15	3,395,000	100.00%	3,395,000
W Harris Co MUD #21	32,590,000	100.00%	32,590,000
White Oak Bend MUD	225,000	100.00%	225,000
Windfern Forest UD	2,105,000	100.00%	2,105,000
Total Estimated Overlapping Debt			3,411,613,547
Cypress-Fairbanks ISD			3,471,105,000 [a]
Total Direct and Overlapping Debt			$6,882,718,547

Total Direct and Overlapping Debt % of 2025 Assessed Valuation	9.46%
Total Direct and Overlapping Debt per Capita	$11,934
Total Direct and Overlapping Debt per Student	$59,996

Source: Municipal Advisory Council of Texas.
[a] Preliminary, subject to change. Includes the Bonds and excludes the Refunded Bonds.

Table 3
PROPERTY TAX RATES AND COLLECTIONS

Tax Year	Assessed Valuation[a]	Tax Rate Per $100 of Assessed Valuation	Adjusted Tax Levy	% of Collections: Current Year [a]	% of Collections: Current and Prior Years[a][b]	Fiscal Year Ending
2016	$46,698,749,097	$1.4400	$663,201,220	99.9%	99.9%	6/30/2017
2017	48,750,997,500	1.4400	692,905,859	99.8%	99.8%	6/30/2018
2018	50,346,242,500	1.4400	715,274,552	99.9%	99.8%	6/30/2019
2019	53,866,163,796	1.3700	728,099,122	99.7%	99.8%	6/30/2020
2020	56,633,382,252	1.3555	754,196,377	100.0%	99.7%	6/30/2021
2021	59,572,765,532	1.3392	785,115,207	100.0%	99.7%	6/30/2022
2022	66,574,400,880	1.2948	839,563,864	100.6%	99.5%	6/30/2023
2023	66,720,005,501	1.0811	704,638,077	100.4%	99.4%	6/30/2024
2024	70,811,240,207	1.0869	762,287,558	98.7%	98.5%	6/30/2025
2025	72,748,146,589 [c]	1.0669	749,780,098	[d]	[d]	6/30/2026

Source: District records as of September 30, 2025 (unaudited).

[a] Values may differ from those shown in the District's prior financial statements and elsewhere in this Official Statement due to subsequent adjustments.

[b] Includes penalties and interest.

[c] Value includes the application of a $140,000 State mandated general homestead exemption and a $60,000 State-mandated exemption for persons 65 years of age and older and the disabled. See "AD VALOREM TAX PROCEDURES."

[d] In process of levy and collection.

Table 4
TAX RATE DISTRIBUTION

Tax Year	2025	2024	2023	2022	2021
Maintenance[a]	$0.6669	$0.6869	$0.6811	$0.8948	$0.9292
Debt Service	0.4000	0.4000	0.4000	0.4000	0.4100
Total	$1.0669	$1.0869	$1.0811	$1.2948	$1.3392

Source: Harris Central Appraisal District and the District's financial records.

[a] See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" for information regarding the legislatively-mandated compression of the District's M&O tax rate.

Table 5
HISTORICAL STATEMENT OF DELINQUENT TAXES

Tax Year	Delinquent Taxes Outstanding as of September 30, 2025	Adjusted Tax Levy	Percentage of Tax Levy
2014	$3,166,934	[a]	[a]
2015	845,981	$620,940,046	0.14%
2016	976,424	663,201,220	0.15%
2017	1,349,108	692,905,859	0.19%
2018	1,184,463	715,274,552	0.17%
2019	1,441,837	728,099,122	0.20%
2020	1,992,077	754,196,377	0.26%
2021	2,132,656	785,115,207	0.27%
2022	4,099,122	839,563,864	0.49%
2023	4,553,100	704,638,077	0.65%
2024	11,340,070	762,287,558	1.49%
Total	$33,081,772		

Source: The District's records. Unaudited.

[a] Various levies and percentages.

Table 6
ANALYSIS OF TAX BASE

Type of Property	2025 Tax Roll[a][b] Amount	%	2024 Tax Roll[a][c] Amount	%	2023 Tax Roll[a][c] Amount	%
Residential	$66,798,462,386	58.46%	$64,116,759,307	59.93%	$60,285,989,291	59.73%
Vacant Land	1,040,296,034	0.91%	1,066,260,358	1.00%	1,145,645,822	1.14%
Acreage, Farm & Ranch	168,447,441	0.15%	179,267,677	0.17%	197,697,531	0.20%
Commercial	27,843,496,752	24.37%	24,972,020,983	23.34%	24,189,406,650	23.97%
Industrial	11,071,219,721	9.69%	10,010,567,735	9.36%	9,087,368,036	9.00%
Utilities	711,748,867	0.62%	638,355,994	0.60%	544,882,825	0.54%
Railroad, Pipelines & Cable TV	231,285,486	0.20%	217,269,716	0.20%	192,175,706	0.19%
Residential Inventory	346,382,769	0.30%	450,860,025	0.42%	500,867,020	0.50%
Minerals	1,129,945	0.00%	1,035,566	0.00%	1,305,160	0.00%
Miscellaneous	6,055,304,767	5.30%	5,326,093,071	4.98%	4,778,530,760	4.73%
Total A.V.	$114,267,774,168	100.00%	$106,978,490,432	100.00%	$100,923,868,801	100.00%
Less: Exemptions	(41,519,627,579)		(36,167,250,225)		(34,203,863,300)	
Total Taxable A.V.[a]	$72,748,146,589		$70,811,240,207		$66,720,005,501	

Source: The Harris Central Appraisal District.

[a] Values may differ from those shown in the District's prior financial statements and elsewhere in this Official Statement due to subsequent adjustments.

[b] Value includes the application of a $140,000 State mandated general homestead exemption and $60,000 exemption for persons 65 years of age and older and the disabled. See "AD VALOREM TAX PROCEDURES."

[c] Value includes the application of a $100,000 State mandated general homestead exemption. See "AD VALOREM TAX PROCEDURES."

Table 7
HISTORICAL PRINCIPAL TAXPAYERS

Principal Taxpayer	Type of Property	2025 Taxable Assessed Valuation	2024 Taxable Assessed Valuation	2023 Taxable Assessed Valuation
Paile LLC	Data Center	$1,458,134,500	$609,375,040	[a]
Prologis Logistics	Real Estate Logistics	1,051,388,614	983,164,954	1,180,818,327
CenterPoint Energy Inc.	Gas and Electric	641,267,031	570,650,400	477,126,552
H.E.B. Grocery Company	Grocery	545,154,605	538,578,946	647,629,941
Data Center Houston	Data Center	294,344,924	276,722,106	200,779,277
Fedex Ground Package System Inc	Shipping	286,791,134	286,981,797	251,365,250
GGP Willowbrook LP	Retail Shopping Mall	225,447,613	224,348,028	232,474,017
National Oilwell Inc.	Oil and Gas	212,591,124	286,990,371	233,124,123
Amazon	e-Commerce Retail	206,054,199	[a]	[a]
Walmart Inc.	Retail	172,056,675	226,711,845	[a]
Dril-Quip Inc.	Oil Field Equipment	[a]	290,553,305	201,599,604
Wyman-Forgings	Oil and Gas	[a]	[a]	167,143,800
CPG Houston Holdings LP	Holding Company	[a]	[a]	166,148,079
Total Ten Principal Taxpayers……		$5,093,230,419	$4,294,076,792	$3,758,208,970
Percentage of Tax Roll Comprised of Principal Taxpayers……		7.00%	6.06%	5.64%

Source: The Harris Central Appraisal District.

[a] Not a principal taxpayer in respective year.

Table 8
PRO-FORMA OUTSTANDING UNLIMITED TAX DEBT SERVICE

Period Ending[(a)] (8/31)	Outstanding Debt Service Requirements	Less Federal Subsidy[(b)]	Less: The Refunded Bonds*	Plus: The Bonds* Principal	Plus: The Bonds* Interest	Total Debt Service Requirements*
2026	$314,740,199	($42,216)	($10,727,035)	$18,990,000	$6,418,500	$329,379,448
2027	307,557,457	-	(51,394,285)	55,095,000	9,490,125	320,748,297
2028	303,346,232	-	(51,575,660)	40,640,000	7,096,750	299,507,322
2029	306,212,820	-	(15,361,035)	5,585,000	5,941,125	302,377,910
2030	307,653,699	-	(16,741,775)	7,200,000	5,621,500	303,733,424
2031	265,884,982	-	(23,860,333)	14,820,000	5,071,000	261,915,649
2032	263,874,087	-	(15,979,900)	7,580,000	4,511,000	259,985,187
2033	263,063,525	-	(15,467,200)	7,445,000	4,135,375	259,176,700
2034	262,626,000	-	(15,469,300)	7,825,000	3,753,625	258,735,325
2035	263,919,325	-	(15,468,100)	8,230,000	3,352,250	260,033,475
2036	235,259,250	-	(14,250,100)	7,410,000	2,961,250	231,380,400
2037	236,636,119	-	(23,861,700)	17,595,000	2,336,125	232,705,544
2038	236,216,775	-	(23,860,300)	18,490,000	1,434,000	232,280,475
2039	203,174,150	-	(23,862,900)	19,435,000	485,875	199,232,125
2040	202,714,809	-	-	-	-	202,714,809
2041	178,345,291	-	-	-	-	178,345,291
2042	168,067,881	-	-	-	-	168,067,881
2043	167,761,431	-	-	-	-	167,761,431
2044	145,608,381	-	-	-	-	145,608,381
2045	95,650,356	-	-	-	-	95,650,356
2046	69,067,788	-	-	-	-	69,067,788
2047	61,017,350	-	-	-	-	61,017,350
2048	44,473,500	-	-	-	-	44,473,500
2049	19,935,900	-	-	-	-	19,935,900
	$4,922,807,307	($42,216)	($317,879,623)	$236,340,000	$62,608,500	$4,903,833,968

* Preliminary, subject to change.

(a) The District's fiscal year end is June 30, but due to the timing of tax receipts, the District budgets its debt service requirements based on an August 31 fiscal year end.

(b) Assumes the receipt of the federal subsidy on the District's Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010B (Direct Pay to Issuer). For a discussion of the impact of sequestration on the District's subsidies for such bonds, see "EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS." This table assumes that subsidy payments will be reduced by 5.7% in all future periods ending August 31.

Table 9
AUTHORIZED BUT UNISSUED BONDS

The District has no voter authorized but unissued bonds.

Table 10
TAX ADEQUACY

Estimated Average Annual Debt Service Requirements (2025/26 – 2048/49)…………………………………………...………………	$204,326,415 [(a)(b)]
$0.2867 Tax Rate on the 2025 Certified Taxable Assessed Valuation at 98.0% Collections Produces……………………………	204,397,558
Estimated Maximum Annual Debt Service Requirements (2025/26)…………………………………………...………………………	$329,379,448 [(a)(b)]
$0.4621 Tax Rate on the 2025 Certified Taxable Assessed Valuation at 98.0% Collections Produces……………………………	329,445,802

[(a)] Preliminary, subject to change. Includes the Bonds and excludes the Refunded Bonds.

[(b)] Assumes the receipt of the federal subsidy on the District's Unlimited Tax Qualified School Construction Bonds, Taxable Series 2010B (Direct Pay to Issuer). For a discussion of the impact of sequestration on the District's subsidies for such bonds, see "EFFECTS OF SEQUESTRATION ON CERTAIN OBLIGATIONS." This table assumes that subsidy payments will be reduced by 5.7% in all future periods ending August 31.

Table 11
COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES

	Fiscal Year Ended June 30,				
	2025	2024	2023	2022	2021
Beginning Fund Balance (July 1)	$ 560,683,990	$ 556,703,637	$ 520,264,135	$ 520,264,135	$ 517,854,311
Revenues:					
Local and Intermediate Sources	$ 527,979,310	$ 490,028,435	$ 625,841,065	$ 568,749,071	$ 551,489,698
State Sources	608,344,216	567,180,198 [b]	437,373,517	419,605,923	413,642,821
Federal Sources	9,849,901 [a]	31,741,289	42,972,569	32,045,562	32,195,674
Total Revenues	$ 1,146,173,427	$ 1,088,949,922	$ 1,106,187,151	$ 1,020,400,556	$ 997,328,193
Expenditures:					
Instruction	$ 753,610,403	$ 733,574,647	$ 712,625,724	$ 682,840,920	$ 658,567,171
Resources and Media Services	5,026,323	9,197,664	8,756,505	8,397,113	8,361,084
Staff Development	9,198,550	13,418,895	13,566,039	12,461,886	12,182,425
Instructional Leadership	8,913,909	10,465,878	9,140,867	8,712,506	8,053,104
School Leadership	66,081,666	63,879,783	54,476,490	53,359,990	51,508,538
Guidance and Counseling	51,357,367	25,060,938	30,558,429	32,732,610	40,934,785
Social Work Services	734,161	441,325	460,159	527,500	1,264,265
Health Services	12,935,187	13,335,358	12,909,594	12,343,068	11,950,368
Transportation	47,601,416	46,123,304	43,340,225	43,773,247	40,577,521
Extra-curricular Activities	24,342,444	25,126,126	24,853,334	22,933,114	21,823,305
General Administration	18,268,204	20,443,803	19,538,489	19,205,727	17,406,220
Maintenance and Operations	92,306,050	69,058,506	85,133,350	72,309,045	82,983,641
Security and Monitoring Services	17,418,952	16,787,409	15,067,117	14,398,040	12,767,644
Data Processing	40,103,124	20,625,404	16,456,017	18,732,776	18,535,128
Community Services	9,822,517	10,657,848	9,804,221	9,190,353	7,088,541
Debt Service	8,078,115	4,603,026	5,281,655	2,674,499	-
Acquisition and Construction	258,746	771,220	2,302,872	591,275	352,181
Fiscal Agent SSA	1,925,883	1,799,428	1,714,279	1,632,561	1,737,474
Juvenile Justice Program	63,600	18,800	11,200	5,400	3,600
Other Intergovernmental Charges	5,745,204	6,375,038	6,171,163	5,797,199	5,487,421
Total Expenditures	$ 1,173,791,821	$ 1,091,764,400	$ 1,072,167,729	$ 1,022,618,829	$ 1,001,584,416
Other Financing Sources (Uses):					
Sale of Real and Personal Property	$ 511,878	$ 608,895	$ 641,319	$ 767,377	$ 572,156
Leases and Subscriptions	16,004,681 [c]	4,671,062	-	-	-
Financed Purchases	-	114,874	378,761	-	-
Transfers In	-	1,400,000	1,400,000	1,450,896	5,000,000
Total Other Financing Sources (Uses)	$ 16,516,559	$ 6,794,831	$ 2,420,080	$ 2,218,273	$ 5,572,156
Net Change in Fund Balance	$ (11,101,835)	$ 3,980,353	$ 36,439,502	$ -	$ 1,315,933
Prior Period Adjustment - GASB 84	-	-	-	-	1,093,891
Ending Fund Balance (June 30)	$ 549,582,155	$ 560,683,990	$ 556,703,637	$ 520,264,135	$ 520,264,135

Source: The District's audited financial statements.

[a] The reduction from fiscal year 2024 to fiscal year 2025 is related to reductions in school health and related services funding and the elimination of Elementary and Secondary School Emergency Relief Funding.

[b] Increase from prior year is due to the state-mandated homestead exemption increase from $40,000 to $100,000 and hold-harmless provision for State aid as a result of such reduction in local property tax revenues. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT."

[c] According to GASB 87 and 96, additions to leases and subscriptions are required to be reflected in other financing sources and as an expenditure (net effect zero to fund financial statements). The increase is due to existing annual agreements being converted to multi-year agreements for several subscriptions such as the district's finance system and student information system.

Table 12
COMPARATIVE STATEMENT OF DEBT SERVICE FUND REVENUES AND EXPENDITURES

	Fiscal Year Ended June 30,				
	2025	2024	2023	2022	2021
Beginning Fund Balance (July 1)	$ 157,594,005	$ 142,201,649	$ 122,434,911	$ 117,594,111	$ 117,780,498
Revenues:					
Local Taxes for Debt Service	$ 282,486,549	$ 266,323,918	$ 267,440,052	$ 242,961,863	$ 224,417,603
State Sources	33,828,677 [(a)]	38,729,488 [(a)]	8,918,946	3,137,385	2,962,968
Federal Sources	174,798	254,604	337,338	422,378	507,676
Total Revenues	$ 316,490,024	$ 305,308,010	$ 276,696,336	$ 246,521,626	$ 227,888,247
Expenditures:					
Principal	$ 157,295,000	$ 145,785,000	$ 133,485,000	$ 121,735,000	$ 106,295,000
Interest	146,783,906	140,253,766	126,742,507	124,522,954	117,775,163
Bond Issuance Fees	2,688,487	6,138,584	5,307,364	2,427,532	4,720,608
Total Expenditures	$ 306,767,393	$ 292,177,350	$ 265,534,871	$ 248,685,486	$ 228,790,771
Other Financing Sources (Uses):					
Issuance of Bonds	$ -	$ -	$ 4,209,848	$ 102,755,000	$ 250,045,000
Premium from Issuance of Bonds	38,776,008	20,880,074	24,608,675	19,536,626	37,128,565
Issuance of Refunding Bonds	395,800,000	312,175,000	124,405,000	132,050,000	-
Payment to Refunded Bonds Escrow Agent	(431,904,342)	(330,793,378)	(144,618,250)	(247,336,966)	(286,457,428)
Total Other Financing Sources (Uses)	$ 2,671,666	$ 2,261,696	$ 8,605,273	$ 7,004,660	$ 716,137
Net Change in Fund Balance	$ 12,394,297	$ 15,392,356	$ 19,766,738	$ 4,840,800	$ (186,387)
Ending Fund Balance (June 30)	$ 169,988,302	$ 157,594,005	$ 142,201,649	$ 122,434,911	$ 117,594,111

Source: The District's audited financial statements.

[(a)] For fiscal years 2024 and 2025, the District received State aid intended to hold the District harmless for reductions in local property tax revenues due to increases in the state mandated homestead exemption from $40,000 to $100,000. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT.”

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT

GENERAL INFORMATION REGARDING THE DISTRICT

Description of the District

The District, an area of approximately 186 square miles, is located in the western and northwestern portions of Harris County. Bisected by both U.S. Highway 290 and FM 1960, the District is readily accessible to all other parts of Harris County through interconnecting freeways. The unincorporated communities of Cypress and Fairbanks, the City of Jersey Village and a number of utility districts provide municipal services to District residents. A small portion of the District lies within the City of Houston along the District's eastern boundary.

The District operates 12 comprehensive high schools, 20 middle schools, 59 elementary schools and five special program schools. As of June 30, 2025, the District employed 16,216 persons, of which 7,997 are in the instructional field. Administration accounts for 354 employees and 7,865 employees are support personnel. The following table has been prepared by District officials and sets forth historical enrollment data through the 2025-26 school year.

School Year	Enrollment
2010-11	106,067
2011-12	107,932
2012-13	109,975
2013-14	111,404
2014-15	112,986
2015-16	113,897
2016-17	114,842
2017-18	116,368
2018-19	116,512
2019-20	117,446
2020-21	115,801
2021-22	117,217
2022-23	118,010
2023-24	118,470
2024-25	117,927
2025-26	114,720

Source: Texas Education Agency
Public Education Information Management System (PEIMS)

The District's 59 elementary schools include early childhood through grade five. A variety of grouping arrangements (heterogeneous, homogeneous, small group, large group, one-to-one, literacy groups, work stations, flexible subgroups, etc.) are used to personalize the instructional program and to help all students receive the type of assistance needed to be academically successful. All of the District's elementary schools embody the "modified open concept," using a minimum of interior wall partitions to differentiate classrooms, and allowing for flexible use of the teaching spaces to meet students' needs. Core subjects include reading, language arts, mathematics, science, social studies, computer literacy, health, physical education, art, music, and theater arts.

The District's 20 middle schools consist of grades six, seven, and eight. Students are enrolled in seven classes per day. In addition to the core courses listed above for elementary school students, middle school students are given opportunities to study foreign language, vocational/technology, and fine arts, as well as participate in athletics. Students also have opportunities to obtain high school credit in middle school.

The District's 12 comprehensive high schools operate under a two-semester system divided into three six-week reporting periods. Students take six classes per day. In addition to the regular curriculum, vocational, honors, advanced placement and college dual-credit programs are offered. Each high school has a center for fine arts performances as well as facilities for a variety of athletic sports. Special program campuses include Windfern High School, the Carpenter Center, the Alternative Learning Centers, East and West, and the Carlton Pre-Vocational Center.

The District also provides special programs for gifted and talented, and bilingual/ESL, as well as special education services for students with disabilities.

The District also includes the Richard E. Berry Educational Support Center (Berry Center), a multipurpose facility on a 65-acre site. Amenities of the Berry Center include an 11,000-seat athletic stadium, a 456-seat auditorium, 16,000 square-foot staff development/conference center and a multi-purpose area designed for 9,500 maximum capacity with 8,300 fixed seats. The facility is used for District activities as well as non-district events.

Five transportation facilities house the District's buses and other District vehicles. The District operates 1,000 buses which are able to transport approximately 65,000 students daily.

ECONOMIC AND GROWTH INDICATORS

The following information has been derived from various sources, including the Texas Almanac, The Texas Municipal Advisory Council's Texas Municipal Reports and U.S. Census data. While such sources are believed to be reliable, no representation is made as to the accuracy thereof.

Harris County Economic Base

A significant portion of the District is located in Harris County (the "County"), the most populous county in the State, with a 2020 estimated population of 4,731,145, an increase of approximately 15.61% since 2010. The County's economy is based on industry, mineral production, shipping and agriculture.

The County is a highly industrialized county with manufacturing plants producing petroleum refining, chemicals, food, fabricated metal products, non-electric machinery, primary metals, scientific instruments, paper and allied products and printing and publishing. The County is also a corporate management center, a center of energy, space and medical research centers and a center of international business. The County contains the nation's largest concentration of petrochemical plants and the largest U.S. wheat exporting port which is among the top U.S. ports in the value of foreign trade and total tonnage.

U.S. Census of Population

	City of Houston		Harris County	
Year	**Number**	**% Change**	**Number**	**% Change**
1930	292,352	+ 111.43	359,328	+92.50
1940	384,514	+31.52	528,961	+47.21
1950	596,163	+55.04	806,701	+52.51
1960	938,219	+57.38	1,243,158	+54.10
1970	1,233,505	+31.40	1,741,912	+40.12
1980	1,595,138	+29.31	2,409,547	+38.33
1990	1,631,766	+2.75	2,881,199	+16.96
2000	1,953,631	+19.28	3,400,578	+20.66
2010	2,100,263	+7.46	4,092,459	+20.35
2020	2,304,580	+9.73	4,731,145	+15.61

Harris County Employment Statistics

	2025	2024	2023	2022	2021
Labor Force	2,534,434	2,497,420	2,432,184	2,360,859	2,319,413
Employed	2,407,336	2,386,885	2,327,972	2,260,680	2,173,458
Unemployed	127,098	110,535	104,212	100,179	145,955
Rate	5.0%	4.4%	4.3%	4.2%	6.3%

Source: Texas Workforce Commission Texas Local Area Unemployment Statistics Report

APPENDIX C

EXCERPTS FROM THE ANNUAL FINANCIAL REPORT

The information contained in this Appendix consists of excerpts from the Cypress-Fairbanks Independent School District Annual Financial Report for the Fiscal Year Ended June 30, 2025 (the "Report") 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.

1800 Hughes Landing Blvd, Suite 500
The Woodlands, Texas 77380
713-800-1060

Independent Auditor's Report

To the Board of Trustees of
Cypress-Fairbanks Independent School District
11440 Matzke Road
Cypress, Texas 77429

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Cypress-Fairbanks Independent School District (the District), as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Emphasis of Matter

As discussed in Note I.17 to the basic financial statements, during the year ended June 30, 2025, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Beginning net position has been restated as a result of the implementation of this statement. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Required Supplementary Information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Supplementary Information is presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report (ACFR)

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

The Woodlands, Texas
October 21, 2025

As management of the Cypress-Fairbanks Independent School District (the District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2025.

Financial Highlights

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by $368,343,968 *(net position).*
- Unrestricted net position of ($773,004,903) remains a deficit as a result of the implementations of GASB Statement No. 75 and GASB Statement No. 68 in prior fiscal years.
- The District's total net position increased by $47,131,672 reflecting increases in deferred outflows for TRS OPEB and decreases in inflows for TRS pension and OPEB, and a decrease in the TRS pension liability stemming from changes in deferred outflows and inflows.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,282,675,222, an increase of $31,891,233 in comparison with the prior year. The increase in governmental fund balances was primarily due to the increase of $34,913,652 in the capital projects fund.
- At the end of the current fiscal year, unassigned fund balance for the general fund was $455,084,990 or 39 percent of total general fund expenditures.
- The District's net bonded debt increased by $114,393,177 (3.1 percent) during the current fiscal year.

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and supplementary and other information in addition to the basic financial statements.

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.

The *Statement of Net Position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference 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.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues *(governmental activities)*. The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Instructional Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Cocurricular/Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Debt, Bond Issuance Costs and Fees, Facilities Repair and Maintenance, Payments to Fiscal Agents SSA, Payments to Juvenile Justice Alternative Education Programs, and Other Intergovernmental Charges. The business-type activities of the District include the operation of a before and after school care program and summer programs reported as Community Programs.

The government-wide financial statements are referenced as Exhibits A-1 and A-2 in this report.

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 objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 District'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 District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund 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 twenty-five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital projects fund, all of which are considered to be major funds. Data from the other twenty-two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and National School Breakfast and Lunch Program special revenue fund.

The basic governmental fund financial statements are referenced as Exhibits B-1, B-1R, B-2 and B-2R in this report.

Proprietary funds. The District maintains two different types of proprietary funds. *Enterprise funds* are used to report activities for which fees are charged to external users for goods or services (*business-type activities*). The function of the District's enterprise fund is to provide before and after school care for elementary school students and summer programs for all students in the District. A fee is charged for these services. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. The District uses an internal service fund to account for its workers' compensation benefits to district employees. Because this service predominantly benefits governmental functions, it has been included within *governmental activities* in the government-wide financial statements.

Proprietary funds statements provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary funds financial statements are referenced as Exhibits C-1 through C-3.

Fiduciary fund. The fiduciary fund is used to account for assets and activities when a governmental unit is functioning either as a trustee or a custodian for another party. The District has one fiduciary fund.

The *custodial fund* accounts for resources held for the benefit of student and staff organizations. The custodial fund is *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 accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements are referenced as Exhibits D-1 and D-2 in this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in 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. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds. The District did not have any major special revenue funds; therefore, only the general fund is presented as required supplementary information. The required supplementary information also provides information on the District's cost-sharing multiple-employer pension and OPEB plans of which the District is a participant. The required supplementary information is referenced as Exhibits E-1 through F-4, and the associated notes immediately follow the exhibits in this report.

Supplementary information. The combining and individual fund statements and schedules and the compliance schedules comprise the supplementary information and are presented immediately following the required supplementary information. The supplementary information is referenced as Exhibits G-1 through J-4 in this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by $368,343,968 at the close of the fiscal year ended June 30, 2025.

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT'S NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Current and Other Assets	$ 1,556,020,545	$ 1,513,818,704	$ 3,655,770	$ 1,142,133	$ 1,559,676,315	$ 1,514,960,837
Capital Assets, net of						
Accumulated Depreciation	3,049,677,816	2,891,256,253	126,085	170,680	3,049,803,901	2,891,426,933
Total Assets	**4,605,698,361**	**4,405,074,957**	**3,781,855**	**1,312,813**	**4,609,480,216**	**4,406,387,770**
Total Deferred Outflows of						
Resources	**222,441,349**	**279,705,723**	**-**	**-**	**222,441,349**	**279,705,723**
Other Liabilities	287,208,849	276,979,090	174,217	144,285	287,383,066	277,123,375
Long-term Liabilities Outstanding	4,585,762,946	4,427,336,172	136,200	175,198	4,585,899,146	4,427,511,370
Total Liabilities	**4,872,971,795**	**4,704,315,262**	**310,417**	**319,483**	**4,873,282,212**	**4,704,634,745**
Total Deferred Inflows of						
Resources	**326,983,321**	**387,931,980**	**-**	**-**	**326,983,321**	**387,931,980**
Net Position (Deficit):						
Net Investment in Capital Assets	232,236,987	91,214,733	(10,115)	(4,518)	232,226,872	91,210,215
Restricted for Grants - Education	954,016	791,765	-	-	954,016	791,765
Restricted for Grants - Nutrition	47,447,131	53,177,736	-	-	47,447,131	53,177,736
Restricted for Grants - Health	133,556	233,531	-	-	133,556	233,531
Restricted for Debt Service	123,899,360	112,993,500	-	-	123,899,360	112,993,500
Unrestricted	(776,486,456)	(665,877,827)	3,481,553	997,848	(773,004,903)	(664,879,979)
Total Net Position (Deficit)	**$ (371,815,406)**	**$ (407,466,562)**	**$ 3,471,438**	**$ 993,330**	**$ (368,343,968)**	**$ (406,473,232)**

Net investment in capital assets of $232.2 million reflects the District's investment of $3.1 billion in capital assets (e.g., deferred charges and gains on refundings, land, buildings and improvements, furniture and equipment, leases, subscriptions, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. The related debt (net) is adjusted for capital project funds that were expended, but not capitalized. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position of $172,434,063 is an additional portion of the District's net position which represents resources that are subject to external restrictions on how they may be used.

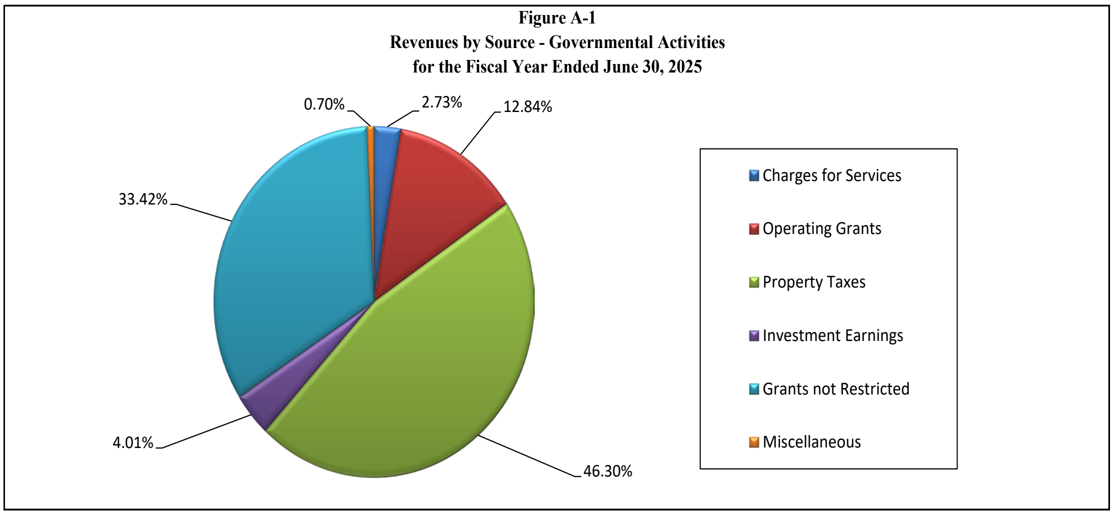
Unrestricted net position of ($773,004,903) reflects a deficit primarily due to the implementations of GASB 68 and GASB 75 in prior fiscal years. Although the District reports a deficit, the deficit is primarily due to reporting the District's proportionate share of the net pension and OPEB liability. The total District liability for both plans is reported in the governmental activities; however, the actual liability does not require the use of current resources at the fund level. The OPEB plan creates a large timing difference since the TRS-Care plan is funded on a pay-as-you go basis. The District has made all contractually required contributions in both plans as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors.

Governmental activities. Governmental activities increased the District's net position from operations by $44,653,564. Key elements of this increase are as follows:

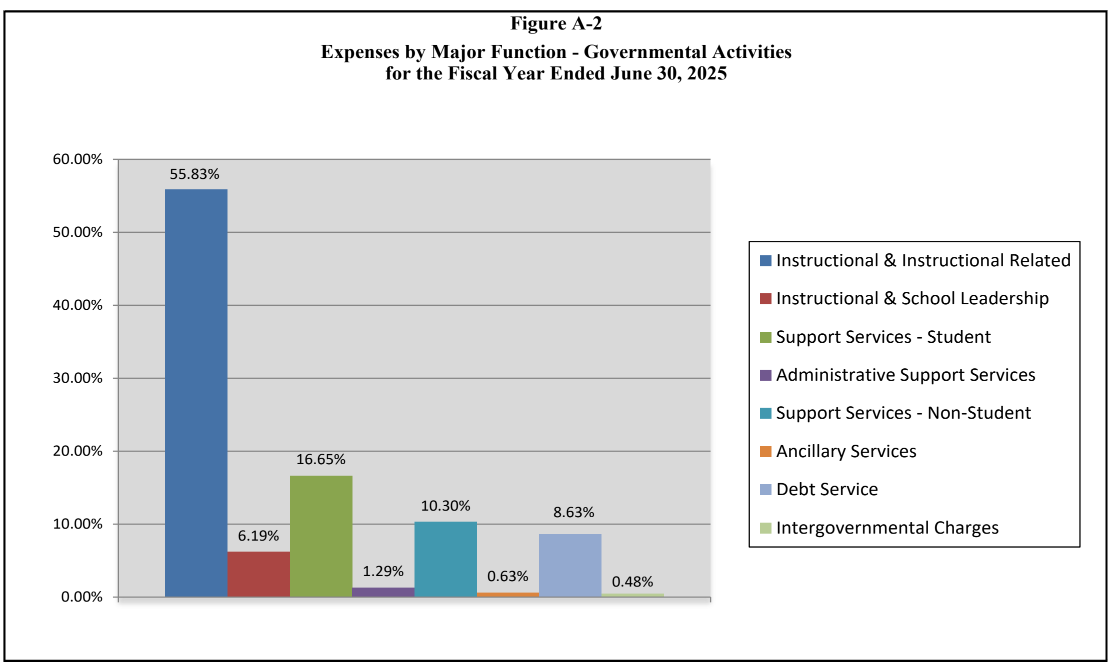
CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2025	2024	2025	2024	2025	2024
Revenues:						
Program Revenues:						
Charges for Services	$ 44,558,732	$ 42,769,269	$ 7,732,993	$ 6,964,365	$ 52,291,725	$ 49,733,634
Operating Grants and Contributions	209,719,457	340,382,840	-	-	209,719,457	340,382,840
General Revenues:						
Taxes:						
Property Taxes, Levied for General Purposes	478,177,888	442,358,773	-	-	478,177,888	442,358,773
Property Taxes, Levied for Debt Service	277,935,703	261,809,487	-	-	277,935,703	261,809,487
Investment Earnings	65,447,772	76,016,722	122,586	101,597	65,570,358	76,118,319
Grants and Contributions Not Restricted to Specific Programs	545,830,075	517,707,958	-	-	545,830,075	517,707,958
Miscellaneous	11,526,792	5,838,065	-	-	11,526,792	5,838,065
Total Revenues	**1,633,196,419**	**1,686,883,114**	**7,855,579**	**7,065,962**	**1,641,051,998**	**1,693,949,076**
Expenses:						
Instruction	852,256,838	902,831,947	-	-	852,256,838	902,831,947
Instructional Resources and Media Services	10,518,587	14,620,763	-	-	10,518,587	14,620,763
Curriculum and Instructional Staff Development	24,109,734	34,976,280	-	-	24,109,734	34,976,280
Instructional Leadership	13,808,647	15,747,748	-	-	13,808,647	15,747,748
School Leadership	84,493,739	82,939,025	-	-	84,493,739	82,939,025
Guidance, Counseling, and Evaluation Services	55,413,771	67,451,335	-	-	55,413,771	67,451,335
Social Work Services	839,219	1,426,179	-	-	839,219	1,426,179
Health Services	13,042,707	14,286,280	-	-	13,042,707	14,286,280
Student Transportation	54,620,949	54,383,880	-	-	54,620,949	54,383,880
Food Services	97,238,029	88,461,602	-	-	97,238,029	88,461,602
Cocurricular/Extracurricular Activities	43,275,458	43,610,448	-	-	43,275,458	43,610,448
General Administration	20,517,232	22,706,131	-	-	20,517,232	22,706,131
Plant Maintenance and Operations	94,062,153	91,282,513	-	-	94,062,153	91,282,513
Security and Monitoring Services	18,790,831	18,352,537	-	-	18,790,831	18,352,537
Data Processing Services	31,754,633	40,882,561	-	-	31,754,633	40,882,561
Community Services	9,950,263	10,736,789	-	-	9,950,263	10,736,789
Interest on Debt	132,377,185	136,346,391	-	-	132,377,185	136,346,391
Bond Issuance Costs and Fees	4,778,190	6,138,584	-	-	4,778,190	6,138,584
Facilities Repair and Maintenance	18,960,003	16,456,013	-	-	18,960,003	16,456,013
Payments to Fiscal Agents SSA	1,925,883	1,799,428	-	-	1,925,883	1,799,428
Payments to Juvenile Justice Alternative Education Programs	63,600	18,800	-	-	63,600	18,800
Other Intergovernmental Charges	5,745,204	6,375,038	-	-	5,745,204	6,375,038
Community Programs	-	-	5,377,471	5,523,916	5,377,471	5,523,916
Total Expenses	**1,588,542,855**	**1,671,830,272**	**5,377,471**	**5,523,916**	**1,593,920,326**	**1,677,354,188**
Increase (Decrease) in Net Position before Transfers	44,653,564	15,052,842	2,478,108	1,542,046	47,131,672	16,594,888
Transfers	-	1,400,000	-	(1,400,000)	-	-
Change in Net Position	44,653,564	16,452,842	2,478,108	142,046	47,131,672	16,594,888
Net Position (Deficit) - Beginning	(407,466,562)	(423,919,404)	993,330	851,284	(406,473,232)	(423,068,120)
Change in Accounting Principle- Implement GASB 101	(9,002,408)	-	-	-	(9,002,408)	-
Net Position (Deficit) - Beginning, as Restated	(416,468,970)	-	-	-	(415,475,640)	-
Net Positon (Deficit) - Ending	**$ (371,815,406)**	**$ (407,466,562)**	**$ 3,471,438**	**$ 993,330**	**$ (368,343,968)**	**$ (406,473,232)**

Revenues are generated primarily from two sources (see Figure A-1). Grants and contributions (program and general revenues totaling $755,549,532) represent 46 percent of total revenues and property taxes ($756,113,591) represent 46 percent of total revenues. The remaining 8 percent is generated from charges for services, investment earnings, and miscellaneous revenues. Operating grants and contributions decreased primarily due to the expiration of federal stimulus grants. Property taxes increased primarily due to an increase in property values and the adoption of two disaster pennies.



The District's expenses by major function are shown below (see Figure A-2). The primary functional expense of the District is instruction ($852,256,838), which represents 54 percent of total expenses. Interest on debt ($132,377,185) represents 8 percent of total expenses, food services ($97,238,029) and plant maintenance and operations ($94,062,153) represents 6 percent of total expenses, respectively. The remaining individual functional categories of expenses are each 5 percent or less of total expenses. The decrease in functional expenses is primarily due to the expiration of federal stimulus grants and budget reductions.



Business-type activities. Business-type activities increased net position by $2,478,108. The increase in business-type activities from the prior year is primarily due to increases in tuition and enrollment.

Financial Analysis of the Government's Funds
As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of $1,282,675,222, an increase of $31,891,233 in comparison with the prior year. The increase in ending governmental fund balances is primarily due to the increase in the capital projects fund balance. Of the combined ending fund balances, $455,084,990 constitutes unassigned fund balances. The remaining $827,590,232 is reserved to indicate that it is not available for spending because it has been identified as nonspendable, restricted, committed, or assigned for other purposes.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was $455,084,990, while total fund balance reached $549,582,155. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 39 percent of total general fund expenditures, while total fund balance represents 47 percent of that same amount.

The fund balance of the District's general fund decreased during the current fiscal year primarily due to the expiration of federal stimulus grants and inflation. Overall, the general fund's performance resulted in expenditures over revenues during the fiscal year ended June 30, 2025 of $11,101,835.

The debt service fund has a total fund balance of $169,988,302, all of which is restricted for the payment of debt service. The District makes semi-annual debt service payments in February and August of each year. Debt service payments on bonded indebtedness, including bond fees, for the year ended June 30, 2025 were $306,767,393. The net increase in fund balance of $12,394,297 relates to an increase in property values.

The capital projects fund has a total fund balance of $501,621,223, all of which is restricted for authorized construction, equipment of schools, buses, and technology projects. The net increase in fund balance during the current year of $34,913,652 was primarily due to interest earnings and the issuance of new bonds.

Proprietary funds. The District's proprietary fund financial statements reflect the District's internal service fund for workers' compensation and the District's enterprise fund for community programs. Net position in workers' compensation increased marginally due to a decrease in claims. The net change in assets of the internal service fund is eliminated and allocated to the governmental expenses in the government-wide financial statements. The increase in net position for the enterprise fund is primarily due to increases in tuition and enrollment.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

Estimated Revenues	
$ 28,380,751	Increase in local revenue due to the adoption of two disaster pennies, the receipt of E-rate funds, and higher than anticipated interest rates.
31,502,951	Increase in state revenue due to the adoption of two disaster pennies, favorable prior year property value audit, and accrual of state funds for Teacher Incentive Allotment.
(7,122,472)	Net decrease in federal revenue for School Health and Related Services (SHARS) revenue due to cost report adjustments and reduction of interim billings.
$ 52,761,230	***Total Estimated Revenues Increase***

Appropriations	
$ (9,370,158)	Net decrease in payroll costs for unfilled positions.
9,009,962	Net increase in contracted services due to increased occupational and physical therapy services, and upgrading the firewall.
13,659,485	Net increase in instructional software, previously recorded to instructional materials allotment and supplies and other operating costs due to inflation.
16,313,983	Increase due to reclassification of Subscription Based Information Technology Agreements (SBITA) due to GASB 96.
$ 29,613,272	***Total Estimated Appropriations Increase***

The review of the final amended budget versus actual for the general fund reflects that revenues were higher than budgetary estimates and expenditures were lower than budgetary estimates. At year end, actual revenues were more than final budgeted amounts by $7,108,441 primarily due to the receipt of fuel tax credits from the Internal Revenue Service and the accrual of state revenue for frozen tax value audit. Operating expenditures were $20,099,596 less than final budgeted amounts due to unfilled positions, and utilities and other supply costs being less than anticipated.

Capital Assets and Long-term Liabilities

Capital assets. The District's investment in capital assets for its governmental type activities as of June 30, 2025, amounts to $3,049,677,816 (net of accumulated depreciation and amortization). This investment in capital assets includes land, buildings and improvements, furniture and equipment, leases, subscriptions, and construction in progress. The total increase in the District's investment in capital assets for the current fiscal year was 5.5 percent.

Major capital asset events during the current fiscal year included the following:

- Extensive renovations and additions to existing facilities; and
- HVAC upgrades on high school natatoriums.

Construction commitments. The District has several active construction projects as of June 30, 2025. The projects include the renovation and equipment of school facilities. At year end, the District's remaining commitments with contractors totaled $274,607,244 for all ongoing projects.

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT'S CAPITAL ASSETS
(Net of Depreciation and Amortization)

	Governmental Activities	
	2025	**2024**
Land	$ 157,605,565	$ 157,605,565
Buildings and Improvements	2,504,574,738	2,481,741,384
Furniture and Equipment	103,411,619	102,119,647
Right-to-Use Subscriptions	11,757,053	1,741,510
Right-to-Use Leased Buildings	614,434	880,949
Right-to-Use Leased Equipment	2,134,312	2,791,029
Construction in Progress	269,580,095	144,376,169
Totals	**$ 3,049,677,816**	**$ 2,891,256,253**

Additional information on the District's capital assets can be found in Note III, item C of the notes to the financial statements.

Long-term liabilities. At the end of the current fiscal year, the District had total long-term liabilities outstanding of $4,585,762,946 within governmental activities. Of this amount, $3,815,360,353 comprises debt backed by the full faith and credit of the District, as further guaranteed by the Texas Permanent School Fund Guarantee Program, $3,982,965 is a liability for workers' compensation claims, $22,634,203 is a liability for rebatable arbitrage, $23,641,553 is a liability for compensated absences, $2,853,603 is a liability for leases, $238,143 is a liability for financed purchases, $10,271,757 is a liability for subscriptions, $431,534,266 is a liability for pensions, and $275,246,103 is a liability for OPEB.

The District's net bonded debt increased by $114,393,177 (3.1 percent) during the current fiscal year.

The District's bonds are sold with an "AAA" rating and are guaranteed through the Texas Permanent School Fund Bond Guarantee Program. The underlying rating of the bonds from S&P Global Ratings is "AA" and from Moody's Investor Services is "Aa1" for outstanding general obligation debt. These ratings are unchanged from the prior year.

The District's net pension liability (NPL) decreased by $59,218,229 primarily as a result of differences between projected and actual investment earnings and expected and actual actuarial experience. The net OPEB liability increased by $75,169,946 primarily as a result of differences between expected and actual actuarial experience and changes in actuarial assumptions.

The following table provides key pension and OPEB statistics from Teacher Retirement System as of and for the fiscal year ended June 30, 2025:

Summary of District Pension and OPEB Benefits Information

	Pension	**OPEB**	**Total**
Net Liability	$ 431,534,266	$ 275,246,103	$ 706,780,369
District Contributions*	63,307,790	(26,453,840)	36,853,950

* Excluding on-behalf expense paid by the State

Additional information on the District's long-term liabilities can be found in Note III, item E and Note IV, items C and D of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Tax Rates

The primary factors considered in preparing the District's budget for the 2025-26 fiscal year were preserving the quality of instruction and services, prioritizing student and staff safety, retaining and recruiting quality staff, maintaining financial position, and a conservative enrollment of 116,806. The Board of Trustees adopted a $45.5 million deficit budget for 2025-26, prior to utilizing fund balance accumulated in prior years, which provides a 4% raise for all non-teaching employees, an increase in the teacher starting salary from $63,000 to $65,000, increase in salary of $2,500 for teachers with one to two years of experience, increase in hourly employees and paraprofessionals starting pay to $15 per hour, and reinstating transportation routes reduced in the prior year. The budget also included the state-mandated teacher retention allotment which provided teachers with five or more years of experience a salary increase of $5,000 and teachers with three to four years of experience a salary increase of $2,500. In addition to the teacher retention allotment, teachers also received step adjustments that averaged to salary increases between 4% and 8%.

The District's tax rate will decrease by two pennies to $1.0669 per $100 of assessed value for the 2025-26 fiscal year. The total tax rate includes a maintenance and operations tax rate of $0.6669 and an interest and sinking tax rate of $0.40. Property values are expected to decrease as the result of the 89th Texas Legislative Session which provided for a proposed additional state homestead exemption of $40,000 and a proposed additional over-65 exemption of $50,000 (ballot measure in November 2025).

Despite challenges, the state of the District is strong because of the dedicated leadership provided by its Board of Trustees, committed staff members, students who take pride in their education, and community members who promote high standards and show tremendous support for the District. The District continues to be recognized for operating efficiently to maximize benefits that flow to students and accommodate student enrollment growth.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Assistant Superintendent of Business and Financial Services, Cypress-Fairbanks Independent School District, 11440 Matzke Road, Cypress, Texas, 77429.

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BASIC FINANCIAL STATEMENTS

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

JUNE 30, 2025

Data Control Codes		Primary Government Governmental Activities	Business-type Activities	Total
	ASSETS			
1110	Cash and Cash Equivalents	$ 536,376	$ 21,262	$ 557,638
1120	Current Investments	1,310,700,505	3,656,442	1,314,356,947
1225	Property Taxes Receivable (Net of allowance for uncollectibles)	32,449,434	-	32,449,434
1240	Due from Other Governments	194,363,787	-	194,363,787
1250	Accrued Interest	595,185	-	595,185
1260	Internal Balances	21,934	(21,934)	-
1290	Other Receivables	703,052	-	703,052
1293	Lease Receivable	7,394,583	-	7,394,583
1300	Inventories, at Cost	9,255,689	-	9,255,689
	Capital Assets, Not Being Depreciated or Amortized:			
1510	Land	157,605,565	-	157,605,565
1580	Construction in Progress	269,580,095	-	269,580,095
	Capital Assets, Net of Accumulated Depreciation and Amortization:			
1520	Buildings and Improvements	2,504,574,738	-	2,504,574,738
1530	Furniture and Equipment	103,411,619	-	103,411,619
1553	Right-to-Use-Subscriptions	11,757,053	126,085	11,883,138
1551	Right-to-Use Leased Buildings	614,434	-	614,434
1559	Right-to-Use Leased Equipment	2,134,312	-	2,134,312
1000	Total Assets	4,605,698,361	3,781,855	4,609,480,216
	DEFERRED OUTFLOWS OF RESOURCES			
1705	Deferred Outflows - Pension	94,835,765	-	94,835,765
1706	Deferred Outflows - OPEB	121,944,850	-	121,944,850
1710	Deferred Charge on Refunding	5,660,734	-	5,660,734
1700	Total Deferred Outflows of Resources	222,441,349	-	222,441,349
	LIABILITIES			
2110	Accounts Payable	89,456,986	476	89,457,462
2140	Accrued Interest Payable	56,336,483	-	56,336,483
2160	Accrued Wages Payable	137,698,821	173,741	137,872,562
2180	Due to Other Governments	3,643,655	-	3,643,655
2300	Unearned Revenue	72,904	-	72,904
	Noncurrent Liabilities:			
2501	Due within one year	179,766,335	44,493	179,810,828
2502	Due in more than one year	3,699,216,242	91,707	3,699,307,949
2540	Net Pension Liability	431,534,266	-	431,534,266
2545	Net OPEB Liability	275,246,103	-	275,246,103
2000	Total Liabilities	4,872,971,795	310,417	4,873,282,212
	DEFERRED INFLOWS OF RESOURCES			
2604	Deferred Inflows - Leases	6,815,867	-	6,815,867
2605	Deferred Inflows - Pension	12,725,554	-	12,725,554
2606	Deferred Inflows - OPEB	233,248,150	-	233,248,150
2610	Deferred Gain on Refunding	74,193,750	-	74,193,750
2600	Total Deferred Inflows of Resources	326,983,321	-	326,983,321
	NET POSITION (DEFICIT)			
3200	Net Investment in Capital Assets	232,236,987	(10,115)	232,226,872
3820	Restricted for Grants - Education	954,016	-	954,016
3821	Restricted for Grants - Nutrition	47,447,131	-	47,447,131
3822	Restricted for Grants - Health	133,556	-	133,556
3850	Restricted for Debt Service	123,899,360	-	123,899,360
3900	Unrestricted	(776,486,456)	3,481,553	(773,004,903)
3000	**Total Net Position (Deficit)**	**$ (371,815,406)**	**$ 3,471,438**	**$ (368,343,968)**

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

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT

Exhibit A-2

STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Data Control Codes	Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities	Net (Expense) Revenue and Changes in Net Position: Business-type Activities	Net (Expense) Revenue and Changes in Net Position: Total
	Primary Government:						
	Governmental Activities:						
0011	Instruction	$ 852,256,838	$ 24,280,584	$ 70,431,312	$ (757,544,942)	$ -	$ (757,544,942)
0012	Instructional Resources and Media Services	10,518,587	-	353,984	(10,164,603)	-	(10,164,603)
0013	Curriculum and Instructional Staff Development	24,109,734	-	1,640,330	(22,469,404)	-	(22,469,404)
0021	Instructional Leadership	13,808,647	-	968,132	(12,840,515)	-	(12,840,515)
0023	School Leadership	84,493,739	-	4,653,473	(79,840,266)	-	(79,840,266)
0031	Guidance, Counseling, and Evaluation Services	55,413,771	-	3,996,815	(51,416,956)	-	(51,416,956)
0032	Social Work Services	839,219	-	57,644	(781,575)	-	(781,575)
0033	Health Services	13,042,707	-	953,013	(12,089,694)	-	(12,089,694)
0034	Student Transportation	54,620,949	-	3,433,326	(51,187,623)	-	(51,187,623)
0035	Food Services	97,238,029	13,767,358	72,450,362	(11,020,309)	-	(11,020,309)
0036	Cocurricular/Extracurricular Activities	43,275,458	2,979,842	2,630,176	(37,665,440)	-	(37,665,440)
0041	General Administration	20,517,232	-	1,417,037	(19,100,195)	-	(19,100,195)
0051	Plant Maintenance and Operations	94,062,153	3,530,948	6,526,474	(84,004,731)	-	(84,004,731)
0052	Security and Monitoring Services	18,790,831	-	1,283,013	(17,507,818)	-	(17,507,818)
0053	Data Processing Services	31,754,633	-	3,787,319	(27,967,314)	-	(27,967,314)
0061	Community Services	9,950,263	-	1,133,572	(8,816,691)	-	(8,816,691)
0072	Interest on Debt	132,377,185	-	34,003,475	(98,373,710)	-	(98,373,710)
0073	Bond Issuance Costs and Fees	4,778,190	-	-	(4,778,190)	-	(4,778,190)
0081	Facilities Repair and Maintenance	18,960,003	-	-	(18,960,003)	-	(18,960,003)
0093	Payments to Fiscal Agents SSA	1,925,883	-	-	(1,925,883)	-	(1,925,883)
0095	Payments to Juvenile Justice Alternative Education Programs	63,600	-	-	(63,600)	-	(63,600)
0099	Other Intergovernmental Charges	5,745,204	-	-	(5,745,204)	-	(5,745,204)
TG	Total Governmental Activities	1,588,542,855	44,558,732	209,719,457	(1,334,264,666)	-	(1,334,264,666)
0001	Business-type Activities:						
	Community Programs	5,377,471	7,732,993	-	-	2,355,522	2,355,522
TP	**Total Primary Government**	**$ 1,593,920,326**	**$ 52,291,725**	**$ 209,719,457**	(1,334,264,666)	2,355,522	(1,331,909,144)
	General Revenues:						
MT	Property Taxes, Levied for General Purposes				478,177,888	-	478,177,888
DT	Property Taxes, Levied for Debt Service				277,935,703	-	277,935,703
IE	Investment Earnings				65,447,772	122,586	65,570,358
GC	Grants and Contributions Not Restricted to Specific Programs				545,830,075	-	545,830,075
MI	Miscellaneous				11,526,792	-	11,526,792
TR	Total General Revenues				1,378,918,230	122,586	1,379,040,816
CN	Change in Net Position				44,653,564	2,478,108	47,131,672
NB	Net Position (Deficit) - Beginning				(407,466,562)	993,330	(406,473,232)
PA	Change in Accounting Principle - Implement GASB 101				(9,002,408)	-	(9,002,408)
	Net Position (Deficit) - Beginning, as Restated				(416,468,970)	-	(415,475,640)
NE	**Net Position (Deficit) - Ending**				**$ (371,815,406)**	**$ 3,471,438**	**$ (368,343,968)**

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

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2025

Data Control Codes		General	Debt Service
	ASSETS		
1120	Current Investments	$ 551,210,848	$ 169,574,893
1225	Property Taxes Receivable (net of allowance for uncollectibles)	21,660,735	10,788,699
1240	Due from Other Governments	175,693,892	-
1250	Accrued Interest	595,185	-
1260	Due from Other Funds	9,944,708	244,697
1290	Other Receivables	670,163	-
1293	Lease Receivable	7,394,583	-
1300	Inventories, at Cost	4,707,161	-
1000	**Total Assets**	**$ 771,877,275**	**$ 180,608,289**
	LIABILITIES		
2110	Accounts Payable	$ 56,220,013	$ -
2160	Accrued Wages Payable	129,553,121	-
2170	Due to Other Funds	5,816,002	-
2180	Due to Other Governments	3,271,209	372,446
2300	Unearned Revenues	-	-
2000	Total Liabilities	194,860,345	372,446
	DEFERRED INFLOWS OF RESOURCES		
2600	Unavailable Revenue - Property Taxes	20,618,908	10,247,541
2604	Deferred Inflows - Leases	6,815,867	-
	Total Deferred Inflows of Resources	27,434,775	10,247,541
	FUND BALANCES		
	Nonspendable:		
3410	Inventory	4,707,161	-
	Restricted For:		
3480	Debt Service	-	169,988,302
3450	Grants - Education	-	-
3451	Grants - Nutrition	-	-
3452	Grants - Health	-	-
3470	Construction Projects	-	-
	Committed To:		
3545	Campus Activities	-	-
3546	Self-Funded Workers' Compensation	4,835,902	-
3546	Self-Funded Unemployment Benefits	440,314	-
3546	Self-Funded Insurance Plans	881,478	-
	Assigned To:		
3590	Purchases on Order	10,518,463	-
3590	Future Appropriations over Estimated Revenues	45,472,853	-
3590	Other Purposes	27,640,994	-
3600	Unassigned:	455,084,990	-
3000	Total Fund Balances	549,582,155	169,988,302
4000	**Total Liabilities, Deferred Inflows of Resources, and Fund Balances**	**$ 771,877,275**	**$ 180,608,289**

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

Capital Projects	Nonmajor Other Governmental	Total Governmental Funds
$ 529,737,123	$ 55,923,376	$ 1,306,446,240
-	-	32,449,434
-	18,669,895	194,363,787
-	-	595,185
2,445,828	3,629,724	16,264,957
-	32,889	703,052
-	-	7,394,583
-	4,548,528	9,255,689
$ 532,182,951	**$ 82,804,412**	**$ 1,567,472,927**
$ 30,555,913	$ 2,681,060	$ 89,456,986
-	8,145,700	137,698,821
5,815	10,421,206	16,243,023
-	-	3,643,655
-	72,904	72,904
30,561,728	21,320,870	247,115,389
-	-	30,866,449
-	-	6,815,867
-	-	37,682,316
-	-	4,707,161
-	-	169,988,302
-	954,016	954,016
-	47,447,131	47,447,131
-	133,556	133,556
501,621,223	-	501,621,223
-	12,948,839	12,948,839
-	-	4,835,902
-	-	440,314
-	-	881,478
-	-	10,518,463
-	-	45,472,853
-	-	27,640,994
-	-	455,084,990
501,621,223	61,483,542	1,282,675,222
$ 532,182,951	**$ 82,804,412**	**$ 1,567,472,927**

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CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
JUNE 30, 2025

Total Fund Balances - Governmental Funds (Exhibit B-1)		$ 1,282,675,222
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental Capital Assets Costs	$ 4,819,425,544	
Accumulated Depreciation and Amortization of Governmental Capital Assets	(1,769,747,728)	3,049,677,816
Property taxes receivable, which will be collected subsequent to year-end, but are not available soon enough to pay expenditures and, therefore, are deferred in the funds.		30,866,449
Long-term liabilities, including bonds payable, rebatable arbitrage, compensated absences, leases, financed purchases, subscriptions, and net pension and OPEB liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities and deferred charges and gains at year end related to such items consist of:		
Bonds Payable, at Original Par	$ (3,484,020,000)	
Premiums, net of discounts, on Bonds Payable	(331,340,353)	
Deferred Charge on Refunding	5,660,734	
Deferred Gain on Refunding	(74,193,750)	
Accrued Interest on Bonds	(56,336,483)	
Rebatable Arbitrage	(22,634,203)	
Compensated Absences	(23,641,553)	
Leases Payable	(2,853,603)	
Financed Purchases	(238,143)	
Subscriptions Payable	(10,271,757)	
Net Pension Liability	(431,534,266)	
Net OPEB Liability	(275,246,103)	(4,706,649,480)
Deferred outflows of resources for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until that time.		94,835,765
Deferred inflows of resources for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(12,725,554)
Deferred outflows of resources for OPEB represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until that time.		121,944,850
Deferred inflows of resources for OPEB represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.		(233,248,150)
The internal service fund is used by the District to charge the costs of workers' compensation to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		
Workers' Compensation Fund		807,676
Total Net Position (Deficit) - Governmental Activities (Exhibit A-1)		**$ (371,815,406)**

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

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Data Control Codes		General	Debt Service
	REVENUES		
5700	Local, Intermediate, and Out-of-State	$ 527,979,310	$ 282,486,549
5800	State Programs	608,344,216	33,828,677
5900	Federal Programs	9,849,901	174,798
5020	Total Revenues	1,146,173,427	316,490,024
	EXPENDITURES		
	Current:		
0011	Instruction	753,610,403	-
0012	Instructional Resources and Media Services	5,026,323	-
0013	Curriculum and Instructional Staff Development	9,198,550	-
0021	Instructional Leadership	8,913,909	-
0023	School Leadership	66,081,666	-
0031	Guidance, Counseling, and Evaluation Services	51,357,367	-
0032	Social Work Services	734,161	-
0033	Health Services	12,935,187	-
0034	Student Transportation	47,601,416	-
0035	Food Services	-	-
0036	Cocurricular/Extracurricular Activities	24,342,444	-
0041	General Administration	18,268,204	-
0051	Plant Maintenance and Operations	92,306,050	-
0052	Security and Monitoring Services	17,418,952	-
0053	Data Processing Services	40,103,124	-
0061	Community Services	9,822,517	-
	Debt Service:		
0071	Principal on Long-term Debt	7,524,307	157,295,000
0072	Interest on Debt	339,413	146,783,906
0073	Bond Issuance Costs and Fees	214,395	2,688,487
	Capital Outlay:		
0081	Facilities Acquisition and Construction	258,746	-
	Intergovernmental:		
0093	Payments to Fiscal Agents SSA	1,925,883	-
0095	Payments to Juvenile Justice Alternative Education Programs	63,600	-
0099	Other Intergovernmental Charges	5,745,204	-
6030	Total Expenditures	1,173,791,821	306,767,393
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(27,618,394)	9,722,631
	OTHER FINANCING SOURCES (USES)		
7911	Issuance of Bonds	-	-
7912	Sale of Real and Personal Property	511,878	-
7913	Leases and Subscriptions	16,004,681	-
7916	Premium from Issuance of Bonds	-	38,776,008
7901	Issuance of Refunding Bonds	-	395,800,000
8940	Payment to Refunded Bonds Escrow Agent	-	(431,904,342)
7080	Total Other Financing Sources (Uses)	16,516,559	2,671,666
1200	Net Change in Fund Balances	(11,101,835)	12,394,297
0100	Fund Balances - Beginning	560,683,990	157,594,005
3000	**Fund Balances - Ending**	**$ 549,582,155**	**$ 169,988,302**

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

Capital Projects	Nonmajor Other Governmental	Total Governmental Funds
$ 28,303,063	$ 33,956,724	$ 872,725,646
-	22,546,652	664,719,545
-	130,436,072	140,460,771
28,303,063	186,939,448	1,677,905,962
7,164,080	66,422,777	827,197,260
-	96,978	5,123,301
-	14,542,338	23,740,888
-	5,098,097	14,012,006
-	1,269,131	67,350,797
-	6,489,144	57,846,511
-	100,138	834,299
-	857,995	13,793,182
2,034,020	55,878	49,691,314
-	87,273,380	87,273,380
-	79,515	24,421,959
80,076	38,725	18,387,005
3,250,120	1,189,926	96,746,096
950,243	200,148	18,569,343
14,711,620	-	54,814,744
-	1,212,150	11,034,667
-	-	164,819,307
-	-	147,123,319
2,089,699	-	4,992,581
280,199,252	6,475,496	286,933,494
-	-	1,925,883
-	-	63,600
-	-	5,745,204
310,479,110	191,401,816	1,982,440,140
(282,176,047)	(4,462,368)	(304,534,178)
292,535,000	-	292,535,000
-	147,487	659,365
-	-	16,004,681
24,554,699	-	63,330,707
-	-	395,800,000
-	-	(431,904,342)
317,089,699	147,487	336,425,411
34,913,652	(4,314,881)	31,891,233
466,707,571	65,798,423	1,250,783,989
$ 501,621,223	**$ 61,483,542**	**$ 1,282,675,222**

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT

Exhibit B-2R

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Total Net Change in Fund Balances - Governmental Funds (Exhibit B-2)		$ 31,891,233
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation and amortization expense.		
Capital Assets increased	$ 303,733,137	
Depreciation and Amortization Expense	(145,311,574)	158,421,563
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased by this amount this year.		4,134,498
Issuance of long-term debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.		
Bonds Payable/Par Value	$ (688,335,000)	
Bonds Payable Premium	(63,330,707)	
Subscriptions Issued	(16,004,681)	(767,670,388)
Payment to the escrow agent to refund bonds from refunding proceeds reduces long-term liabilities.		431,904,342
Repayment of principal on long-term debt, leases, financed purchases, and subscriptions payable is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		
Bond Principal	$ 157,295,000	
Leases, Financed Purchases, and Subscriptions	7,524,307	164,819,307
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The decrease in interest reported in the statement of activities consists of the following:		
Accrued Interest on Bonds Payable increased	$ (3,217,333)	
Amortization of Bond Premium	20,896,219	
Amortization of Deferred Gain on Refunding	5,393,291	
Amortization of Deferred Charge on Refunding	(448,080)	
Rebatable Arbitrage	(7,663,569)	14,960,528
The net increase in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds.		(3,567,884)
The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities, but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred Outflows decreased	$ (94,005,469)	
Deferred Inflows decreased	9,789,909	
Net Pension Liability decreased	59,218,229	(24,997,331)
The net change in net OPEB liability, deferred outflows, and deferred inflows is reported in the statement of activities, but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:		
Deferred Outflows increased	$ 45,238,059	
Deferred Inflows decreased	64,186,610	
Net OPEB Liability increased	(75,169,946)	34,254,723
An internal service fund is used by the District to charge the costs of workers' compensation to the individual funds. The change in net position of the following internal service fund is reported in the government-wide statements:		
Workers' Compensation Fund		502,973
Change in Net Position for Governmental Activities (Exhibit A-2)		**$ 44,653,564**

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

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT

Exhibit C-1

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30. 2025

Data Control Codes		Business-type Activities Enterprise Fund Community Programs	Governmental Activities Internal Service Fund Workers' Compensation
	ASSETS		
	Current Assets:		
1110	Cash and Cash Equivalents	$ 21,262	$ 536,376
1120	Current Investments	3,656,442	4,254,265
	Total Current Assets	3,677,704	4,790,641
	Capital Assets, Net of Accumulated Amortization:		
1553	Right-to-Use-Subscriptions	126,085	-
	Total Capital Assets, Net of Accumulated Amortization	126,085	-
1000	Total Assets	3,803,789	4,790,641
	LIABILITIES		
	Current Liabilities:		
2110	Accounts Payable	476	-
2123	Claims Payable - Due within one year	-	2,239,156
2131	Subscriptions Payable - Due within one year	44,493	-
2160	Accrued Wages Payable	173,741	-
2170	Due to Other Funds	21,934	-
	Total Current Liabilities	240,644	2,239,156
	Noncurrent Liabilities:		
2130	Subscriptions Payable - Due in more than one year	91,707	-
2590	Claims Payable - Due in more than one year	-	1,743,809
	Total Noncurrent Liabilities	91,707	1,743,809
2000	Total Liabilities	332,351	3,982,965
	NET POSITION		
3200	Net Investment in Capital Assets (Deficit)	(10,115)	-
3900	Unrestricted	3,481,553	807,676
3000	**Total Net Position**	**$ 3,471,438**	**$ 807,676**

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

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Data Control Codes		Business-type Activities Enterprise Fund Community Programs	Governmental Activities Internal Service Fund Workers' Compensation
	OPERATING REVENUES		
5700	Charges for Services	$ 7,732,993	$ -
5700	Contributions from Employer	-	2,428,705
5020	Total Operating Revenues	7,732,993	2,428,705
	OPERATING EXPENSES		
6100	Payroll Costs	4,562,361	66,050
6200	Purchased and Contracted Services	339,486	-
6300	Supplies and Materials	80,675	-
6400	Other Operating Expenses	346,714	2,056,052
6449	Amortization Expense	44,595	-
6030	Total Operating Expenses	5,373,831	2,122,102
1200	Operating Income	2,359,162	306,603
	NONOPERATING REVENUES (EXPENSES)		
7000	Investment Earnings	122,586	196,370
6500	Interest Expense	(3,640)	-
7950	Total Nonoperating Revenues (Expenses)	118,946	196,370
1300	Change in Net Position	2,478,108	502,973
0100	Net Position - Beginning	993,330	304,703
3000	**Net Position - Ending**	**$ 3,471,438**	**$ 807,676**

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

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT **Exhibit C-3**

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	Business-type Activities — Enterprise Fund Community Programs	Governmental Activities — Internal Service Fund Workers' Compensation
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Services Provided	$ 6,349,452	$ 2,428,705
Cash Payments for Claims	-	(2,688,408)
Cash Payments for Goods and Services	(766,529)	-
Cash Payments for Employees	(4,532,775)	(66,050)
Net Cash Provided (Used) for Operating Activities	1,050,148	(325,753)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments for Subscription Liabilities	(38,998)	-
Interest Payments for Subscription Liabilities	(3,640)	-
Net Cash Used for Capital and Related Financing Activities	(42,638)	-
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and Dividends Received on Investments	122,586	196,370
Sale (Purchase) of Investments	(1,163,655)	144,995
Net Cash Provided (Used) by Investing Activities	(1,041,069)	341,365
Net Increase (Decrease) in Cash and Cash Equivalents	(33,559)	15,612
Cash and Cash Equivalents at Beginning of Year	54,821	520,764
Cash and Cash Equivalents at End of Year	$ **21,262**	$ **536,376**
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) FOR OPERATING ACTIVITIES:		
Operating Income	$ 2,359,162	$ 306,603
Amortization Expense	44,595	-
Change in Assets and Liabilities:		
Increase (Decrease) in Accounts Payable/Claims Payable	346	(632,356)
Increase in Accrued Wages Payable	29,586	-
Decrease in Due to Other Funds	(1,383,541)	-
Net Cash Provided (Used) for Operating Activities	$ **1,050,148**	$ **(325,753)**

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

CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT **Exhibit D-1**

STATEMENT OF NET POSITION

FIDUCIARY FUND

JUNE 30, 2025

Data Control Codes		Custodial Fund
	ASSETS	
1110	Cash and Cash Equivalents	$ 54,840
1120	Current Investments	6,150,534
1290	Other Receivables	796
1000	**Total Assets**	**6,206,170**
	LIABILITIES	
2110	Accounts Payable	440,809
2000	**Total Liabilities**	**440,809**
	NET POSITION	
3800	Restricted for Student Clubs and Organizations	5,472,953
3800	Restricted for Staff Groups	292,408
	Total Net Position	**$ 5,765,361**

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

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

Data Control Codes		Custodial Fund
	ADDITIONS	
	Dues and Contributions:	
5700	Student Clubs and Organizations	$ 5,922,571
5700	Staff Groups	316,430
5020	Total Dues and Contributions	6,239,001
	Investment Earnings:	
7000	Interest	291,173
7950	Total Investment Earnings	291,173
	Total Additions	6,530,174
	DEDUCTIONS	
6400	Miscellaneous Operating Expenses	6,123,772
	Total Deductions	6,123,772
	Net Increase in Fiduciary Net Position	406,402
NB	Net Position - Beginning	5,358,959
NE	**Net Position - Ending**	**$ 5,765,361**

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

I. Summary of Significant Accounting Policies

A. Reporting Entity

The Cypress-Fairbanks Independent School District (the District) is governed by a seven-member Board of Trustees (Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the operations of the District. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

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

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. As a general rule, the effect of interfund activity has been removed from these statements. Direct expenses are not eliminated from the various functional categories. Interfund services that are provided and used are not eliminated in the process of consolidation. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Depreciation expense, amortization expense, and workers' compensation claims have been allocated to all applicable functions in order to present the expenses of the District more accurately in the statement of activities. *Program revenues* include 1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Where applicable, certain indirect costs are included in program expenses reported for individual functions and activities. Taxes and other items not properly included among program revenues are reported instead as *general revenues.*

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The accounting policies of the District comply with the rules prescribed in the Texas Education Agency's (TEA) *Financial Accountability System Resource Guide*. These accounting policies conform to generally accepted accounting principles (GAAP) applicable to state and local governments.

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

The fiduciary fund financial statements reflect the District's custodial fund. Because the District acts as custodian for this fund, it is not included in the government-wide financial statements and income cannot be used for the District's operations.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers property tax revenues and all other revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to pension liability, OPEB liability, compensated absences, leases, financed purchases, subscriptions, and claims and judgments, are recorded only when payment is due.

Grant and similar revenues, revenues received from the State of Texas, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District's accounting system is organized and operated on the basis of funds, each of which is a separate accounting entity with a self-balancing set of accounts. The District's resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the schools except for programs funded by certain local, state and federal sources, school construction and debt service.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds. The primary revenue source is local property taxes levied specifically for debt service.

The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for acquiring school sites; constructing, renovating and equipping District facilities; purchasing buses; and technology projects and enhancements.

The District reports the following nonmajor governmental funds:

The *special revenue funds* account for the District's National School Breakfast and Lunch Program, Campus Activity Funds and all federal, state and locally funded grants. These grants are awarded to the District for the purpose of accomplishing specific educational tasks as defined in the grant awards.

The District reports the following proprietary fund types:

The *internal service fund* accounts for the District's workers' compensation plan, which is supported principally by District contributions.

The *enterprise fund* accounts for the District's operation of a before and after school care program and summer programs (Community Programs). This fund is supported principally by revenues generated through program fees.

The District reports the following fiduciary fund type:

The *custodial fund* is used to account for assets held by the District as custodian for student clubs and organizations and staff groups. The funds being custodial in nature are not used for the District's operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services that are provided and used are not eliminated in the process of consolidation.

Amounts reported as *program revenues* include 1) charges to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes, investment income, and grants and contributions not restricted to specific programs.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the fund for workers' compensation. Operating expenses for the internal service fund includes the cost of claims and administrative expenses. The principal operating revenues of the District's enterprise fund are fees charged for before and after school care for elementary students and summer programs for all students of the District who elect to participate in the community programs. Operating expenses of the enterprise fund include the cost of payroll, contracted services, supplies, and other miscellaneous operating costs to run the program. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses for the internal service fund and the enterprise fund.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balances

1. Deposits and Investments
The District's cash and cash equivalents are considered to be cash on hand and demand deposits with original maturities of three months or less from date of acquisition.

Investments for the District, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or fair value.

2. Receivables and Payables
Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Property tax receivables include unpaid property taxes at year-end and are shown net of an allowance for uncollectibles. Net property tax receivables are stated at the amount estimated to be collectible based on the District's collection experience. Revenues from property taxes are recognized when levied to the extent they are available (collected within 60 days after the close of the fiscal year). However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements.

Property values are determined by the Harris Central Appraisal District as of January 1 of each year. Prior to July 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year. Delinquent taxes collected are prorated between the general fund and the debt service fund based on rates adopted for the year of the levy. Deferred inflows of resources are recorded in an amount equal to the net taxes receivable less subsequent 60-day collection at the fund level.

3. Inventories and Prepaid Items

Inventories consisting of supplies and materials are valued at weighted average cost when an item is purchased and are subsequently recognized as expenditures when consumed. A portion of fund balance is reported as nonspendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Food service commodities, personal protective equipment (PPE) inventory, and transportation and maintenance supplies are charged to expenditures when received or purchased. Food service commodities and PPE inventory are recorded at fair market value on the date received. Commodities and PPE inventory are recognized as revenues in the period received when all the eligibility requirements are met.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide and proprietary fund financial statements and reported as an expense when consumed rather than when purchased. In the governmental funds, prepaid expenditures are recorded as an expenditure when purchased rather than when consumed.

4. Capital Assets

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment, right-to-use buildings, equipment, and subscriptions, and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the government-wide and proprietary fund financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds $5,000 with a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

Assets	Years
Buildings and Improvements	10-40
Furniture and Equipment	3-15

Land and construction in progress are not depreciated. Right-to-use assets are amortized over the shorter of the duration of the lease/subscription or the useful life using the straight-line method.

5. Compensated Absences

The District recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled (for example paid in cash to the employee or payment to an employee benefit account) during or upon separation from employment. Based on the criteria listed, the following types of leave qualify for liability recognition for compensated absences – state leave, local leave and vacation leave. The liability for compensated absences is reported as incurred in the government-wide financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

State Personal Leave

The District is required under Texas Education Code 22.003 to provide eligible employees with a minimum of five days of personal leave per year (state leave) with no limit on accumulation and no restrictions on transfer between Districts. State leave benefits are eligible for payment upon retirement, with limitations.

Local Leave

The District's policy provides eligible employees with five days of local personal leave per year (local leave) with no limit on accumulation. Local leave benefits are eligible for payment upon retirement, with limitations.

Vacation

The District's policy permits employees to accumulate earned but unused vacation benefits, with limits on accumulation. Vacation benefits are eligible for payment upon separation from employment, with limitations.

A liability for the estimated value of leave benefits that will be paid upon separation of service or used by employees as time off is included in the liability for compensated absences.

6. Long-term Obligations

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

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.

7. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until that time. *Deferred inflows of resources* represent an acquisition of net assets that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension and OPEB activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and OPEB plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.
- District contributions to the pension and OPEB plans after the measurement date are recognized in the subsequent year.
- Deferred inflows from leases are adjusted over the life of the lease by the current portion of the principal received.

8. Net Position Flow Assumptions

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

9. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). It is the District's policy to use restricted resources first, then unrestricted resources as they are needed. In order to calculate the amounts to report as unrestricted (committed, assigned, and unassigned) fund balance in the governmental funds financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The District considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any unrestricted fund balance classification could be used.

10. Fund Balance Policies

In the fund financial statements, governmental funds report fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which the amounts in the respective governmental funds can be spent. Per Board policy, the District shall maintain a balance in the general fund equal to at least 25 percent of its general operating expenditures, excluding any nonspendable fund balance. The District reports the following classifications of fund balance:

The *nonspendable* classification accounts for amounts that are not in spendable form. The amounts reported in this category pertain to inventories that the District does not expect to convert to cash.

The *restricted* classification accounts for amounts that have external constraints imposed upon the use of the resources by bondholders, grantors, laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The amounts reported in this category include funding from external sources such as state and federal grants, tax levies for the repayment of principal and interest on long-term debt, and unspent bond proceeds for the construction and equipment of school facilities.

The *committed* classification accounts for amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board. These amounts can only be used for the purpose intended, which requires formal Board action by passage of a resolution to establish (as noted in

Board minutes), unless the Board modifies or removes the specified use by taking the same formal Board action. The amounts reported in this category include the campus activity fund balances in the special revenue fund and self-funded workers' compensation, unemployment benefits, and insurance plans in the general fund.

The *assigned* classification accounts for amounts that the District intends to use for a specific purpose. Pursuant to Board Policy CE Local, the Board delegates to the Superintendent or designee the responsibility to assign funds. The amounts reported in this category include outstanding encumbrances at the end of the fiscal year and future appropriations over estimated revenues. Also included in this category is other purposes which includes the District's cost of insurance deductibles, operating cost of future school buildings, and the liability for compensated absences.

The *unassigned* classification accounts for the residual amount in the general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount.

11. Leases

Lessee

The District is a lessee for noncancelable leases of property and equipment. The District recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset, reported with other capital assets, in the government-wide financial statements. The District recognizes lease liabilities with an initial individual value of $5,000 or more.

At the commencement of a lease, the District measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments. The lease asset is initially measured at the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

Key estimates and judgements related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.
- Lease payments included in the measurement of the liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, purchase option price that the District is reasonably certain to exercise, lease incentives receivable from the lessor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The District has entered into multiple lease agreements as lessee. The leases allow the right to use buildings/infrastructure/equipment over the terms of the lease. The District is required to make monthly payments at its incremental borrowing rate or interest rate stated or implied within the leases. The lease rate, term and ending lease liabilities are as follows:

Leases Payable
Governmental Activities - Lessee

	Interest Rates	Lease Term in Months		Ending Balance
Buildngs/Infrastructure	0.648% - 1.664%	10 - 91	$	661,811
Other Equipment	3.451%	38		2,191,792
Total Governmental Activities			$	**2,853,603**

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability. As of June 30, 2025, the schedule of lease payments is as follows:

Principal and Interest Requirements to Maturity
Governmental Activities - Lessee

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2026	$ 880,621	$ 73,652	$ 954,273
2027	732,630	49,393	782,023
2028	757,193	24,830	782,023
2029	240,978	5,626	246,604
2030	64,592	3,539	68,131
2031-2033	177,589	4,092	181,681
Total Requirements	$ **2,853,603**	$ **161,132**	$ **3,014,735**

<u>Lessor</u>
The District is a lessor for noncancelable leases of property and equipment. The District recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the District initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments. The deferred inflow of resources is initially measured at the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term. The District has $7,394,583 remaining in lease receivables and $6,815,867 remaining in deferred inflows as of June 30, 2025. The District recorded lease revenue including interest of $390,902 in the fiscal year.

Key estimates and judgements related to leases include how the District determines (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The District uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancelable period of the lease.
- Lease payments included in the measurement of the lease receivable are composed of fixed payments from the lessee, variable payments from the lessee that are fixed in substance or that depend on an index or a rate, residual value guarantee payments from the lessee that are fixed in substance, and any lease incentives that are payable to the lessee.

The District has entered into multiple lease agreements as lessor. The leases allow the lessee the right-to-use cell towers and District sites over the terms of the lease. The District receives monthly payments at its incremental borrowing rate or interest rate stated or implied within the leases. The lease rate, terms and ending lease receivables are as follows:

Leases Receivable
Governmental Activities - Lessor

	Interest Rates	Lease Term in Months	Ending Balance
Cell Towers	0.250% - 2.405%	36 - 301	$ 7,337,176
Site Leases	0.980%	9	57,407
Total Governmental Activities			$ **7,394,583**

The District monitors changes in circumstances that would require a remeasurement of its leases and will remeasure the lease receivable and deferred inflow of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable. As of June 30, 2025, expectation of lease receipts through the expiration of all leases is as follows:

Principal and Interest Expected to Maturity
Governmental Activities - Lessor

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2026	$ 312,202	$ 85,308	$ 397,510
2027	267,764	83,331	351,095
2028	278,158	81,486	359,644
2029	274,496	79,524	354,020
2030	276,382	77,449	353,831
2031-2035	1,094,268	353,779	1,448,047
2036-2040	1,312,666	284,839	1,597,505
2041-2045	1,627,145	191,832	1,818,977
2046-2050	1,946,104	69,263	2,015,367
2051	5,398	2	5,400
Total Expected	$ **7,394,583**	$ **1,306,813**	$ **8,701,396**

12. Subscription-Based Information Technology Arrangements (SBITA)

The District has noncancellable contracts with SBITA vendors for the right to use information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). The District recognizes a subscription liability, reported with long-term debt, and a right-to-use subscription asset (an intangible asset), reported with capital assets, in the government-wide and proprietary fund financial statements. The District recognizes subscription liabilities with an initial individual value of $5,000 or more.

At the commencement of a SBITA, the District initially measures the subscription liability at the present value of payments expected to be made during the subscription term. Subsequently, the subscription liability is reduced by the principal portion of SBITA payments. The subscription asset is initially measured at the initial amount of the subscription liability, adjusted for SBITA payments made at or before the SBITA commencement date, plus certain initial implementation costs. Subsequently, the subscription asset is amortized on a straight-line basis over the shorter of the subscription term or the useful life of the underlying IT assets.

Key estimates and judgements related to SBITAs include how the District determines (1) the discount rate it uses to discount the expected subscription payments to present value, (2) subscription term, and (3) subscription payments.

- The District uses its incremental borrowing rate as the discount rate for SBITAs.
- The subscription term includes the noncancellable period of the SBITA.
- Subscription payments included in the measurement of the subscription liability are composed of fixed payments, variable payments fixed in substance or that depend on an index or a rate, termination penalties if the District is reasonably certain to exercise such option, subscription contract incentives receivable from the SBITA vendor, and any other payments that are reasonably certain of being required based on an assessment of all relevant factors.

The District has entered into multiple subscription arrangements for both governmental activities and business-type activities. The subscriptions allow the right to use information technology over the terms of the subscription. The District is required to make annual payments at its incremental borrowing rate or interest rate stated or implied within the subscriptions. The subscription rate, terms, and ending subscription liabilities are as follows:

Subscriptions Payable
Governmental Activities - SBITA

	Interest Rates	Lease Term in Months	Ending Balance
Subscriptions	2.023% - 2.184%	24 - 48	$ 10,271,757
Total Governmental Activities			$ **10,271,757**

Subscriptions Payable
Business-type Activities - SBITA

	Interest Rates	Lease Term in Months	Ending Balance
Subscription	2.024%	36	$ 136,200
Total Business-type Activities			$ **136,200**

The District monitors changes in circumstances that would require a remeasurement of its SBITAs and will remeasure the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the subscription liability. As of June 30, 2025, the schedule of subscription payments is as follows:

Principal and Interest Requirements to Maturity
Governmental Activities - SBITA

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2026	$ 5,753,021	$ 291,157	$ 6,044,178
2027	3,844,364	136,950	3,981,314
2028	332,204	20,224	352,428
2029	342,168	10,262	352,430
Total Requirements	**$ 10,271,757**	**$ 458,593**	**$ 10,730,350**

Principal and Interest Requirements to Maturity
Business-type Activities - SBITA

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2026	$ 44,493	$ 2,757	$ 47,250
2027	45,394	1,856	47,250
2028	46,313	937	47,250
Total Requirements	**$ 136,200**	**$ 5,550**	**$ 141,750**

13. 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 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.

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

15. Use of Estimates
A number of estimates relating to the reporting of revenues, expenditures, assets and liabilities, and the disclosure of contingent liabilities were used to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

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

17. Implementation of New Accounting Standards
GASB Statement No. 101*, Compensated Absences* (GASB 101), improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. GASB 101 was implemented in the District's fiscal year 2025 financial statements with a restatement of $9,002,408 million to net position as of July 1, 2024, to reflect the changes adopted to conform to the new standard.

		Governmental Activities
Beginning Net Position (Deficit), as Previously Reported	$	(407,466,562)
Change in Accounting Principle - GASB 101		(9,002,408)
Beginning Balance Net Position (Deficit), Restated	**$**	**(416,468,970)**

GASB Statement No. 102*, Certain Risk Disclosures* (GASB 102), improves financial reporting by providing users of financial statements with essential information regarding certain concentrations or constraints and related events that have occurred or have begun to occur that make a government vulnerable to a substantial impact. The requirements of this statement are effective for reporting periods beginning after June 15, 2024, with earlier application encouraged. GASB 102 was implemented in the District's fiscal year 2025 financial statements with no impact to amounts or disclosures previously reported.

18. Recent Accounting Pronouncements
GASB Statement No. 103, *Financial Reporting Model Improvements* (GASB 103), improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This statement also addresses certain application issues. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 103 will be implemented in the District's fiscal year 2026 financial statements and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* (GASB 104), establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. It also establishes requirements for capital assets held for sale, including additional disclosures for those capital assets. The requirements of this statement are effective for reporting periods beginning after June 15, 2025, with earlier application encouraged. GASB 104 will be implemented in the District's fiscal year 2026 financial statements and the impact has not yet been determined.

II. Stewardship, Compliance, and Accountability

A. Budgetary Information

The Board of Trustees adopts an appropriated budget for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund on a basis consistent with GAAP. Budgetary information for the general fund appears in the required supplementary information subsection where the District compares the final amended budget to actual revenues and expenditures. Per regulatory requirements, the debt service fund and the National School Breakfast and Lunch Program special revenue fund are required to be reported with the original budget, final amended budget and actual revenues and expenditures. These schedules are included in the combining and individual fund financial statements and schedules subsection. All other governmental funds adopt project-length budgets. All annual appropriations lapse at fiscal year-end.

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

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 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 after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus/department. Transfers of appropriations between campuses/ departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. The District made several supplemental budgetary revisions throughout the year, primarily in the general fund. These revisions are further detailed in the notes to the required supplementary information.

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned, as appropriate.

At June 30, 2025, certain amounts which were previously restricted, committed, or assigned for specific purposes have been encumbered in the governmental funds. Significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in:		
	Restricted Fund Balance	Committed Fund Balance	Assigned Fund Balance
General Fund	$ -	$ -	$ 10,518,463
Capital Projects Fund	366,006,142	-	-
Total Nonmajor Funds	2,618,563	474,731	-
Total Encumbrances	**$ 368,624,705**	**$ 474,731**	**$ 10,518,463**

III. Detailed Notes on All Funds

A. Deposits and Investments

Cash Deposits: The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are in compliance with the Texas Government Code, Chapter 2257 “Collateral for Public Funds”, and are sufficient to meet the terms agreed to in the current depository contract as approved by TEA.

Investments: The District’s investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, no-load money market mutual funds, certain municipal securities, repurchase agreements, banker’s acceptances, commercial paper or investment pools.

For fiscal year 2025, the District invested in certificates of deposit, the Texas Local Government Investment Pool (TexPool), Texas CLASS, Texas Association of School Boards Lone Star Investment Pool (Lone Star), and Local Government Investment Cooperative (LOGIC) Investment Pool.

TexPool is duly chartered and overseen by the State Comptroller’s Office, managed and serviced by Federated Hermes. State Street Bank serves as the custodial bank. The portfolio consists of U.S. Government securities; collateralized repurchase and reverse repurchase agreements; no-load money market mutual funds regulated by the Securities and Exchange Commission (SEC) and rated AAAm by Standard and Poor’s; and securities lending programs.

Texas CLASS is organized under the Tenth Amended and Restated Trust Agreement in accordance with all the requirements contained in section 2256.016 of the Act. Texas CLASS is administered by Public Trust Advisors, LLC and all funds are held by the custodial agent, UMB Bank, N.A. Texas CLASS may invest in obligations of the U.S. or its agencies and instrumentalities; repurchase agreements; SEC-registered money market funds rated in the highest rating category by at least one Nationally Recognized Statistical Rating Organization (NRSRO); and commercial paper rated A-1, P-1 or equivalent by two nationally recognized rating agencies.

Lone Star is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by First Public, LLC, and managed by American Beacon Advisors and Mellon Investment Corp (Dreyfus). State Street Bank is the custodial bank. Lone Star Corporate Overnight Plus Fund may invest in obligations of the U.S. or its agencies and instrumentalities; other obligations insured by the U.S.; fully collateralized repurchase agreements having a defined termination date, secured by obligations described previously; SEC-regulated no-load money market mutual funds, the assets which consist exclusively of the obligations described above; and commercial paper rated A-1, P-1 or equivalent by two nationally recognized rating agencies.

LOGIC is duly chartered by the State of Texas Interlocal Cooperation Act, is administered by Hilltop Securities, Inc., Hilltop Asset Management, LLC, and J.P. Morgan Asset Management, Inc. (JPMAM), and managed by JPMAM, who provides custody, fund accounting and investment management. Transfer agency services are provided by DST Asset Manager Solutions, Inc. LOGIC may invest in obligations of the U.S. or its agencies and instrumentalities; repurchase agreements; SEC-registered money market funds rated in the highest rating category by at least one NRSRO; and commercial paper rated A-1, P-1 or equivalent by two nationally recognized rating agencies.

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application* provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs - other than quoted prices within Level 1 - that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

The District's investment balances, including fiduciary funds, and weighted average maturity of such investments are as follows:

		Fair Value Measurement Using		
	Current Investments	Percent of Total Investments	Weighted Average Maturity (Days)	Weighted Average Credit Risk
Investments Measured at Amortized Cost				
Investment Pool				
TexPool	$ 92,334	$ 0.01%	38	AAAm*
Certificates of Deposit	15,000,000	1.13%	49	Not rated
Investments Measured at Net Asset Value				
Investment Pools				
Lone Star Corporate Overnight Plus Fund	322,849,023	24.45%	43	AAAf/S1+*
Texas CLASS	402,847,610	30.51%	85	AAAm*
LOGIC	579,718,514	43.90%	53	AAAm*
Total	**$ 1,320,507,481**	**$ 100.00%**		
Portfolio Weighted Average Maturity			**60**	

* S&P rating only

Investment Pools and Certificates of Deposit are measured at amortized cost or net asset value (NAV), which approximates fair value, and are not subject to level reporting.

The *TexPool* investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pool transacts at a net asset value of $1.00 per share, has weighted average maturities of 60 days or less and weighted average lives of 120 days or less, investments held are highly rated by nationally recognized statistical rating organizations, have no more than 5% of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

The *Lone Star*, *Texas CLASS*, and *LOGIC* investment pools are external investment pools measured at NAV, which approximates fair value. Lone Star, Texas CLASS, and LOGIC's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to the investment pools. Lone Star, Texas CLASS, and LOGIC have a redemption notice period of one day and may redeem daily. The investment pools' authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national or state emergency that affects the pools' liquidity.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 547 days (18 months), diversification, and by holding securities to maturity. In addition, the District shall not directly invest in an individual security maturing more than three years from the date of purchase.

Custodial Credit Risk: The District's agent holds securities in the District's name; therefore, the District is not exposed to custodial credit risk. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker/dealer) to a transaction, a government will not be able to recover the value of its investments or collateral securities that are in the possession of another party. The District's policy requires that the investments of the District shall be secured through third-party custodial and safekeeping procedures as designated by the District.

Credit Risk: State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. The credit ratings for the District's investments are disclosed in the table on the previous page.

Concentration of Credit Risk: The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

B. Receivables

Receivables as of year-end for the District's individual major funds and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Debt Service	Nonmajor Governmental	Total
Receivables:				
Property Taxes	$ 26,677,881	$ 13,287,621	$ -	$ 39,965,502
Due From Other Governments:				
Local	-	-	794,782	794,782
State	172,066,041	-	683,095	172,749,136
Federal	3,627,851	-	17,192,018	20,819,869
Accrued Interest	595,185	-	-	595,185
Other Receivables	670,163	-	32,889	703,052
Lease Receivable	7,394,583	-	-	7,394,583
Gross Receivables	211,031,704	13,287,621	18,702,784	243,022,109
Less: Allowance for Uncollectibles	(5,017,146)	(2,498,922)	-	(7,516,068)
Net Total Receivables	**$ 206,014,558**	**$ 10,788,699**	**$ 18,702,784**	**$ 235,506,041**

Sixty-four percent of property taxes receivable is not expected to be collected in the subsequent year.

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenues reported in the governmental funds were as follows:

	Unearned
Cash Advance for Grants (Nonmajor Governmental Funds)	$ 72,904
Total Unearned Revenues For Governmental Funds	**$ 72,904**

C. Capital Assets

Capital asset activity for the year ended June 30, 2025, was as follows:

	Beginning Balance	Additions	Transfers, Adjustments and Dispositions	Ending Balance
Governmental Activities:				
Capital Assets, not being Depreciated or Amortized:				
Land	$ 157,605,565	$ -	$ -	$ 157,605,565
Construction in Progress	144,376,169	195,330,904	(70,126,978)	269,580,095
Total Capital Assets, not being Depreciated or Amortized	**301,981,734**	**195,330,904**	**(70,126,978)**	**427,185,660**
Capital Assets, being Depreciated and Amortized:				
Buildings and Improvements	3,861,902,189	72,388,508	70,126,978	4,004,417,675
Furniture and Equipment	345,405,942	20,009,044	(994,137)	364,420,849
Right-to-Use Subscriptions	3,370,785	16,004,681	(890,707)	18,484,759
Right-to-Use Lease Assets-Buildings	1,789,475	-	(156,413)	1,633,062
Right-to-Use Lease Assets-Equipment	3,283,539	-	-	3,283,539
Total Right-to-Use Lease Assets	5,073,014	-	(156,413)	4,916,601
Total Capital Assets, being Depreciated and Amortized	**4,215,751,930**	**108,402,233**	**68,085,721**	**4,392,239,884**
Less Accumulated Depreciation and Amortization for:				
Buildings and Improvements	(1,380,160,805)	(119,682,132)	-	(1,499,842,937)
Furniture and Equipment	(243,286,295)	(18,717,071)	994,136	(261,009,230)
Right-to-Use Subscriptions	(1,629,275)	(5,989,139)	890,708	(6,727,706)
Right-to-Use Lease Assets-Buildings	(908,526)	(266,515)	156,413	(1,018,628)
Right-to-Use Lease Assets-Equipment	(492,510)	(656,717)	-	(1,149,227)
Total Accumulated Amortization, Right-to-Use Lease Assets	(1,401,036)	(923,232)	156,413	(2,167,855)
Total Accumulated Depreciation and Amortization	**(1,626,477,411)**	**(145,311,574)**	**2,041,257**	**(1,769,747,728)**
Total Capital Assets, being Depreciated and Amortized, net	**2,589,274,519**	**(36,909,341)**	**70,126,978**	**2,622,492,156**
Governmental Activities Capital Assets, net	**$ 2,891,256,253**	**$ 158,421,563**	**$ -**	**$ 3,049,677,816**
Business-type Activities:				
Capital Assets, being Amortized:				
Right-to-Use Subscriptions	$ 265,622	$ -	$ -	$ 265,622
Total Capital Assets, being Amortized	**265,622**	**-**	**-**	**265,622**
Less Accumulated Amortization for:				
Right-to-Use Subscriptions	(94,942)	(44,595)	-	(139,537)
Total Accumulated Amortization	**(94,942)**	**(44,595)**	**-**	**(139,537)**
Business-type Activities Capital Assets, net	**$ 170,680**	**$ (44,595)**	**$ -**	**$ 126,085**

Depreciation and amortization expense was charged to functions/programs of the District as follows:

Governmental Activities:		
11 Instruction	$	66,957,203
12 Instructional Resources and Media Services		5,587,500
23 School Leadership		21,298,928
33 Health Services		3,567
34 Student Transportation		11,256,357
35 Food Services		9,547,316
36 Cocurricular/Extracurricular Activities		20,454,711
41 General Administration		3,381,023
51 Plant Maintenance and Operations		2,285,421
52 Security and Monitoring Services		2,589,318
53 Data Processing Services		1,937,662
61 Community Services		12,568
Total Depreciation and Amortization Expense	**$**	**145,311,574**
Business-type Activities:		
61 Community Services	$	44,595
Total Depreciation and Amortization Expense	**$**	**44,595**

Construction Commitments

The District has active construction projects as of June 30, 2025. The projects include the construction and equipment of school facilities. At year-end, the District's active commitments with contractors are as follows:

Project		Remaining Commitment
Additions and Renovations to Existing Facilities	$	273,785,565
Multisite Master Plans		462,963
Electric Vehicle Charging Stations		358,716
Totals	**$**	**274,607,244**

D. Interfund Receivables, Payables, and Transfers
The composition of interfund balances as of June 30, 2025, is as follows:

	Interfund Receivables	Interfund Payables
Governmental Funds:		
General Fund	$ 9,944,708	$ 5,816,002
Debt Service Fund	244,697	-
Capital Projects Fund	2,445,828	5,815
Nonmajor Governmental Funds	3,629,724	10,421,206
Total Governmental Funds	16,264,957	16,243,023
Proprietary Funds:		
Enterprise Fund	-	21,934
Total Proprietary Funds	-	21,934
Total - All Funds	**$ 16,264,957**	**$ 16,264,957**

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds. Interfund balances between governmental funds and proprietary funds are eliminated in the statement of net position and reported as internal balances.

The general fund is the main operating fund of the District. The amount indicated as receivable stems from the short-term borrowing from state and federal grants that operate on a reimbursement basis.

The amount indicated as payable in the capital projects fund relates to a reclass of cash to the general fund to cover temporary borrowing from other funds.

The amount due to the debt service fund is the allocation of tax proceeds outstanding at year-end for the interest and sinking fund portion of the tax rate.

E. Long-term Liabilities
The District’s long-term liabilities consist of bond indebtedness, workers’ compensation, rebatable arbitrage, compensated absences, leases payable, financed purchases, subscriptions payable, net pension liability and net OPEB liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. Current funding requirements for workers’ compensation is accounted for in the internal service fund and compensated absences, leases payable, financed purchases, subscriptions payable, pension, and OPEB plans are accounted for in the governmental funds. Current funding for rebatable arbitrage is accounted for in the capital projects fund. There is also a current funding requirement for subscriptions in the enterprise fund. Unfunded long-term liabilities are generally liquidated with resources of the general fund.

Changes in Long-term Liabilities
Long-term liability activity for the year ended June 30, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds, par	$ 3,384,500,000	$ 688,335,000	$ (588,815,000)	$ 3,484,020,000	$ 168,045,000
Issuance Premiums(Discounts)	316,467,176	63,330,707	(48,457,530)	331,340,353	-
Total Bonds Payable	**3,700,967,176**	**751,665,707**	**(637,272,530)**	**3,815,360,353**	**168,045,000**
Workers' Compensation	4,615,321	1,483,124	(2,115,480)	3,982,965	2,239,156
Rebatable Arbitrage	14,970,634	7,875,875	(212,306)	22,634,203	110,394
Compensated Absences*	20,073,669	3,567,884	-	23,641,553	2,500,000
Leases Payable	3,711,950	-	(858,347)	2,853,603	880,621
Financed Purchases	901,958	-	(663,815)	238,143	238,143
Subscriptions Payable	269,220	16,004,681	(6,002,144)	10,271,757	5,753,021
Net Pension Liability	490,752,495	45,587,599	(104,805,828)	431,534,266	-
Net OPEB Liability	200,076,157	84,164,797	(8,994,851)	275,246,103	-
Total Long-term Liabilities	**$ 4,436,338,580**	**$ 910,349,667**	**$ (760,925,301)**	**$ 4,585,762,946**	**$ 179,766,335**
Business-type Activities:					
Subscriptions Payable	$ 175,198	$ -	$ (38,998)	$ 136,200	$ 44,493
Total Subscriptions Payable	**$ 175,198**	**$ -**	**$ (38,998)**	**$ 136,200**	**$ 44,493**

*Compensated absences are reported as a net change for the year as allowed under the provisions of GASB 101, paragraph 30.
Beginning balance was restated $9,002,408 as of July 1, 2024, due to adoption of GASB 101. See Note I.17.

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities.

General Obligation Bonds
The District issues general obligation bonds to provide funds for the construction and equipment of school facilities, purchase of buses, and to refund general obligation bonds.

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These are issued as 10-30 year current interest bonds with fixed or adjustable rates. Certain outstanding bonds may be redeemed at their par value prior to their normal maturity dates in accordance with the terms of the related bond indenture. The 2010B taxable series qualified school construction bonds entitle the District to receive a subsidy payment from the federal government equal to 100% of the amount of each interest payment on these taxable bonds. As a result of Congressionally-mandated Sequestration, the federal subsidy payments for the qualified school construction bonds was reduced to 5.7 percent through fiscal year 2031.

The following is a summary of changes in the general obligation bonds for the fiscal year:

Series	Interest Rate Payable	Amounts Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Series 2010A	0.00%	$ 30,000,000	2026	$ 4,000,000	$ -	$ (2,000,000)	$ 2,000,000
Series 2010B	5.41%	25,140,000	2026	3,310,000	-	(1,655,000)	1,655,000
Series 2015	4.00-5.00%	308,045,000	2035	301,780,000	-	(301,780,000)	-
Series 2015A	2.00-5.00%	209,045,000	2040	156,705,000	-	(54,715,000)	101,990,000
Series 2015B	1.25-4.00%	143,745,000	2040	85,180,000	-	(85,180,000)	-
Series 2016	3.00-5.00%	446,170,000	2041	309,910,000	-	(35,430,000)	274,480,000
Series 2018	3.00-5.00%	187,260,000	2043	167,250,000	-	(5,580,000)	161,670,000
Series 2019	4.00-5.00%	260,070,000	2038	190,505,000	-	(3,740,000)	186,765,000
Series 2019A	3.00-5.00%	352,895,000	2044	329,715,000	-	(8,530,000)	321,185,000
Series 2020	2.25-5.00%	263,945,000	2045	258,430,000	-	(2,970,000)	255,460,000
Series 2020A	2.25-5.00%	387,150,000	2045	333,415,000	-	(21,715,000)	311,700,000
Series 2021	5.00%	40,380,000	2027	11,000,000	-	(5,000,000)	6,000,000
Series 2021A	2.125-5.00%	125,405,000	2046	123,000,000	-	(2,525,000)	120,475,000
Series 2021B	1.768-5.00%	91,670,000	2032	81,225,000	-	(23,645,000)	57,580,000
Series 2022	5.00%	124,405,000	2040	122,830,000	-	(1,640,000)	121,190,000
Series 2022A	4.25-5.00%	233,055,000	2047	233,055,000	-	(5,630,000)	227,425,000
Series 2023	4.00-5.00%	368,710,000	2048	361,015,000	-	(8,090,000)	352,925,000
Series 2023A	5.00%	249,840,000	2044	249,840,000	-	(15,130,000)	234,710,000
Series 2024	5.00%	62,335,000	2034	62,335,000	-	-	62,335,000
Series 2024A	5.00%	77,265,000	2040	-	77,265,000	(3,860,000)	73,405,000
Series 2024B	4.00%-5.00%	292,535,000	2049	-	292,535,000	-	292,535,000
Series 2025	5.00%	318,535,000	2036	-	318,535,000	-	318,535,000
Totals				$ 3,384,500,000	$ 688,335,000	$ (588,815,000)	$ 3,484,020,000

As of June 30, 2025, the District does not have any authorized but unissued bonds.

In July 2024, the District issued $77,265,000 of unlimited tax refunding bonds (Series 2024A). The proceeds of the refunding bonds were used to convert $43,075,000 (Series 2015B-1) and $42,105,000 (Series 2015B-2) of previously issued variable rate bonds to a fixed rate. Actual debt service savings cannot be calculated since future rates on the variable rate bonds are not known at the date of conversion. The net carrying value of the old debt at the variable rate exceeded the new carrying value at the fixed rate by $233,236. This deferred gain is added to the new debt and amortized over the life of the new debt.

In October 2024, the District also issued $292,535,000 of unlimited tax school building bonds Series 2024B. The proceeds of the tax school building bonds are to be used for building and equipping facilities, renovations, safety and security, and technology enhancements.

In February 2025, the District also issued $318,535,000 of unlimited tax refunding bonds Series 2025. The proceeds of the refunding bonds were used to legally defease $346,340,000 of previously issued district bonds in order to lower overall debt service requirements. The net carrying value of the old debt exceeded the reacquisition price by $18,894,849. This deferred gain is added to the new debt and amortized over the life of the new debt. The refunding resulted in debt service savings of $21,979,925 and an economic gain of $17,455,878.

Annual debt service requirements to maturity for general obligation bonds are as follows:

Year Ending June 30	Principal Value At Maturity	Interest	Total Requirements
2026	$ 168,045,000	$ 150,932,515	$ 318,977,515
2027	169,080,000	142,590,607	311,670,607
2028	173,205,000	134,364,307	307,569,307
2029	184,815,000	125,918,157	310,733,157
2030	195,475,000	116,877,484	312,352,484
2031	162,320,000	107,479,914	269,799,914
2032	168,095,000	99,650,049	267,745,049
2033	175,105,000	91,908,125	267,013,125
2034	182,655,000	84,008,925	266,663,925
2035	192,260,000	75,933,075	268,193,075
2036	171,435,000	67,385,575	238,820,575
2037	179,985,000	60,262,925	240,247,925
2038	187,155,000	53,039,313	240,194,313
2039	161,355,000	45,084,238	206,439,238
2040	167,410,000	38,554,063	205,964,063
2041	149,155,000	32,055,556	181,210,556
2042	144,450,000	26,325,025	170,775,025
2043	149,710,000	20,910,738	170,620,738
2044	132,830,000	15,192,125	148,022,125
2045	86,800,000	10,364,638	97,164,638
2046	62,965,000	7,336,075	70,301,075
2047	57,335,000	4,869,500	62,204,500
2048	42,835,000	2,495,200	45,330,200
2049	19,545,000	781,800	20,326,800
Totals	**$ 3,484,020,000**	**$ 1,514,319,929**	**$ 4,998,339,929**

In accordance with the provisions of Section 148 of the Internal Revenue Code of 1986, as amended, bonds must satisfy certain arbitrage rebate requirements. Rebatable arbitrage is the excess of the amount earned on investments purchased with bond proceeds over the amount that such investments would have earned had such investments been invested at a rate equal to the yield on the bond issue. Rebatable arbitrage must be paid to the U.S. Treasury at the end of each five-year anniversary of the bond issue and upon final redemption of all outstanding bonds of the issue. As of June 30, 2025, the District has a rebatable arbitrage liability in the amount of $22,634,203.

F. Financed Purchases

The District has entered into financed purchase agreements for equipment with various maturity dates. The asset for Financed Purchases is included with Equipment in capital assets activity for governmental activities. This equipment class bears an interest rate of 0.2500% and lease terms ranging from 41 to 53 months. As of June 30, 2025, the value of the liability is $238,143. The schedule of payments is as follows:

Principal and Interest Requirements to Maturity
Governmental Activities - Financed Purchases

Fiscal Year	Principal Payments	Interest Payments	Total Payments
2026	$ 238,143	$ 157	$ 238,300
Total Requirements	**$ 238,143**	**$ 157**	**$ 238,300**

G. Fund Balance

Other Purposes in assigned fund balance includes the following assignment of funds:

General Fund:	
Insurance Deductibles	$ 15,659,350
Operating Cost of Future School Buildings	500,000
Compensated Absences	11,481,644
Total Other Purposes Assigned Fund Balance	**$ 27,640,994**

H. Revenues from Local, Intermediate, and Out-of-State Sources

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

	General	Debt Service	Capital Projects	Other Governmental Funds	Totals
Property Taxes	$ 472,465,902	$ 274,419,224	$ -	$ -	$ 746,885,126
Penalties, Interest, and Other Tax-Related Income	3,306,381	1,787,583	-	-	5,093,964
Charges for Services	13,627,249	-	-	30,922,464	44,549,713
Investment Earnings	27,698,832	6,279,742	28,303,063	2,969,765	65,251,402
Other	10,880,946	-	-	64,495	10,945,441
Totals	**$ 527,979,310**	**$ 282,486,549**	**$ 28,303,063**	**$ 33,956,724**	**$ 872,725,646**

IV. Other Information

A. Risk Management

Property and Liability

The District is exposed to various risks of loss related to property and liability losses for which the District carries commercial insurance. The District participates in the TASB Risk Management Fund (the Fund) for various liability coverages. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages, and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its liability coverage and transfers the risk of loss to the Fund. The District's agreement with the Fund provides that the Fund will be self-sustaining through member premiums and may provide, through commercial companies, reinsurance contracts. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the Fund. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Workers' Compensation

The District established a limited risk management program for workers' compensation by participating as a self-funded member of the TASB Risk Management Fund. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. As a self-funded member of the Fund, Cypress-Fairbanks Independent School District is solely responsible for all claims costs, both reported and unreported. The Fund provides administrative service to its self-funded members including claims administration and customer service.

Transactions related to the plan are accounted for in an internal service fund. The actuarially-determined liability of the fund on June 30, 2025 was $3,982,965 and has been fully funded through general fund and nonmajor funds contributions.

Liabilities of the fund are reported when it is probable that a loss has occurred, and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of $600,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverages for each of the past three fiscal years.

Changes in the balances of claims liabilities during the past two years are as follows:

	Year Ended 6/30/2025	Year Ended 6/30/2024
Unpaid Claims, Beginning of Fiscal Year	$ 4,615,321	$ 4,675,376
Incurred Claims (including IBNRs)	1,483,124	2,408,465
Claim Payments	(2,115,480)	(2,468,520)
Unpaid Claims, End of Fiscal Year	**$ 3,982,965**	**$ 4,615,321**

B. Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

C. Defined Benefit Pension Plan

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 work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Annual Comprehensive Financial Report that includes financial statements and required supplementary information. This report also includes information on TRS's measurement focus and basis of accounting and may be obtained on the Internet at https://www.trs.texas.gov/learning-resources/publications; by writing to TRS at P.O. Box 149676, Austin, TX 78714-0185; or by calling (800) 223-8778.

Benefits Provided

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

Contributions

Employee contribution rates are set in state statute, Texas Government Code 825.402. Contribution requirements are established or amended pursuant to Article XV1, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. 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 for the last three fiscal years are as follows:

	2025	2024	2023
Member	8.25%	8.25%	8.00%
Non-Employer Contributing Entity (NECE - State)	8.25%	8.25%	8.00%
Employers (District)	8.25%	8.25%	8.00%
Employers (District - Public Education Employer Contribution`	2.00%	1.90%	1.80%

The contribution amounts for the District's fiscal year 2025 are as follows:

District Contributions	$	38,310,460
Member Contributions	$	77,544,025
NECE On-behalf Contributions (State)	$	53,307,135

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

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

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

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

- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- Public education employer contribution – all public schools, charter schools and regional education service centers must contribute 2.0% of the member's salary beginning in fiscal year 2025.

Actuarial Methods and Assumptions

The actuarial valuation of the total pension liability was performed as of August 31, 2023. Update procedures were used to roll forward the total pension liability to August 31, 2024 and was determined using the following actuarial methods and assumptions:

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual entry age normal
Asset Valuation Method	Fair value
Single Discount Rate	7.00%
Long-term Expected Rate	7.00%
Municipal Bond Rate as of August 2024	3.87%*
Last year ending August 31 in Projection Period (100 years)	2123
Inflation	2.30%
Salary Increases	2.95% to 8.95% including inflation
Ad hoc Post-employment Benefit Changes	None
Mortality Rates	The post-retirement mortality rates for healthy lives were based on the 2021 TRS of Texas Healthy Pensioner Mortality Tables with full generational projection using the ultimate improvement rates from the most recently published projection scale MP-2021.

**The source for the rate is the Bond Buyers 20 index which represents the estimated yield of a portfolio of 20 general obligation bonds maturing in 20 years based on a survey of municipal bond traders.*

The actuarial methods and assumptions were based primarily on a study of actual experience for the four-year period ending August 31, 2021 and were adopted in July 2022.

Discount Rate and Long-Term Expected Rate of Return

A single discount rate of 7 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7 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 statutorily required rates. It is assumed that future employer and state contributions will be 9.54 percent of payroll 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 projected future benefit payments of current plan members. As a result, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term expected rate of return on pension plan investments 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 weighing 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 TRS's target asset allocation as of August 31, 2024 are summarized below:

Asset Class	Target % Allocation **	Long-Term Expected Geometric Real Rate of Return ***	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.00%	4.00%	1.00%
Non-U.S. Developed	13.00%	4.00%	0.80%
Emerging Markets	9.00%	5.00%	0.70%
Private Equity	14.00%	7.00%	1.20%
Stable Value			
Government Bonds	16.00%	2.00%	0.40%
Stable Value Hedge Funds	5.00%	3.00%	0.20%
Absolute Return*	-	4.00%	-
Real Return			
Real Estate	15.00%	7.00%	1.20%
Energy, Natural Resources and Infrastructure	6.00%	6.00%	0.40%
Commodities	-	3.00%	-
Risk Parity	8.00%	4.00%	0.40%
Asset Allocation Leverage			
Cash	2.00%	1.00%	-
Asset Allocation Leverage	(6.00)%	1.00%	(0.10)%
Inflation Expectation			2.40%
Volatility Drag ****			(0.70)%
Expected Return	**100.00%**		**7.90%**

* Absolute Return includes Credit Sensitive Investments.
** Target allocations are based on the FY2024 policy model.
*** Capital Market Assumptions (CMA) come from 2024 SAA Study CMA Survey (as of 12/31/2023).
**** The volatility drag results from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis
The following schedule presents the District's proportionate share of net pension liability for TRS calculated using the discount rate of 7.00%, as well as the District's proportionate share of the respective net pension liability if it was calculated using a discount rate that is 1% less than (6.00%) or 1% greater than (8.00%) the current rate:

	1% Decrease 6.00%	Current Discount Rate 7.00%	1% Increase 8.00%
District's Proportionate Share of the Net Pension Liability	$ 689,269,568	$ 431,534,266	$ 217,982,246

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
At June 30, 2025, the District reported a liability of $431,534,266 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 are as follows:

District's Proportionate Share of the Net Pension Liability	$ 431,534,266
State's Proportionate Share of the Net Pension Liability Associated with the District	549,371,459
Total	**$ 980,905,725**

The net pension liability was measured as of August 31, 2024 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2023 rolled forward to August 31, 2024. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2023 through August 31, 2024.

At the measurement date of August 31, 2024, the District's proportion of the collective net pension liability was .7064584% which was a decrease of .0079833% from its proportion measured as of August 31, 2023.

For the fiscal year ended June 30, 2025, the District recognized total pension expense of $128,966,861, which includes the on-behalf portion of $65,659,071 provided by the State.

At June 30, 2025, the District reported the deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	$ 23,785,580	3,369,210
Changes of Assumptions	22,281,040	2,987,126
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	2,623,146	-
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions (Cost-Sharing Plan)	13,974,235	6,369,218
District Contribution after Measurement Date	32,171,764	-
Totals	$ 94,835,765	$ 12,725,554

The $32,171,764 reported as deferred outflows of resources related to pensions resulting from District contributions paid subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2026. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense
2026	$ 3,745,211
2027	49,321,901
2028	7,049,160
2029	(11,155,497)
2030	977,672
Totals	$ 49,938,447

Change of Assumptions Since the Prior Measurement Date

There were no changes in the actuarial assumptions and methods used to determine the net pension liability since the prior year's valuation.

Change in Benefit Terms Since the Prior Measurement Date

The 2023 Texas Legislature passed Senate Bill 10 (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House Joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of $1.645 billion for one-time stipends and $3.355 billion for COLAs. This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

D. Defined Other Post-Employment Benefit Plan

Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575. The Board may adopt rules, plans, procedures and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. The financial report and other benefits information about the plan may be obtained on the Internet at https://www.trs.texas.gov/learning-resources/publications; by writing to TRS at P.O. Box 149676, Austin, TX 78714-0185; or by calling (800) 223-8778.

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 system. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high deductible health plan. Eligible Medicare retirees and 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. The Board of Trustees of TRS 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 premium rates for retirees are reflected in the following table:

TRS-Care Monthly Premium Rates

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

* or surviving spouse

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 are 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 rate which is 0.65% of salary. 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. 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:

	2025	2024	2023
Active Employee	0.65%	0.65%	0.65%
Non-employer Contribution Entity (State)	1.25%	1.25%	1.25%
Employers/District	0.75%	0.75%	0.75%
Federal/Private Funding Remitted by Employers*	1.25%	1.25%	1.25%

* Contributions paid from federal funds and private grants are remitted by the employer (District) and paid at the State rate.

The contribution amounts for the District's fiscal year 2025 are as follows:

District Contributions	$	7,800,883
Member Contributions	$	6,109,526
NECE On-behalf Contributions (State)	$	11,007,713

The State of Texas contributed $6,216,015, $5,453,346, and $4,700,698 in 2025, 2024, and 2023, respectively, for on-behalf payments for Medicare Part D.

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 TRS-Care a monthly surcharge of $535 per retiree.

Actuarial Methods and Assumptions

The actuarial valuation of the total OPEB liability was performed as of August 31, 2023. Update procedures were used to roll forward the total OPEB liability to August 31, 2024.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuations performed for the pension plan, except that the OPEB valuation is more complex. The following assumptions used for the valuation of the TRS-Care OPEB liability are identical to the assumptions employed in the August 31, 2023 TRS annual pension actuarial valuation that was rolled forward to August 31, 2024:

Demographic Assumptions	Economic Assumptions
Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	
Rates of Disability	

See Note C for details on these assumptions. The demographic assumptions were developed in the experience study performed by TRS for the period ending August 31, 2021.

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.

The initial medical trend rates were 6.75% for non-Medicare retirees. For Medicare retirees, trend rates are higher in the first two years due to anticipated growth but thereafter match those of non-Medicare retirees. There was an initial prescription drug trend rate of 7.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 11 years.

The following methods and additional assumptions were used in the TRS-Care OPEB valuation:

Actuarial Cost Method	Individual Entry Age Normal
Single Discount Rate	3.87%
Inflation	2.30%
Aging Factors	Based on the Society of Actuaries' 2013 Study "Health Care Costs - from Birth to Death".
Election Rates	Normal retirement: 62% participation prior to age 65 and 25% after age 65. 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	2.95% to 8.95%, including inflation
Ad hoc Post-employment Benefit Changes	None

Discount Rate

A single discount rate of 3.87% was used to measure the total OPEB liability as of August 31, 2024. This was a decrease of 0.26% in the discount rate since the August 31, 2023 measurement date. Since the plan is a pay-as-you-go plan, the single discount rate is equal to the prevailing municipal bond rate.

Sensitivity of the Net OPEB Liability:

Discount Rate Sensitivity Analysis

The following table presents the District's proportionate share of the net OPEB liability for TRS-Care if the discount rate used was 1% less than and 1% greater than the discount rate that was used (3.87%) in measuring the net OPEB liability:

	1% Decrease 2.87%	Current Single Discount Rate 3.87%	1% Increase 4.87%
District's Proportionate Share of the Net OPEB Liability	$ 327,005,233	$ 275,246,103	$ 233,423,948

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 1% less than and 1% greater than the assumed health care cost trend rate:

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's Proportionate Share of the Net OPEB Liability	$ 224,147,087	$ 275,246,103	$ 341,833,216

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

At June 30, 2025, the District reported a liability of $275,246,103 for its proportionate share of the TRS's net OPEB liability. This liability reflects an increase due to deferred inflows and outflows activity used to determine the liability. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate Share of the Net OPEB Liability	$ 275,246,103
State's Proportionate Share of the Net OPEB Liability Associated with the District	344,879,634
Total	$ **620,125,737**

The net OPEB liability was measured as of August 31, 2024 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of August 31, 2023 rolled forward to August 31, 2024. The District's proportion of the net OPEB liability was based on the District's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2023 through August 31, 2024.

At the measurement date of August 31, 2024, the District's proportion of the collective net OPEB liability was .9068607% which was an increase of .0031052% of the liability measured as of August 31, 2023.

For the fiscal year ended June 30, 2025, the District recognized net OPEB revenue of ($71,281,827) due to recognition of deferred inflows in excess of deferred outflows and current year expense, which includes the on-behalf portion of ($44,827,987) from the State.

At June 30, 2025, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	$ 52,755,437	$ 137,362,728
Changes of Assumptions	35,228,250	89,809,619
Net Difference Between Projected and Actual Earnings on OPEB Investments	-	770,778
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions (Cost-Sharing Plan)	27,425,558	5,305,025
District Contributions after Measurement Date	6,535,605	-
Totals	$ 121,944,850	$ 233,248,150

The $6,535,605 reported as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2025. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	OPEB Expense
2026	$ (33,615,139)
2027	(21,148,976)
2028	(28,323,178)
2029	(23,960,077)
2030	(11,870,050)
Thereafter	1,078,515
Totals	$ (117,838,905)

Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 4.13% as of August 31, 2023 to 3.87% as of August 31, 2024.
- The tables used to model the impact of aging on the underlying claims were revised.

Change in Benefit Terms Since the Prior Measurement Date

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

E. Shared Service Arrangement
The District is the fiscal agent for a Shared Services Arrangement (SSA) which provides deaf education services to eligible students residing in a member district, who are enrolled in the Regional Day School Program for the Deaf (RDSPD). Effective July 1, 2003, TEA issued revised procedures for RDSPD. Currently RDSPD and special education SSAs are governed by specific requirements found in the Texas Education Code (TEC) and the Texas Administrative Code (TAC). The TEC states that LEAs enter into a written contract to jointly operate their special education programs. Funds are allocated to the SSA in accordance with the SSA agreement. The District, acting as fiscal agent is responsible for budgeting, accounting, and personnel responsibilities related to the arrangement. The District is financially responsible to the TEA. In addition to the District, four other member districts are included in the SSA. According to guidance provided in TEA's Resource Guide, the District has accounted for the activities of the SSA in Special Revenue fund 435, Regional Day School for the Deaf. The SSA is accounted for using the accounting guidance outlined in Section 1.3.1 *Shared Services Arrangements* in the Special Accounting Treatment section of the Resource Guide, Update 19.0 – September 2023.

Expenditures of SSA for the fiscal year are summarized below:

Cypress-Fairbanks ISD	$ 1,925,883
Klein ISD	366,227
Spring Branch ISD	492,210
Tomball ISD	132,048
Waller ISD	109,309
Total	**$ 3,025,677**

F. Nonmonetary Transactions
During 2025, the District received textbooks purchased by the State of Texas for the benefit of the District for a purchase price of $1,177,622. The textbooks purchased by the State on behalf of the District have been recorded in the Instructional Materials special revenue fund as both state revenue and expenditures.

APPENDIX D

FORM OF LEGAL OPINION OF BOND COUNSEL

BRACEWELL

[CLOSING DATE]

$[_____]
CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2026

We have represented the Cypress-Fairbanks Independent School District (the "District") as its bond counsel in connection with an issue of bonds described as follows:

> CYPRESS-FAIRBANKS INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2026 in the aggregate principal amount of $[______], dated January 1, 2026 (the "Bonds").
>
> The Bonds mature, bear interest, and may be transferred and exchanged as set out in the Bonds and in the order adopted by the Board of Trustees of the District authorizing their issuance (the "Bond Order") and the pricing certificate relating to the Bonds executed pursuant thereto (the "Pricing Certificate," and together with the Bond Order, the "Order").

We have acted as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein. Capitalized terms used herein and not otherwise defined are used with the meanings assigned to such terms in the Order.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds and the refunding and defeasance of the Refunded Bonds, on which we have relied in giving our opinion.

The transcript contains certified copies of certain proceedings of the District, an escrow agreement (the "Escrow Agreement") between the District and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"); the report (the "Report") of Public Finance Partners LLC, as verification agent (the "Verification Agent"), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the Refunded Bonds; customary certificates of officers, agents, and representatives of the District and other public officials; and other certified showings relating to the authorization and issuance of the Bonds and the refunding of the Refunded Bonds. We have also analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. I-1 of this issue.

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In providing the opinions set forth herein, we have relied on representations and certifications of the District and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the District and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Order, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

Based on such examination and in reliance on such representations, certifications and assumptions, it is our opinion that:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the District;

(2) A continuing ad valorem tax, without limit as to rate or amount, has been levied on all taxable property in the District and pledged irrevocably to the payment of the principal of and interest on the Bonds;

(3) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Order, the Escrow Agreement, and the Report, and therefore such bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor under the Escrow Agreement; and

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax on individuals, but we observe that such interest is taken into account in computing the alternative minimum tax on certain corporations.

The rights of the owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

We express no opinion as to the amount or timing of interest on the Bonds or, except as stated above, any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the District and other parties upon which we have relied are determined to be inaccurate or incomplete or the District fails to comply with the covenants of the Order, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of the facts as to the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

APPENDIX E
THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

APPENDIX E

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Corporation's Annual Comprehensive Financial Report (the "Annual Report"), which is filed with the Municipal Securities Rulemaking Board ("MSRB"). The Texas School Land Board's (the "SLB") land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the "GLO") that is included in the annual comprehensive report of the State of Texas. The Annual Report includes the Message From the Chief Executive Officer of the PSF Corporation (the "Message") and the Management's Discussion and Analysis ("MD&A"). The Annual Report for the year ended August 31, 2024, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 ("Rule 15c2-12") of the United States Securities and Exchange Commission (the "SEC"), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2024, is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2024, and for a description of the financial results of the PSF for the year ended August 31, 2024, the most recent year for which audited financial information regarding the Fund is available. The 2024 Annual Report speaks only as of its date and the PSF Corporation has not obligated itself to update the 2024 Annual Report or any other Annual Report. The PSF Corporation posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation's Investment Policy Statement (the "IPS"), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the PSF Corporation's web site at https://texaspsf.org and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (*e.g.*, NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, are available from the SEC at www.sec.gov/edgar. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation's web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

Management and Administration of the Fund

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

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

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

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

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

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

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

For each biennium, beginning with the 2024-2025 State biennium, the PSF Corporation is required to submit a legislative appropriations request ("LAR") to the LBB and the Office of the Governor that details a request for appropriation of funds to enable the PSF Corporation to carry out its responsibilities for the investment management of the Fund. The requested funding, budget structure, and riders are sufficient to fully support all operations of the PSF Corporation in state fiscal years 2026 and 2027. As described therein, the LAR is designed to provide the PSF Corporation with the ability to operate as a stand-alone state entity in the State budget while retaining the flexibility to fulfill its fiduciary duty and provide oversight and transparency to the Legislature and Governor.

The Total Return Constitutional Amendment

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

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

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

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

Annual Distributions to the Available School Fund[1]

Fiscal Year Ending	2015	2016	2017	2018	2019	2020	2021	2022	2023[2]	2024
PSF(CORP) Distribution	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$2,076	$2,156
PSF(SBOE) Distribution	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-
PSF(SLB) Distribution	-	-	-	-	300	600	600[3]	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	432	440	430

[1] In millions of dollars. Source: Annual Report for year ended August 31, 2024.
[2] Reflects the first fiscal year in which distributions were made by the PSF Corporation.
[3] In September 2020, the SBOE approved a special, one-time transfer of $300 million from the portion of the PSF managed by the SBOE to the portion of the PSF managed by the SLB, which amount is to be transferred to the ASF by the SLB in fiscal year 2021. In approving the special transfer, the SBOE determined that the transfer was in the best interest of the PSF due to the historic nature of the public health and economic circumstances resulting from the COVID-19 pandemic and its impact on the school children of Texas.

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

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

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

[1] Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the PSF Corp approved transfers of $600 million per year directly to the ASF for fiscal biennium 2026-27.

PSF Corporation Strategic Asset Allocation

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

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

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

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

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

Comparative Investment Schedule – PSF(CORP)

Fair Value (in millions) August 31, 2024 and 2023

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

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

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

Investment Schedule - PSF(SLB)[1]

Fair Value (in millions) August 31, 2024

Investment Type	As of 8-31-24		
Investments in Real Assets			
Sovereign Lands	$ 277.47		
Discretionary Internal Investments	457.01		
Other Lands	153.15		
Minerals [(2), (3)]		4,540.61	[(6)]
Total Investments[(4)]		5,428.23	
Cash in State Treasury [(5)]		0	
Total Investments & Cash in State Treasury	$ 5,428.23		

[1] Unaudited figures from Table 5 in the FY 2024 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.
[2] Historical Cost of investments at August 31, 2024 was: Sovereign Lands $838,730.24; Discretionary Internal Investments $318,902,420.97; Other Lands $37,290,818.76; and Minerals $13,437,063.73.
[3] Includes an estimated 1,000,000.00 acres in freshwater rivers.

[4] Includes an estimated 1,747,600.00 in excess acreage.
[5] Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the State of Texas.
[6] Future Net Revenues discounted at 10% and then adjusted for risk factors. A mineral reserve report is prepared annually by external third-party petroleum engineers.

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2025 fiscal year, the ratio is 7.86%. At February 27, 2025, there were 188 active open-enrollment charter schools in the State and there were 1,222 charter school campuses authorized under such charters, though as of such date, 264 of such campuses are not currently serving students for various reasons; therefore, there are 958 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

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

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

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of 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 <u>less</u> 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 <u>prior to</u> 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[1]	Market Value[1]
2020	$36,642,000,738	$46,764,059,745
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023	43,915,792,841	59,020,536,667
2024[2]	46,276,260,013	56,937,188,265

[1] SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF Corporation by the SLB. The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.
[2] At August 31, 2024, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately $13.4 million, $0.8 million, $37.2 million, and $318.9 million, respectively, and market values of approximately $4,540.6 million, $277.4 million, $153.1 million, and $457.0 million, respectively.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount[1]
2020	$90,336,680,245
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603[2]

[1] Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.
[2] At August 31, 2024 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $196,294,405,488, of which $70,478,423,885 represents interest to be paid. As shown in the table above, at August 31, 2024, there were $125,815,981,603 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of $169,961,518,160 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of January 31, 2025, 7.69% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of January 31, 2025, the amount of outstanding bond guarantees represented 76.33% of the Capacity Limit (which is currently the State Capacity Limit). January 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category[1]

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

[1] Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.

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

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

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

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

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

PSF Returns Fiscal Year Ended 8-31-2024[1]

Portfolio	Return	Benchmark Return[2]
Total PSF(CORP) Portfolio	10.12	9.28
Domestic Large Cap Equities	27.30	27.14
Domestic Small/Mid Cap Equities	18.35	18.37
International Equities	18.82	18.08
Private Credit	1.41	0.93
Core Bonds	7.08	7.30
Absolute Return	11.50	8.87
Real Estate	(6.42)	(7.22)
Private Equity	4.62	4.23
High Yield	12.03	12.53
Natural Resources	12.36	6.42
Infrastructure	4.41	3.63
Bank Loans	3.02	3.23
Short Term Investment Portfolio	2.42	2.28

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

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

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

Other Events and Disclosures

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

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

As of August 31, 2024, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

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

Annual Reports

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

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

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

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

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

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

Event Notices

The TEA and the PSF Corporation will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA or the PSF Corporation will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption, or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

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