

Enhanced / Unenhanced Ratings: Moody's "Aaa" / "Aa3"  
Fitch "AAA" / "AA"  
PSF Guaranteed  
(See "RATINGS" and "THE PERMANENT SCHOOL  
FUND GUARANTEE PROGRAM")

**OFFICIAL STATEMENT**

**Dated: December 4, 2025**

**NEW ISSUE: BOOK-ENTRY-ONLY**

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

**\$42,945,000**

**AZLE INDEPENDENT SCHOOL DISTRICT**

**(A political subdivision of the State of Texas located in Tarrant, Parker and Wise Counties, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2025**

**Dated Date: December 1, 2025**

**Due: February 15, as shown on page 2**

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

The Azle Independent School District (the "District") is issuing its \$42,945,000 Unlimited Tax Refunding Bonds, Series 2025 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, including, particularly, Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), and a bond order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on October 20, 2025, in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who approved and executed a "Pricing Certificate" on December 4, 2025, which completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the "Order").

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. **Conditional approval has been received by the District from the Texas Education Agency for the Bonds to be guaranteed by the Texas Permanent School Fund Guarantee Program (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

Interest on the Bonds will accrue from the date they are initially delivered to the initial purchasers thereof named below (the "Underwriters"), and will be payable on February 15, 2026, and semiannually thereafter on each succeeding 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. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months (see "THE BONDS – General Description").

The District intends to use the Book-Entry-Only System of The Depository Trust Company ("DTC"), but use of such system could be discontinued. The principal of and interest on the Bonds at maturity or on a prior redemption date will be payable to Cede & Co., as nominee for DTC, by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the initial Paying Agent/Registrar (the "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 (i) to refund a portion of the District's outstanding bonds (the "Refunded Bonds") (see "Schedule I – SCHEDULE OF BONDS TO BE REFUNDED") and (ii) to pay costs of issuance related to the Bonds (see "THE BONDS – Purpose"). The refunding is being undertaken to lower the District's debt service payments and will result in a present value savings to the District.

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**CUSIP PREFIX: 054789 / MATURITY SCHEDULE & 9 DIGIT CUSIP – See Schedule on Page 2**

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*The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Leon Alcala, PLLC, Austin, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about December 18, 2025 (the "Date of Delivery").*

**Mesirow Financial, Inc.**

**FHN Financial Capital Markets**

**Frost Bank**

## MATURITY SCHEDULE

<b>Maturity Date (2/15)</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP Suffix<sup>(A)</sup></b>
2026	\$ 850,000	5.000%	2.670%	A28
2027	1,570,000	5.000	2.660	A36
2028	1,660,000	5.000	2.650	A44
2029	1,740,000	5.000	2.640	A51
2030	1,830,000	5.000	2.650	A69
2031	1,930,000	5.000	2.680	A77
2032	2,020,000	5.000	2.750	A85
2033	2,130,000	5.000	2.880	A93
2034	2,235,000	5.000	2.910	B27
2035	2,355,000	5.000	2.970	B35
2036	2,470,000	5.000	3.090 <sup>(B)</sup>	B43
2037	2,600,000	5.000	3.230 <sup>(B)</sup>	B50
2038	2,730,000	5.000	3.350 <sup>(B)</sup>	B68
2039	2,875,000	5.000	3.470 <sup>(B)</sup>	B76
2040	4,795,000	5.000	3.620 <sup>(B)</sup>	B84
2041	5,040,000	5.000	3.740 <sup>(B)</sup>	B92
2042	4,115,000	5.000	3.880 <sup>(B)</sup>	C26

(Interest to accrue from the Date of Delivery)

**OPTIONAL REDEMPTION...**The Bonds maturing on and after February 15, 2036, are subject to redemption prior to stated maturity, at the option of the District, in whole or 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 – Redemption Provisions”).

<sup>(A)</sup> 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. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for CUSIP services. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP numbers for the Bonds are subject to change after the issuance as a result of various post-issuance events, including, but not limited to, a partial defeasance of the Bonds.

<sup>(B)</sup> Yield for the Bonds denoted and sold at a premium is calculated to their first optional redemption date, February 15, 2035.

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable, but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Financial Advisor or the Underwriters.

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of the Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See “Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency (“TEA”) and the District, respectively, to provide certain information on a continuing basis.

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 FOR THE PURCHASE THEREOF.

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

None of the District, 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 described under “BOOK-ENTRY-ONLY SYSTEM” or the affairs of the TEA described in “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 pursuant to their respective responsibilities to investors under federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

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

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

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

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*The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents and the Schedule and Appendices attached 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.

<b>The District</b>	Azle Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Tarrant, Parker and Wise Counties, Texas. The District is governed by a seven-member Board of Trustees (the “Board”). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see “Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “Appendix B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
<b>Authority for Issuance</b>	The District’s Unlimited Tax Refunding Bonds, Series 2025 (the “Bonds”) are being issued pursuant to the Constitution and general laws of the State, including, particularly, Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board on October 20, 2025. In the Bond Order, the Board delegated to an officer of the District (the “Pricing Officer”) authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which was approved and executed by the Pricing Officer on December 4, 2025, and completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”) (see “THE BONDS – Authorization”).
<b>The Bonds</b>	The Bonds shall mature on the dates and in the amounts set forth on page 2 of this Official Statement (see “THE BONDS – General Description”).
<b>Payment of Interest</b>	Interest on the Bonds will accrue from the date of their initial delivery (the “Date of Delivery”) to the initial purchasers thereof (the “Underwriters”) and will be payable on February 15, 2026, and semiannually thereafter on each succeeding August 15 and February 15 of each year until stated maturity or prior redemption (see “THE BONDS – General Description”).
<b>Security</b>	The Bonds constitute direct obligations of the District, payable as to principal and interest from an annual ad valorem tax levied against all taxable property located within the District, without legal limit as to rate or amount (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 the District has received conditional approval from the Texas Education Agency (“TEA”) for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
<b>Use of Proceeds</b>	Proceeds from the sale of the Bonds will be used (i) to refund a portion of the District’s outstanding bonds (the “Refunded Bonds”) (see “Schedule I – SCHEDULE OF BONDS TO BE REFUNDED”) and (ii) to pay costs of issuance related to the Bonds (see “THE BONDS – Purpose”). The refunding is being undertaken to lower the District’s debt service payments and will result in a present value savings to the District.
<b>Redemption Provisions</b>	The Bonds maturing on and after February 15, 2036, are subject to redemption prior to stated maturity, at the option of the District, in whole or 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 – Redemption Provisions”).
<b>Tax Exemption</b>	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on certain corporations.

<b>Ratings</b>	<p>Moody’s Investors Service, Inc. (“Moody’s”) and Fitch Ratings, Inc. (“Fitch”) have assigned municipal bond ratings of “Aaa” and “AAA”, respectively to the Bonds based upon the Permanent School Fund Guarantee. Moody’s and Fitch generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas “Aaa” and “AAA”, respectively (see “Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “RATINGS”).</p> <p>The District’s underlying ratings for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) are “Aa3” by Moody’s and “AA” by Fitch (see “RATINGS”).</p>
<b>Book-Entry-Only System</b>	<p>The definitive Bonds will be initially registered and delivered only to Cede &amp; Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds at maturity or on a prior redemption date will be payable by the Paying Agent/Registrar to Cede &amp; 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”).</p>
<b>Paying Agent/Registrar</b>	<p>The initial Paying Agent/Registrar for the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar”).</p>
<b>Continuing Disclosure of Information</b>	<p>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” for a description of the undertaking of the TEA to provide certain information on a continuing basis.</p>
<b>Payment Record</b>	<p>The District has never defaulted on the payment of its bonded indebtedness.</p>
<b>Legality</b>	<p>Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality and tax exemption by McCall, Parkhurst &amp; Horton L.L.P., Dallas, Texas, Bond Counsel (see “LEGAL MATTERS” and “TAX MATTERS”).</p>

For additional information regarding the District, please contact:

Summer Mathis  
Chief Financial Officer  
Azle Independent School District  
300 Roe Street  
Azle, Texas 76020  
Phone: (817) 444-0805

or

Joshua McLaughlin or  
Alison Long  
BOK Financial Securities, Inc.  
5601 Granite Parkway, Suite 1300  
Plano, Texas 75024  
Phone: (214) 576-0878

# **AZLE INDEPENDENT SCHOOL DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

## **ELECTED OFFICIALS**

<u>Name</u>	<u>Term Expires</u>	<u>Occupation</u>
Bill Lane, President	May 2028	Deputy City Manager
Tim Brown, Vice President	May 2027	Funeral Director
Sarah Bennett, Secretary	May 2026	Community Volunteer
Jeff Edwards, Member	May 2028	Firefighter
Brandon Geary, Member	May 2027	Pastor
Jeremy May, Member	May 2028	Land Title Professional
Dr. Brenda Reed, Member	May 2026	Nursing Professor and Family Nurse Practitioner

## **CERTAIN DISTRICT OFFICIALS**

<u>Name</u>	<u>Position</u>
Todd Smith, M.Ed.	Superintendent of Schools
Jessica Hanson	Assistant Superintendent
Summer Mathis	Chief Financial Officer
Michael Sain	Director of Athletics
Dr. Suzanne Murr	Director of Career and Technical Education
Amanda Moore	Director of Communications
Sheri Welch	Director of Elementary Curriculum and Bi-lingual/ESL
Jordan Thiem	Director of Secondary Curriculum and Federal Programs
David Wright	Director of Fine Arts
Mark Kehoe	Director of Human Resources
Ernest Johnston	Director of Maintenance
Matt Adams	Director of Operations
Darren Brockway	Police Chief
Krista MacFarlane	Director of Special Services
Laura Woody	Director of Student Nutrition
Robin Tarpley	Director of Student Services/Testing
David Oestreicher	Director of Technology
Chuck Weiss	Director of Transportation

## **CONSULTANTS AND ADVISORS**

Auditors..... Hankins, Eastup, Deaton, Tonn, Seay & Scarborough, LLC  
Denton, Texas

Bond Counsel..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisor..... BOK Financial Securities, Inc.  
Plano, Texas

**OFFICIAL STATEMENT RELATING TO**  
**\$42,945,000**  
**AZLE INDEPENDENT SCHOOL DISTRICT**  
**(A political subdivision of the State of Texas located in Tarrant, Parker and Wise Counties, Texas)**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2025**

**INTRODUCTORY STATEMENT**

This Official Statement, including Schedule I and Appendices A, B and D, has been prepared by the Azle Independent School District located in Tarrant, Parker and Wise Counties, Texas (the “District”), in connection with the offering by the District of its Unlimited Tax Refunding Bonds, Series 2025 (the “Bonds”), identified on the cover page hereof.

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 “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, BOK Financial Securities, Inc., 5601 Granite Parkway, Suite 1300, Plano, Texas 75024.

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 pursuant to the Constitution and general laws of the State of Texas (the “State”), including, particularly, Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), Chapter 1371, Texas Government Code, as amended (“Chapter 1371”), and an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the District’s Board of Trustees (the “Board”) on October 20, 2025. In the Bond Order, the Board delegated to an officer of the District (the “Pricing Officer”) authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which was approved and executed by the Pricing Officer on December 4, 2025, and completed the sale of the Bonds (the Bond Order and the Pricing Certificate are collectively referred to as the “Order”). Capitalized terms used herein have the same meanings assigned to such terms in the Order, except as otherwise indicated.

**Purpose**

The Bonds will be used to refund a portion of the District’s currently outstanding bonds (the “Refunded Bonds”) (see “THE BONDS – Refunded Bonds” and “Schedule I – SCHEDULE OF BONDS TO BE REFUNDED” for a more complete description of the Refunded Bonds) and to pay costs of issuance related to the Bonds. The refunding is being undertaken to lower the District’s debt service payments and will result in a present value savings to the District.

**Refunded Bonds**

A description and identification of the Refunded Bonds appears in Schedule I attached hereto. The Refunded Bonds and the interest due thereon are to be paid on their redemption date from funds to be deposited pursuant to an Escrow Agreement (the “Escrow Agreement”) between the District and The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Escrow Agent”).

The Order provides that from the proceeds of the sale of the Bonds to the initial purchasers thereof (the “Underwriters”), the District will deposit with the Escrow Agent an amount, which, when added to the investment earnings thereon, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in an escrow account (the “Escrow Fund”) and used to purchase United States Treasury Securities - State and Local



Government Series (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Bonds. Amounts in the Escrow Fund will not be available to pay debt service on the Bonds.

Public Finance Partners LLC (the “Verification Agent”) will verify at the time of delivery of the Bonds to the Underwriters that the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the debt service on the Bonds (see “VERIFICATION OF ARITHMETICAL COMPUTATIONS”).

By the deposit of the Escrowed Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds pursuant to the terms of Chapter 1207 and the order authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent in the Escrow Fund, such Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose, and the District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure to receive payment when due on the Escrowed Securities. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund of Texas.

### **General Description**

The Bonds shall be dated December 1, 2025, and interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will accrue from the date of their initial delivery (the “Date of Delivery”) to the Underwriters, at the interest rates shown on page 2 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. The Bonds are to mature on the dates and in the principal amounts shown on page 2 hereof. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. The paying agent and transfer agent for the Bonds is initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”).

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners. The principal of and interest on the Bonds at maturity or upon prior redemption 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.

Interest on the Bonds will be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined) and such accrued interest will be paid by (i) check sent by United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The record date for determining the party to whom interest is payable on any interest payment date for the Bonds is the close of business on the last business day of the month next preceding such interest payment date (the “Record Date”) (see “REGISTRATION, TRANSFER AND EXCHANGE – Record Date for Interest Payment”). The principal of the Bonds at maturity or on a prior redemption date will be payable only upon presentation and surrender of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or prior redemption, as applicable; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein.

### **Security**

The Bonds are direct obligations of the District and are payable as to principal and interest from an annual ad valorem tax levied on all taxable property within the District, without legal limit as to rate or amount, as provided in the Order. Additionally, the District has received conditional approval from the Texas Education Agency (“TEA”) for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see “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 received conditional approval from the Texas Commissioner of Education for guarantee of the Bonds under the Texas Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas

Education Code, as amended). Subject to satisfying certain conditions discussed in “Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas.

In the event of default, registered owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund. The Permanent School Fund Guarantee will terminate with respect to Bonds that are defeased (see “THE BONDS – Defeasance of Bonds”).

### **Redemption Provisions**

The Bonds maturing on and after February 15, 2036, are subject to redemption prior to stated maturity, at the option of the District, in whole or 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.

If less than all of the Bonds are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof within a maturity, to be redeemed.

### **Notice of Redemption**

At least 30 days prior to the date fixed for any such redemption of the Bonds, the District shall cause a written notice of such redemption to be deposited in the United States mail, first-class postage prepaid, addressed to each registered owner at the address shown on the Registration Books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. 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.

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

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 of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas (see “LEGAL MATTERS” and “Appendix C – FORM OF LEGAL OPINION OF BOND COUNSEL”).

### **Payment Record**

The District has never defaulted with respect to the payment of its bonded indebtedness.

## **Defeasance of Bonds**

The Order provides for the defeasance of the Bonds when the payment on the Bonds to the due date thereof (whether such due date be by reason of maturity or otherwise) is provided by irrevocably depositing with the Paying Agent/Registrar or authorized escrow agent, in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities (defined herein) that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Order provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the District authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the District authorizes the defeasance of the Bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. There is no assurance that current State law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

The District has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance, and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. After firm banking and financial arrangements for the defeasance of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or to take any action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the defeasance of the Bonds, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of such banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

## **Amendments**

In the Order, the District has reserved the right to amend the Order without the consent of any holder for the purpose of amending or supplementing the Order to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Order that do not materially adversely affect the interests of the holders, (iv) qualify the Order under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Order that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the District, do not materially adversely affect the interests of the holders.

The Order further provides that the holders of the Bonds aggregating in principal amount of a majority of outstanding Bonds that are the subject of a proposed amendment shall have the right from time to time to approve any amendment not described above to the Order if it is deemed necessary or desirable by the District; provided, however, that without the consent of 100% of the holders in principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Order for further provisions relating to the amendment thereof.

## Sources and Uses of Funds

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

### Sources:

Principal Amount of the Bonds	\$ 42,945,000.00
Original Issue Reoffering Premium on the Bonds	<u>4,678,751.35</u>
<b>Total Sources of Funds</b>	<b><u>\$ 47,623,751.35</u></b>

### Uses:

Deposit to Escrow Fund	\$ 47,183,229.64
Costs of Issuance and Underwriters' Discount	<u>440,521.71</u>
<b>Total Uses of Funds</b>	<b><u>\$ 47,623,751.35</u></b>

## 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.

## REGISTERED OWNERS' REMEDIES

The Order specifies events of default as the failure of the District to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable, along with the failure by the State of Texas to honor the Permanent School Fund guarantee for such payment, or default in the performance or observance of any other covenant, agreement or obligation of the District, which failure materially, adversely affects the rights of the registered owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any registered owner to the District. Upon an event of default, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, as well as enforce rights of payment under the Permanent School Fund Guarantee, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the subcaption "THE BONDS – Authorization"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the State legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce creditors' rights 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors, principles of governmental immunity and by general principles of equity which permit the exercise of judicial discretion.

See “Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC’s nominee. 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 principal of, premium, if any, interest and redemption payments on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Financial Advisor and the Underwriters believe the source of such information to be reliable, but none of the District, the Financial Advisor or the Underwriters takes any responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each stated maturity of the Bonds, as set forth on page 2 hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any

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

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as 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 Participant and not of DTC, the Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates 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 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 "REGISTRATION, TRANSFER AND EXCHANGE" below.

### **REGISTRATION, TRANSFER AND EXCHANGE**

#### **Paying Agent/Registrar**

The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, 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. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees

to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date, and such interest will be paid (i) by check sent United States mail, first class, postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds at maturity or on a prior redemption date will be paid to the registered owner at the stated maturity or earlier redemption, as applicable, upon presentation and surrender to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the principal corporate trust office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

### **Future Registration**

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 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. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in 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.

### **Record Date for Interest Payment**

The Record Date for determining the person to whom the interest on the Bonds is payable 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 (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Limitation on Transfer of Bonds**

The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to Bonds (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount, maturity and interest rate 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 Paying Agent/Registrar of satisfactory evidence to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. 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.

## 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 of Texas 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 McCall, Parkhurst & Horton L.L.P., Bond Counsel, with respect to the Bonds being issued in compliance with the provisions of applicable law and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code of 1986, subject to the matters described under “TAX MATTERS” herein, including the alternative minimum tax on certain corporations. The form of Bond Counsel’s opinion is attached hereto as Appendix C.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District in connection with the issuance of the Bonds. Bond Counsel also advises the TEA in connection with its disclosure obligations under the federal securities laws, but Bond Counsel has not passed upon any TEA disclosures contained in this Official Statement. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under the captions, “THE BONDS” (except under the subcaptions “Permanent School Fund Guarantee,” the fourth paragraph under “Notice of Redemption,” “Payment Record” and “Sources and Uses of Funds”), “REGISTRATION, TRANSFER AND EXCHANGE,” “LEGAL MATTERS” (except for the last two sentences of this paragraph), “TAX MATTERS,” “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE,” “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” “TAX RATE LIMITATIONS,” “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” and “CONTINUING DISCLOSURE OF INFORMATION” (except under the subcaption “Compliance with Prior Undertakings”) and such firm is of the opinion that the information relating to the Bonds and legal matters contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The District expects to pay the legal fee of Bond Counsel for services rendered in connection with the issuance of the Bonds from proceeds of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Leon Alcala, PLLC, Austin, Texas. The legal fee of such firm is 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.

## TAX MATTERS

### Opinion

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

In rendering its opinion, Bond Counsel will rely upon (a) the District’s federal tax certificate; (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds, and certain other matters; (c) the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund; and (d) the verification report of Public Finance Partners LLC. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with the covenants and



requirements described in the preceding paragraph, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

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

### **Federal Income Tax Accounting Treatment of Original Issue Discount**

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

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

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

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

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

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and

profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

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

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

#### **State, Local and Foreign Taxes**

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

#### **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of foreign investors, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

#### **Future and Proposed Legislation**

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

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission (the "SEC") under the Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2). The Bonds have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for registration or 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 registration or 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 or qualification provisions.

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

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

### **Litigation Relating to the Texas Public School Finance System**

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer and Student Fairness Coalition*, 490 S.W.3d 826 (Tex. 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the State Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "[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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the State Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

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

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

### **Overview**

The following language constitutes only a summary of the public school finance system as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Certain of the information provided below was contingent on voter approval of constitutional amendments that were submitted to the voters at an election held on November 4, 2025 and each of these amendments passed. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions" below.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts may not increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to \$1.50 per \$100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

### **2023 Regular and Special Legislative Sessions**

The regular session of the 88th Texas Legislature convened on January 10, 2023 and adjourned on May 29, 2023. The State Legislature meets in regular session in odd numbered years for 140 days. During the 88th Regular Session, the State Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and administrative agencies that oversee school districts. Legislation enacted by the State Legislature fully-funded the Foundation School Program for the 2023-2024 State fiscal biennium and increased the State guaranteed yield on the first \$0.08 cents of tax effort beyond a school district's Maximum Compressed Tax Rate (as defined herein) to \$126.21 per penny of tax effort per student in WADA (as defined herein) in 2024 (from \$98.56 in 2023) and \$129.52 per penny of tax effort per student in WADA in 2025 (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – *Tier Two*"). The State Legislature also provided for an increase in funding for the school safety allotment to \$10.00 (from \$9.72 in the prior year) per ADA (as defined herein) and \$15,000 per campus.

When the State Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor called and the State Legislature concluded four special sessions during the 88th Texas Legislature. During the second called special session, legislation was passed, and at an election held in the State on November 7, 2023, voters approved a State constitutional amendment that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased the amount of the mandatory school district residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and to hold districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibited school districts, cities and counties from repealing or reducing a local option general homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the State Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. This legislation reduces the amount of property taxes paid by homeowners and businesses and increases the State's share of the cost of funding public education.

### **2025 Legislative Sessions**

The regular session of the 89th Texas Legislature commenced on January 14, 2025 and adjourned on June 2, 2025 (the "89th Regular Session"). As described above, the Governor may call special sessions when the State Legislature is not in session. During the 89th Regular Session, the State Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Pursuant to voter approval at a statewide election held on November 4, 2025, legislation passed by both houses of the State Legislature and signed by the Governor, the following will increase: (1) effective from and after the 2025 tax year, the State mandated general homestead exemption of the appraised value for all homesteads from \$100,000 to \$140,000, (2) effective from and after the 2025 tax year, the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000, and (3) effective from and after the 2026 tax year, the exemption for tangible personal property used in the "production of income" from \$2,499 to \$125,000. Additionally, both houses of the State Legislature passed and the Governor signed legislation that would authorize roughly \$8.5 billion in funding for public schools and would provide districts with a \$55 per-student increase to their base funding, as well as provide districts with additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation passed by the State Legislature and signed into law by the Governor will create an education savings account program ("ESA") (commonly referred to as vouchers) for students that attend private schools or home school. The legislation

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

The Governor called for a special session on June 23, 2025, which began on July 21, 2025 and adjourned on August 15, 2025 (the "First Special Session"). The Governor called for a second special session on August 15, 2025, which also began on August 15, 2025 and adjourned on September 4, 2025 (the "Second Special Session"). Items considered during the First Special Session and Second Special Session included "legislation to eliminate the STAAR test and replace it with effective tools to assess student progress and ensure school district accountability" and "legislation reducing the property tax burden on Texans and legislation imposing spending limits on entities authorized to impose property taxes." Additional special sessions may be called by the Governor. During this time, the State Legislature may enact laws that materially change current law as it relates to funding public school, including the District and its finances.

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

### **Local Funding for School Districts**

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

*State Compression Percentage.* The State Compression Percentage (the "SCP") is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

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

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district’s MCR.

### **State Funding for School Districts**

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

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

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

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

*Tier One.* Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the “Basic Allotment”) for each student in “Average Daily Attendance” (being generally calculated as the sum of student attendance, other than students in average daily attendance who do not reside in the district and are enrolled in a full-time virtual program, for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”). The Basic Allotment is revised downward if a school district’s Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics, and demographics of students in ADA, to make up most of a school district’s Tier One entitlement under the Foundation School Program.

The Basic Allotment for a school district with a Tier One Tax Rate equal to the school district’s MCR, is \$6,160 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 each year of the 2026-2027 fiscal 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 Texas’ goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation and retention in disadvantaged or rural school districts. A school district’s total Tier One funding, divided by the 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 weight is 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$320 million for each year of the 2026-2027 State fiscal biennium.

Beginning with the 2026-2027 fiscal biennium, school districts will also receive an annual allotment of \$106 per enrolled student. The funds under this allotment may only be used for specific operational costs related to transportation, hiring retired teachers, providing health insurance and employee benefits and paying for payroll taxes, contributions and other costs related to member contributions under the Teacher Retirement System of Texas, utilities, and property and casualty insurance.

*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 this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2026-2027 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

Since future-year IFA awards were not funded by the 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 that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemptions. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – *Tax Rate and Funding Equity*" below.

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 Commissioner. In the 2025 Legislative Sessions, the State Legislature appropriated funds in the amount of \$150,000,000 for each fiscal year of the 2026-2027 State fiscal biennium for NIFA allotments.

*Tax Rate and Funding Equity.* The Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-

mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.

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

### **Local Revenue Level in Excess of Entitlement**

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

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

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

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

### **CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT**

For the 2025-2026 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it may be required each year to



exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

## **AD VALOREM PROPERTY TAXATION**

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

### **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 collective responsibility of the Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District (each an "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

Effective January 1, 2024, an appraisal district may only increase the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026, the Maximum Property Value may be increased or decreased by the product of the preceding State fiscal year's increase or decrease in the consumer price index, as applicable, to the applicable Maximum Property Value. After such time, the value limitation provisions for non-homestead properties described above will expire unless extended by future legislation. For the 2025 tax year, the Maximum Property Value was increased to \$5,160,000.

**State Mandated Homestead Exemptions.** State law grants, with respect to each school district in the State, (1) a \$140,000 exemption of the appraised value of all homesteads, (2) a \$60,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions” herein for a discussion of the increase in the general State mandated homestead exemption of the appraised value for all homesteads from \$100,000 to \$140,000 and an increase in the State mandated homestead exemption of persons sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000.

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

Cities, counties and school districts are prohibited from repealing or reducing a local option general homestead exemption described in (1) above that was granted in tax year 2022 through December 31, 2027.

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

*Personal Property.* Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. From and after the 2026 tax year, a person is entitled to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions” herein for a discussion of the increase in the exemption for tangible personal property used in the “production of income” from \$2,499 to \$125,000.

*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 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. For more information on the exemption, reference is made to Section 11.35 of the Tax Code. Section 11.35 of the Property Tax Code was amended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster.

**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 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”). During the regular session of the 88th Texas Legislature, House Bill 5, codified as Chapter 403, Subchapter T, Texas Government Code (“Chapter 403T”) was enacted into law. Chapter 403T is intended as a replacement of former Chapter 313, Texas Tax Code (“Chapter 313”), but it contains significantly different provisions than the prior program under Chapter 313. Under Chapter 403T, a school district may offer a 50% abatement on taxable value for M&O property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. Chapter 403T also provides a 100% abatement of M&O taxes for eligible property during a project’s construction period. Taxable valuation for purposes of the debt service taxes securing the Bonds cannot be abated under Chapter 403T. Eligible projects must relate to manufacturing, provision of utility services, dispatchable electric generation (such as non-renewable energy), development of natural resources, critical infrastructure, or research and development for high-tech equipment or technology, and projects must create and maintain jobs and meet certain minimum investment requirements.

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

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. For a schedule of the reductions in assessed valuation attributable to the exemptions allowed by the District, see “Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT.”

### **Recent Change in Reappraisal Plan**

At its meeting on August 9, 2024, the board of directors of the Tarrant Appraisal District (the “TAD Board”) approved a reappraisal plan to appraise residential values every other year, instead of annually, with appraisals occurring in odd-numbered years beginning in tax year 2027. All other property types will be reappraised annually. The reappraisal plan will hold residential values for the 2025 tax year at 2024 levels, except for new construction and improvements. Additionally, the TAD Board approved a 5% “threshold” to residential market value increases, which would require “clear and convincing evidence” to support an increase higher than 5% to the market value of a residentially coded property over the prior year’s appraisal roll.

## **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 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

## **Levy and Collection of Taxes**

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

The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See “AD VALOREM PROPERTY TAXATION – Valuation of Taxable Property – *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

Each respective Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Tarrant, Parker and Wise Counties. Each Appraisal District is governed by a board of directors appointed by voters of the governing bodies of various political subdivisions in Tarrant, Parker and Wise Counties. The District's taxes are collected by the Tarrant County Tax Assessor-Collector.

The District grants a State mandated \$140,000 general residence homestead exemption. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions" herein for a discussion of an increase in the State mandated general residence homestead exemption from \$100,000 to \$140,000.

The District grants a State mandated \$60,000 residence homestead exemption for persons 65 years of age or older and the disabled. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions" herein for a discussion of an increase in the State mandated residence homestead exemption for persons 65 years of age or older and the disabled from \$10,000 to \$60,000.

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

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

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

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 exempts "freeport property" from taxation.

The District has taken action to continue taxing "goods-in-transit."

The District is not currently a participant in any tax increment reinvestment zone.

The District is not currently a participant in any tax abatement or tax limitation agreements.

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. Charges for penalties and interest on the unpaid balance of delinquent taxes are as follows:

<u>Date</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve-month average) and taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Split payments of taxes are permitted. Discounts for the early payment of taxes are not permitted.

## **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 December 5, 1964, 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.

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

### **I&S Tax Rate Limitations**

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

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, as well as hold-harmless funding from the State, 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 50-cent 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 50-cent Test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as refunding bonds pursuant to Chapter 1207, Texas Government Code, and are, therefore, not subject to the 50-cent Test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the 50-cent Test as applied to subsequent issues of "new debt."

### **Public Hearing and Voter-Approval Tax Rate**

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

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

rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

## **RATINGS**

Moody's Investors Service, Inc. ("Moody's") and Fitch Ratings, Inc. ("Fitch") have assigned municipal bond ratings of "Aaa" and "AAA", respectively, to the Bonds based upon the Permanent School Fund Guarantee. Moody's and Fitch generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa" and "AAA", respectively (see "Appendix E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's underlying ratings for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) are "Aa3" by Moody's and "AA" by Fitch.

An explanation of the significance of any rating may be obtained from the company furnishing the rating. Each rating reflects only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that any rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by either or both rating companies, if in the judgment of either or both companies, circumstances so warrant. Due to the ongoing political uncertainty regarding the United States of America debt limit, obligations issued by state and local governments in the United States, such as the Bonds, could be subject to a rating downgrade. Additionally, if a significant default or other financial crisis should occur in the affairs of the United States of America or of any of its agencies or political subdivisions, then such event could also adversely affect the ratings of, market for, and market value of outstanding debt obligations, including the Bonds. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

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

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, as amended), the Bonds are (i) negotiable instruments, (ii) investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (see “RATINGS”). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

## **INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE DISTRICT**

The District invests its investable funds in investments authorized by State law and in accordance with investment policies approved and reviewed annually by the Board. Both State law and the District’s investment policies are subject to change.

### **Legal Investments**

Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) “A” or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an “A” or better rated state or national bank; (10) 270-day or shorter bankers’ acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least “A-1” or “P-1”; (11) commercial paper rated at least “A-1” or “P-1”; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) “AAA” or “AAAm”-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund’s total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

As a school district that qualifies as an “issuer” under Chapter 1371, Texas Government Code, as amended, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in “AA-” or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or placed on negative credit watch.



## Investment Policies

Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

## Current Investments

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

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Public Trust Advisors Managed Account <sup>(A)</sup>	\$ 82,216,287.55	77.46%
Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS") <sup>(A)</sup>	15,989,932.29	15.07%
Texas Short Term Asset Reserve Program ("TexStar") <sup>(A)</sup>	5,787,714.35	5.45%
Lone Star Investment Pool ("Lone Star") <sup>(A)</sup>	2,139,851.46	2.02%
<b>Total</b>	<b><u>\$ 106,133,785.65</u></b>	<b><u>100.00%</u></b>

<sup>(A)</sup> Public Trust Advisors Managed Account, Texas CLASS, TexStar and Lone Star operate pursuant to Chapter 2256 of the Texas Government Code, as amended. Texas CLASS, TexStar and Lone Star operate as a money market equivalent, in a manner consistent with the SEC's Rule 2a-7 under the Investment Company Act of 1940. No funds of the District are invested in derivative securities, i.e. securities whose rate of return is determined by reference to some other instrument, index or commodity.

## EMPLOYEES' 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 State's fiscal year ended August 31, 2024, the State contributed \$2,921,186 to TRS on behalf of the District. For the District's fiscal year ended June 30, 2024, District employees paid \$4,853,687 and other contributions into the Plan made from federal and private grants and the District for salaries above the statutory minimum were \$2,353,429. For more detailed information concerning the Plan, TRS's net pension liability with respect thereto and the District's proportionate share of such net pension liability, see Note 9 to the District's audited financial statements attached hereto as Appendix D.

In addition to its participation in the TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see Note 10 to the District's audited financial statements attached hereto as Appendix D.

As a result of its participation in the Plan and the TRS-Care Retired Plan and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by State 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.

## **WEATHER EVENTS**

If a future weather event significantly damages 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 revenue and/or necessitate an increase in the District's tax rate. Under certain conditions, State law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as a tornado, flooding or extreme drought and upon 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 carry flood or the appropriate, applicable 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 repay 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.

## **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.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the MSRB. See "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 will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables 1 through 18 in "Appendix A – FINANCIAL INFORMATION REGARDING THE DISTRICT" (the "Annual Operating Report"). The District will additionally provide financial statements of the District (the "Financial Statements") that will be (i) prepared in accordance with the accounting principles described in Appendix D or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation and shall be in substantially the form included in Appendix D and (ii) audited, if the District commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided. The District will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2025. The District may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but 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 Financial Statements becomes available.

The District's current fiscal year end is June 30. Accordingly, the District must provide the Annual Operating Report by the last day of December in each year, and the Financial Statements for the preceding fiscal year must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to

any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC, as permitted by Rule 15c2-12.

### **Notices of Certain Events**

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

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, and (b) the District intends the words used in clauses (15) and (16) in the immediately preceding paragraph and the definition of Financial Obligation below to have the same meanings as when they are used in Rule 15c2-12, as evidenced by SEC Release No. 34-83885, dated August 20, 2018. As used in this section, the term "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 (i) or (ii); provided however, that a "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.

### **Availability of Information from MSRB**

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

### **Limitations and Amendments**

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby in compliance with 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 registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a

person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of 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 in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

### **Compliance with Prior Undertakings**

Except as described below, during the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

The District changed its fiscal year end from August 31 to June 30 for the 2022-2023 fiscal year. As such, pursuant to existing continuing disclosure agreements, certain updated financial information and operating data of the District became due December 31, 2023, and was not timely filed with the MSRB through its EMMA system. All information has since been filed including a notice of late filing.

### **VERIFICATION OF ARITHMETICAL COMPUTATIONS**

The Verification Agent will deliver to the District, on or before the Date of Delivery 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 Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds. Such verification will be relied upon by Bond Counsel in rendering its opinion with respect to defeasance of the Refunded Bonds.

The verification performed by the Verification Agent will be solely based upon data, information and documents provided to the Verification Agent by BOK Financial Securities, Inc. on behalf of the District. The Verification Agent has restricted its procedures to recalculating the computations provided by BOK Financial Securities, Inc. on behalf of the District and has not evaluated or examined the assumptions or information used in the computations.

### **LITIGATION**

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

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

### **FINANCIAL ADVISOR**

BOK Financial Securities, Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of debt proceeds or other funds of the District, upon the request of the District.

BOK Financial Securities, Inc., 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 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 equal to the initial offering price to the public, as shown on page 2 of this Official Statement, less an underwriting discount of \$223,125.25, and no accrued interest. 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 paragraphs for inclusion in this Official Statement and the District makes no representation or warranty with respect to such information.

The Underwriters have reviewed the information in this Official Statement pursuant to their respective responsibilities to investors under the federal securities laws, 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 sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. The Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the District and to persons and entities with relationships with 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.

## **FORWARD-LOOKING STATEMENTS**

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

The forward-looking statements 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 would prove to be accurate.

## **CONCLUDING STATEMENT**

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

## MISCELLANEOUS

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, Rule 15c2-12.

In the Bond Order, the Board authorized the Pricing Officer to approve, and in the Pricing Certificate the Pricing Officer did approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of Rule 15c2-12.

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*Summer Mathis*

Pricing Officer

Azle Independent School District

**SCHEDULE I**  
**SCHEDULE OF BONDS TO BE REFUNDED**

<u>Series</u>	<u>Original Dated Date</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u> <sup>(A)</sup>	<u>Maturities Being Refunded</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Being Refunded</u>	<u>Redemption Date</u>
Unlimited Tax School Building Bonds, Series 2017	02/01/17	\$ 54,450,000.00	\$ 49,235,000.00	02/15/27	\$ 1,790,000.00	\$ 1,790,000.00	02/15/26
				02/15/28	1,885,000.00	1,885,000.00	02/15/26
				02/15/29	1,975,000.00	1,975,000.00	02/15/26
				02/15/30	2,080,000.00	2,080,000.00	02/15/26
				02/15/31	2,190,000.00	2,190,000.00	02/15/26
				02/15/32	2,285,000.00	2,285,000.00	02/15/26
				02/15/33	2,380,000.00	2,380,000.00	02/15/26
				02/15/34	2,475,000.00	2,475,000.00	02/15/26
				02/15/35	2,595,000.00	2,595,000.00	02/15/26
				02/15/36	2,725,000.00	2,725,000.00	02/15/26
				02/15/37	2,865,000.00	2,865,000.00	02/15/26
				02/15/38	3,010,000.00	3,010,000.00	02/15/26
				****	****	****	****
				02/15/42	19,275,000.00 <sup>(A)(B)</sup>	18,095,000.00 <sup>(B)</sup>	02/15/26
					<u>\$ 47,530,000.00</u>	<u>\$ 46,350,000.00</u>	

<sup>(A)</sup> Please note, the District's Board of Trustees has approved a \$1,180,000 cash redemption of the February 15, 2042 maturity prior to scheduled maturity on February 15, 2026.

<sup>(B)</sup> Represents a Term Bond having sinking fund payments in 2039, 2040, 2041 and a final maturity in 2042.

**APPENDIX A**

**FINANCIAL INFORMATION REGARDING THE DISTRICT**



## FINANCIAL INFORMATION REGARDING THE DISTRICT

**Table 1**  
**ASSESSED VALUATION**

2025/26 Total Assessed Valuation.....	\$ 8,176,745,217
2025/26 Taxable Assessed Valuation.....	\$ 5,183,863,935 <sup>(A)</sup>

<u>Exemption</u>	<u>Total</u>
Residential Homestead.....	\$ 1,437,452,516
10% Residential Homestead Cap.....	491,051,097
20% Non-Homestead Property Cap.....	92,723,374
Over 65.....	214,191,873
Disabled Persons.....	10,630,921
Disabled/Deceased Veterans.....	176,801,221
Freeport.....	18,516,625
Pollution Control.....	234,290
Productivity Loss.....	541,788,757
Prorated Exempt Property.....	370,324
Other.....	9,120,284
Total (36.60% of Total Assessed Valuation).....	<u>\$ 2,992,881,282</u>

<sup>(A)</sup> Such valuation includes an increase in the State-mandated general residence homestead exemption from \$100,000 to \$140,000 and an increase in the State-mandated residence homestead exemption for persons 65 years of age or older and the disabled from \$10,000 to \$60,000 pursuant to a constitutional amendment approved at a statewide election held on November 4, 2025.

Source: Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District update records.

**Table 2**  
**UNLIMITED TAX DEBT OUTSTANDING <sup>(A)(B)</sup>**

Unlimited Tax Debt Outstanding (As of December 1, 2025).....	\$ 268,840,000 <sup>(C)</sup>
Plus: The Bonds (Dated: December 1, 2025).....	42,945,000
Less: The Refunded Bonds.....	46,350,000
TOTAL UNLIMITED TAX DEBT OUTSTANDING.....	\$ 265,435,000 <sup>(C)</sup>
Less: Interest & Sinking Fund Balance (Unaudited, as of June 30, 2025).....	12,657,330
NET UNLIMITED TAX DEBT OUTSTANDING.....	<u>\$ 252,777,670 <sup>(C)</sup></u>

<sup>(A)</sup> See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

<sup>(B)</sup> Does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Capital Leases").

<sup>(C)</sup> Excludes interest accreted on outstanding capital appreciation bonds. Includes a \$1,180,000 cash redemption of the District's Unlimited Tax School Building Bonds, Series 2017 prior to scheduled maturity on February 15, 2026.

2025 Estimated Population	46,559	Per Capita Total Assessed Valuation	\$ 175,621
2025/26 Enrollment	7,194	Per Capita Taxable Assessed Valuation	\$ 111,340
Area (square miles)	92.89	Per Capita Total Unlimited Tax Debt	\$ 5,701

**Table 3**  
**ESTIMATED GENERAL OBLIGATION OVERLAPPING DEBT STATEMENT**

<b>Taxing Body</b>	<b>Gross Dollar Amount <sup>(A)</sup></b>	<b>As Of</b>	<b>Percent Overlap</b>	<b>Dollar Overlap</b>
Azle, City of	\$ 20,230,000	12/01/25	100.00%	\$ 20,230,000
Fort Worth, City of	1,100,695,000	12/01/25	0.03%	330,209
Lakeside, Town of	1,275,000	12/01/25	93.54%	1,192,635
Parker County	197,600,000	12/01/25	7.10%	14,029,600
Parker County Hospital District	-	12/01/25	7.10%	-
Parker County Junior College District	1,040,000	12/01/25	7.10%	73,840
Pelican Bay, City of	749,000	12/01/25	100.00%	749,000
Reno, City of	541,000	12/01/25	18.91%	102,303
Tarrant County	314,050,000	12/01/25	1.02%	3,203,310
Tarrant County College District	547,535,000	12/01/25	1.02%	5,584,857
Tarrant County Hospital District	431,255,000	12/01/25	1.02%	4,398,801
Tarrant County Regional Water District	98,710,000	12/01/25	1.85%	1,826,135
Wise County	11,000,000	12/01/25	0.66%	72,600
<b>Azle ISD</b>	<b>\$ 265,435,000 <sup>(B)(C)</sup></b>	<b>12/01/25</b>	<b>100.00%</b>	<b>\$ 265,435,000 <sup>(B)(C)</sup></b>
<b>Total Direct and Overlapping Debt.....</b>				<b>\$ 317,228,290</b>
Ratio of Direct Debt to Taxable Assessed Valuation.....				5.12%
Ratio of Direct and Overlapping Debt to Taxable Assessed Valuation.....				6.12%
Ratio of Direct and Overlapping Debt to Total Assessed Valuation.....				3.88%
Per Capita Direct and Overlapping Debt.....				\$6,813

<sup>(A)</sup> Excludes interest accreted on outstanding capital appreciation bonds.

<sup>(B)</sup> Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Capital Leases").

<sup>(C)</sup> Includes the Bonds and excludes the Refunded Bonds.

Source: The Municipal Advisory Council of Texas - Texas Municipal Reports.

**Table 4**  
**2025/26 TOTAL TAX RATES OF OVERLAPPING POLITICAL ENTITIES**

Azle, City of.....	\$0.6246927
Fort Worth, City of.....	0.6700000
Lakeside, Town of.....	0.6100000
Parker County.....	0.2850700
Parker County Hospital District.....	0.0840700
Parker County Junior College District.....	0.1060870
Pelican Bay, City of.....	0.6762930
Reno, City of.....	0.3255070
Tarrant County.....	0.1862000
Tarrant County College District.....	0.1122800
Tarrant County Hospital District.....	0.1650000
Tarrant County Regional Water District.....	0.0265000
Wise County.....	0.2650000

Source: Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District.

**Table 5**  
**PROPERTY TAX RATES AND COLLECTIONS**

<b>Tax Year</b>	<b>Taxable Assessed Valuation</b>	<b>Tax Rate</b>	<b>Percent Collections <sup>(A)</sup></b>		<b>Fiscal Year Ended</b>
			<b>Current</b>	<b>Total</b>	
2019	\$ 3,372,780,058	\$1.24735	98.41%	99.74%	8-31-20
2020	3,536,556,361	1.24740	98.74%	100.21%	8-31-21
2021	3,929,732,086	1.22260	98.39%	99.72%	8-31-22
2022	4,302,092,808	1.21050	97.35%	98.60%	6-30-23
2023	4,903,086,345	1.02500	<u>97.49%</u>	<u>100.38%</u>	6-30-24
	<b>Five Year Average.....</b>		<b><u>98.08%</u></b>	<b><u>99.73%</u></b>	
2024	\$ 5,242,061,930	\$1.09790	96.85% <sup>(B)</sup>	99.01% <sup>(B)</sup>	6-30-25
2025	5,183,863,935	\$1.08500	(In Process of Collection)		6-30-26

<sup>(A)</sup> Excludes penalties and interest.

<sup>(B)</sup> Unaudited collections as of June 30, 2025.

Source: District's Audited Financial Statements, Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District update records.

**Table 6**  
**TAX RATE DISTRIBUTION <sup>(A)</sup>**

	<b><u>2025/26</u></b>	<b><u>2024/25</u></b>	<b><u>2023/24</u></b>	<b><u>2022/23</u></b>	<b><u>2021/22</u></b>
Local Maintenance <sup>(B)</sup>	\$0.73580	\$0.74870	\$0.75100	\$0.93640	\$0.97200
Interest & Sinking	<u>0.34920</u>	<u>0.34920</u>	<u>0.27400</u>	<u>0.27410</u>	<u>0.25060</u>
Total	<b><u>\$1.08500</u></b>	<b><u>\$1.09790</u></b>	<b><u>\$1.02500</u></b>	<b><u>\$1.21050</u></b>	<b><u>\$1.22260</u></b>

<sup>(A)</sup> See discussion under "TAX RATE LIMITATIONS" in the Official Statement.

<sup>(B)</sup> The District's Maintenance & Operations tax rate is subject to annual compression in response to year-over-year increases in property values (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - Local Funding for School Districts" in the Official Statement).

Source: Tarrant Appraisal District, District's Audited Financial Statements and District records.

**Table 7**  
**VALUATION AND UNLIMITED TAX DEBT HISTORY**

<b>Fiscal Year</b>	<b>Taxable Assessed Valuation</b>	<b>Percent Increase/ (Decrease) In Taxable Assessed Valuation Over Prior Year</b>	<b>Principal Amount Of Unlimited Tax Debt Outstanding At Year End <sup>(A)(B)</sup></b>	<b>Ratio Of Unlimited Tax Debt To Taxable Assessed Valuation <sup>(A)(B)</sup></b>
2021/22	\$ 3,929,732,086	16.51%	\$ 135,695,000	3.45%
2022/23	4,302,092,808	9.48%	132,425,000	3.08%
2023/24	4,903,086,345	13.97%	273,195,000	5.57%
2024/25	5,242,061,930	6.91%	268,840,000	5.13%
2025/26	5,183,863,935 <sup>(C)</sup>	(1.11%)	258,435,000 <sup>(D)</sup>	4.99% <sup>(D)</sup>

<sup>(A)</sup> Does not include any limited tax obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Capital Leases").

<sup>(B)</sup> Excludes the interest accreted on outstanding capital appreciation bonds.

<sup>(C)</sup> Such valuation includes an increase in the State-mandated general residence homestead exemption from \$100,000 to \$140,000 and an increase in the State-mandated residence homestead exemption for persons 65 years of age or older and the disabled from \$10,000 to \$60,000 pursuant to a constitutional amendment approved at a statewide election held on November 4, 2025.

<sup>(D)</sup> Projected, as of June 30, 2026, subject to change. Includes the Bonds and excludes the Refunded Bonds.

Source: District records, Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District.

**Table 8**  
**HISTORICAL TOP TEN TAXPAYERS**

**PRINCIPAL TAXPAYERS AND THEIR 2025/26 TAXABLE ASSESSED VALUATIONS**

<u><b>Name of Taxpayer</b></u>	<u><b>Type of Property</b></u>	<u><b>Taxable Assessed Valuation</b></u>	<u><b>Percent Of T.A.V.</b></u>
TFG Reata West LLC / Silver Creek Estates LLC	Apartments	\$ 39,435,725	0.76%
SPAA MF Investment LP	Apartments	34,990,646	0.67%
CSL Azle 2016 LLC	Assisted Living Facility	30,236,632	0.58%
Oncor Electric Delivery Company LLC	Utility	26,033,295	0.50%
SMC Azle LLC	Residential	22,999,954	0.44%
Forum US, Inc.	Manufacturing	22,390,183	0.43%
Wal-Mart Stores	Retail	21,512,230	0.41%
Atmos Energy / Mid-Tex Division	Oil & Gas	19,120,660	0.37%
BKV North Texas LLC / BKV Midstream LLC	Oil & Gas	16,639,118	0.32%
Azle Manor Inc. / Eagle Crest Properties LP	Assisted Living Facility	11,161,761	0.22%
<b>Totals.....</b>		<b><u>\$ 244,520,204</u></b>	<b><u>4.72%</u></b>

**PRINCIPAL TAXPAYERS AND THEIR 2024/25 TAXABLE ASSESSED VALUATIONS**

<u><b>Name of Taxpayer</b></u>	<u><b>Type of Property</b></u>	<u><b>Taxable Assessed Valuation</b></u>	<u><b>Percent Of T.A.V.</b></u>
TFG Reata West LLC / Silver Creek Estates LLC	Apartments	\$ 39,179,687	0.75%
Oncor Electric Delivery Company LLC	Utility	31,644,485	0.60%
SPAA MF Investment LP	Apartments	29,000,000	0.55%
Forum US, Inc.	Manufacturing	27,540,584	0.53%
CSL Azle 2016 LLC	Assisted Living Facility	27,384,120	0.52%
BKV North Texas LLC / BKV Midstream LLC	Oil & Gas	23,622,272	0.45%
SMC Azle LLC	Residential	23,101,050	0.44%
Wal-Mart Stores	Retail	17,787,630	0.34%
Atmos Energy / Mid-Tex Division	Oil & Gas	16,326,461	0.31%
Azle Manor Inc. / Eagle Crest Properties LP	Assisted Living Facility	11,090,466	0.21%
<b>Totals.....</b>		<b><u>\$ 246,676,755</u></b>	<b><u>4.71%</u></b>

**PRINCIPAL TAXPAYERS AND THEIR 2023/24 TAXABLE ASSESSED VALUATIONS**

<u><b>Name of Taxpayer</b></u>	<u><b>Type of Property</b></u>	<u><b>Taxable Assessed Valuation</b></u>	<u><b>Percent Of T.A.V.</b></u>
BKV North Texas LLC / BKV Midstream LLC	Oil & Gas	\$ 79,318,800	1.62%
TFG Reata West LLC / Silver Creek Estates LLC	Apartments	38,600,000	0.79%
CSL Azle 2016 LLC	Assisted Living Facility	28,000,000	0.57%
Forum US, Inc.	Manufacturing	24,361,354	0.50%
SMC Azle LLC	Residential	23,000,000	0.47%
Oncor Electric Delivery Company LLC	Utility	22,966,745	0.47%
Wal-Mart Stores	Retail	18,205,690	0.37%
Atmos Energy / Mid-Tex Division	Oil & Gas	15,280,611	0.31%
Tri-County Electric Co-Op Inc.	Utility	14,801,270	0.30%
Eagle Mountain Marina & RV Park LLC	RV Park	11,228,797	0.23%
<b>Totals.....</b>		<b><u>\$ 275,763,267</u></b>	<b><u>5.62%</u></b>

Source: Tarrant Appraisal District, Parker County Appraisal District, Wise County Appraisal District and District records.

**Table 9**  
**CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

<u>Property Use Category</u>	<u>2025/26</u>	<u>2024/25</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>
Real Property:					
Single-Family Residential	\$ 5,970,644,673	\$ 5,778,854,709	\$ 5,629,146,314	\$ 4,005,193,444	\$ 3,562,226,812
Multi-Family Residential	146,103,814	137,638,363	141,111,030	86,779,523	83,816,260
Vacant Lots/Tracts	169,071,674	180,712,011	177,472,568	116,478,007	113,535,071
Acreage (Land Only)	549,139,198	488,305,838	484,736,387	293,626,678	298,812,521
Farm and Ranch Improvements	380,768,968	349,431,761	346,707,681	246,057,907	234,085,985
Commercial and Industrial	567,570,308	485,631,685	440,012,663	368,001,091	324,594,272
Minerals, Oil and Gas	18,486,523	16,899,447	116,285,795	56,496,523	26,937,215
Inventory	52,574,035	62,636,531	67,179,854	42,098,748	10,376,189
Tangible Personal Property:					
Business	180,345,967	164,643,337	148,516,942	128,558,977	118,765,265
Other	42,372,225	41,605,799	40,113,389	27,981,256	26,186,411
Real and Tangible Personal Property:					
Utilities	99,667,832	108,771,107	97,823,043	91,976,819	89,205,794
<b>Total Assessed Valuation</b>	<b>\$ 8,176,745,217</b>	<b>\$ 7,815,130,588</b>	<b>\$ 7,689,105,666</b>	<b>\$ 5,463,248,973</b>	<b>\$ 4,888,541,795</b>
Less Exemptions:					
Residential Homestead	\$ 1,437,452,516 <sup>(A)</sup>	\$ 1,113,325,504	\$ 1,064,423,850 <sup>(B)</sup>	\$ 422,170,987 <sup>(C)</sup>	\$ 258,244,773
10% Residential Homestead Cap	491,051,097	728,916,647	1,070,692,913	292,297,985	269,974,650
20% Non-Homestead Property Cap <sup>(D)</sup>	92,723,374	21,661,645	-	-	-
Over 65	214,191,873	40,695,742	37,752,772	39,757,464	38,706,968
Disabled Persons	10,630,921 <sup>(E)</sup>	2,244,111	2,045,034	2,623,893	2,885,965
Disabled/Deceased Veterans	176,801,221	154,652,960	104,934,777	90,406,660	75,563,235
Freeport	18,516,625	16,365,808	15,376,251	12,500,844	7,370,830
Pollution Control	234,290	683,367	729,643	595,279	708,555
Productivity Loss	541,788,757	483,678,094	479,504,018	289,822,941	294,780,220
Prorated Exempt Property	370,324	-	-	-	-
Other	9,120,284	10,844,780	10,560,063	10,980,112	10,574,513
<b>Total Exemptions</b>	<b>\$ 2,992,881,282</b>	<b>\$ 2,573,068,658</b>	<b>\$ 2,786,019,321</b>	<b>\$ 1,161,156,165</b>	<b>\$ 958,809,709</b>
<b>Taxable Assessed Valuation</b>	<b>\$ 5,183,863,935</b>	<b>\$ 5,242,061,930</b>	<b>\$ 4,903,086,345</b>	<b>\$ 4,302,092,808</b>	<b>\$ 3,929,732,086</b>

<sup>(A)</sup> Increase in "Residential Homestead" is primarily due to the increase in the State-mandated general residence homestead exemption from \$100,000 to \$140,000 pursuant to a constitutional amendment approved at a statewide election held on November 4, 2025.

<sup>(B)</sup> Increase in "Residential Homestead" is primarily due to the increase in the State-mandated general residence homestead exemption from \$40,000 to \$100,000 pursuant to a constitutional amendment approved at a statewide election held on November 7, 2023.

<sup>(C)</sup> Increase in "Residential Homestead" is primarily due to the increase in the State-mandated general residence homestead exemption from \$25,000 to \$40,000 pursuant to a constitutional amendment approved at a statewide election held on May 7, 2022.

<sup>(D)</sup> Three-year pilot program limiting growth in taxable value of non-residence homestead property valued at \$5,000,000 or less to 20% annually pursuant to a constitutional amendment approved at a statewide election held on November 7, 2023.

<sup>(E)</sup> Increase in "Over 65" and "Disabled Persons" is primarily due to the increase in the State-mandated residence homestead exemption for persons 65 years of age or older and the disabled from \$10,000 to \$60,000 pursuant to a constitutional amendment approved at a statewide election held on November 4, 2025.

Source: Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District. Certified values are subject to change throughout the year as contested values are resolved and the Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District update records.

**Table 10**  
**PERCENTAGE OF TOTAL ASSESSED VALUATION BY CATEGORY**

<u>Property Use Category</u>	<u>2025/26</u>	<u>2024/25</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>
Real Property:					
Single-Family Residential	73.02%	73.94%	73.21%	73.31%	72.87%
Multi-Family Residential	1.79%	1.76%	1.84%	1.59%	1.71%
Vacant Lots/Tracts	2.07%	2.31%	2.31%	2.13%	2.32%
Acreage (Land Only)	6.72%	6.25%	6.30%	5.37%	6.11%
Farm and Ranch Improvements	4.66%	4.47%	4.51%	4.50%	4.79%
Commercial and Industrial	6.94%	6.21%	5.72%	6.74%	6.64%
Minerals, Oil and Gas	0.23%	0.22%	1.51%	1.03%	0.55%
Inventory	0.64%	0.80%	0.87%	0.77%	0.21%
Tangible Personal Property:					
Business	2.21%	2.11%	1.93%	2.35%	2.43%
Other	0.52%	0.53%	0.52%	0.51%	0.54%
Real and Tangible Personal Property:					
Utilities	1.22%	1.39%	1.27%	1.68%	1.82%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

Source: Tarrant Appraisal District, Parker County Appraisal District and Wise County Appraisal District.

**Table 11**  
**OUTSTANDING UNLIMITED TAX DEBT SERVICE**

<b>Year <sup>(A)</sup></b>	<b>Outstanding Debt Requirements <sup>(B)</sup></b>		<b>Plus: The Bonds - Debt Requirements</b>		<b>Total</b>	<b>Percent Of Principal Retired</b>
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>	<b>Debt Service Requirements <sup>(C)</sup></b>	
2025/26	\$ 6,150,000.00 <sup>(C)</sup>	\$ 9,418,500.00	\$ 850,000.00	\$ 1,392,356.25	\$ 17,810,856.25 <sup>(C)</sup>	
2026/27	4,180,000.00	9,160,250.00	1,570,000.00	2,065,500.00	16,975,750.00	
2027/28	5,135,000.00	8,927,375.00	1,660,000.00	1,984,750.00	17,707,125.00	
2028/29	5,385,000.00	8,681,725.00	1,740,000.00	1,899,750.00	17,706,475.00	
2029/30	5,640,000.00	8,423,450.00	1,830,000.00	1,810,500.00	17,703,950.00	12.86%
2030/31	5,920,000.00	8,141,750.00	1,930,000.00	1,716,500.00	17,708,250.00	
2031/32	6,210,000.00	7,853,425.00	2,020,000.00	1,617,750.00	17,701,175.00	
2032/33	6,515,000.00	7,550,850.00	2,130,000.00	1,514,000.00	17,709,850.00	
2033/34	6,835,000.00	7,233,300.00	2,235,000.00	1,404,875.00	17,708,175.00	
2034/35	7,155,000.00	6,904,300.00	2,355,000.00	1,290,125.00	17,704,425.00	29.18%
2035/36	7,500,000.00	6,563,375.00	2,470,000.00	1,169,500.00	17,702,875.00	
2036/37	7,840,000.00	6,223,350.00	2,600,000.00	1,042,750.00	17,706,100.00	
2037/38	8,180,000.00	5,884,900.00	2,730,000.00	909,500.00	17,704,400.00	
2038/39	8,530,000.00	5,531,275.00	2,875,000.00	769,375.00	17,705,650.00	
2039/40	7,135,000.00	5,196,675.00	4,795,000.00	577,625.00	17,704,300.00	49.77%
2040/41	7,450,000.00	4,881,800.00	5,040,000.00	331,750.00	17,703,550.00	
2041/42	7,785,000.00	4,552,375.00	4,115,000.00	102,875.00	16,555,250.00	
2042/43	9,130,000.00	4,182,925.00	-	-	13,312,925.00	
2043/44	9,540,000.00	3,771,600.00	-	-	13,311,600.00	
2044/45	9,940,000.00	3,374,700.00	-	-	13,314,700.00	69.73%
2045/46	10,320,000.00	2,994,375.00	-	-	13,314,375.00	
2046/47	10,725,000.00	2,586,100.00	-	-	13,311,100.00	
2047/48	7,490,000.00	2,221,800.00	-	-	9,711,800.00	
2048/49	7,795,000.00	1,916,100.00	-	-	9,711,100.00	
2049/50	8,115,000.00	1,597,900.00	-	-	9,712,900.00	86.48%
2050/51	8,445,000.00	1,266,700.00	-	-	9,711,700.00	
2051/52	8,790,000.00	922,000.00	-	-	9,712,000.00	
2052/53	9,150,000.00	563,200.00	-	-	9,713,200.00	
2053/54	9,505,000.00	190,100.00	-	-	9,695,100.00	100.00%
<b>TOTAL</b>	<b>\$ 222,490,000.00</b>	<b>\$ 146,716,175.00</b>	<b>\$ 42,945,000.00</b>	<b>\$ 21,599,481.25</b>	<b>\$ 433,750,656.25</b>	

<sup>(A)</sup> Represents debt service payments from September 1 through August 31. The District's fiscal year ends on June 30. Due to timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

<sup>(B)</sup> Net of the debt service on the Refunded Bonds.

<sup>(C)</sup> Includes a \$1,180,000 redemption of the District's Unlimited Tax School Building Bonds, Series 2017 prior to scheduled maturity on February 15, 2026.

Note: The District has not budgeted for the receipt of State financial assistance for debt service in year 2025/26 and received State financial assistance in the amount of \$1,379,790 (unaudited) for fiscal year ended June 30, 2025. The amount of State aid for debt service may substantially differ from year to year depending on a number of factors, including amounts, if any, appropriated for that purpose by the State Legislature (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). Table 11 does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Capital Leases").

**Table 12**  
**INTEREST & SINKING FUND BUDGET INFORMATION <sup>(A)</sup>**

Tax Supported Debt Service Requirements, Fiscal Year Ending June 30, 2026.....		\$ 18,035,281 <sup>(B)</sup>
Interest and Sinking Fund Balance at June 30, 2025 (Unaudited).....	\$ 12,657,330	
Local Taxes and Other Revenues.....	<u>16,684,486</u>	<u>\$ 29,341,816</u>
Projected Interest and Sinking Fund Balance at June 30, 2026.....		<u>\$ 11,306,535 <sup>(C)</sup></u>

<sup>(A)</sup> The District's fiscal year ends on June 30. Due to the timing of tax collection receipts, the District budgets for its debt service payments incurred during the time period of September 1 through August 31.

<sup>(B)</sup> Reflects the District's debt service payment in August 2025 and projected debt service payment in February 2026. Does not include estimated paying agent/registrar fees and other bond related expenses.

<sup>(C)</sup> The District's projected Interest & Sinking Fund balance as of June 30, 2026 will be reduced by approximately \$5,684,750 in August 2026 to make the District's scheduled debt service payment in August 2026.

**Table 13**  
**AUTHORIZED BUT UNISSUED BONDS**

The District has no authorized but unissued bonds. Except for possible refundings for debt service savings, the District does not anticipate the issuance of additional unlimited tax bonds within the next 12 months.

In addition to unlimited tax bonds, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

**Table 14**  
**TAX ADEQUACY - UNLIMITED TAX DEBT SERVICE REQUIREMENTS <sup>(A)</sup>**

Year 2025/26 Principal And Interest Requirements.....	\$ 17,810,856	
\$0.3504 Tax Rate At 98.08% Collections Produces.....	\$ 17,815,505 <sup>(B)</sup>	
Maximum Principal And Interest Requirements, Year 2025/26.....	\$ 17,810,856	
\$0.3504 Tax Rate At 98.08% Collections Produces.....	\$ 17,815,505 <sup>(B)</sup>	

<sup>(A)</sup> Represents debt service payments from September 1 through August 31.

<sup>(B)</sup> Based upon 2025/26 taxable assessed valuation of \$5,183,863,935.

Note: The District has not budgeted for the receipt of State financial assistance for debt service in year 2025/26 and received State financial assistance in the amount of \$1,379,790 (unaudited) for fiscal year ended June 30, 2025. The amount of State aid for debt service may substantially differ from year to year depending on a number of factors, including amounts, if any, appropriated for that purpose by the State Legislature (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM"). Table 14 does not include any limited tax debt obligations payable from the District's Maintenance & Operations tax rate (see "Table 15 - Capital Leases").

**Table 15**  
**CAPITAL LEASES**

In February 2025, the District entered into a finance purchase agreement through Government Capital Corporation for the purchase of 6 school buses at a cost of \$909,547. The lease calls for three equal annual payments, including an effective interest rate of 5.112% of \$334,694. Payments on the finance purchase agreement are accounted for as debt service expenditures in the General Fund.

A summary of finance purchase activity during the year is as follows:

	<b>Amount Outstanding <u>6/30/2024</u></b>		<b><u>Additions</u></b>		<b><u>Retirements</u></b>		<b>Amount Outstanding <u>6/30/2025</u></b>
6 School Buses	\$ -	\$	909,547	\$	-	\$	909,547
8 School Buses	301,453		-		301,453		-
Total	<u>\$ 301,453</u>	<u>\$</u>	<u>909,547</u>	<u>\$</u>	<u>301,453</u>	<u>\$</u>	<u>909,547</u>

Future minimum lease payments due on the capital leases are as follows:

<b>Year Ending <u>June 30</u></b>	<b>Annual Lease <u>Payments</u></b>
2026	\$ 334,694
2027	334,694
2028	<u>334,694</u>
Total Lease Payments	\$ 1,004,082
Imputed Interest Amount	<u>(94,535)</u>
Present Value Outstanding	<u>\$ 909,547</u>

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



**Table 16**  
**COMBINED GENERAL FUND BALANCE SHEET**

	<b>Fiscal Years Ending August 31, 2021 - 2022 / June 30, 2023 - 2025</b>				
	<b><u>2025</u></b> <sup>(A)</sup>	<b><u>2024</u></b>	<b><u>2023</u></b> <sup>(B)</sup>	<b><u>2022</u></b>	<b><u>2021</u></b>
<b>Assets:</b>					
Cash and Cash Equivalents	\$ 10,925,970	\$ 12,639,483	\$ 31,391,577	\$ 28,001,776	\$ 27,218,437
Property Taxes - Delinquent	2,408,458	2,162,301	2,355,309	1,856,270	1,806,299
Allowance for Uncollected Taxes (Credit)	(120,423)	(108,115)	(117,765)	(92,814)	(90,315)
Due from Other Governments	10,615,686	10,158,523	8,854,483	18,644	1,317,206
Due from Other Funds	875,575	370,523	482,721	933,163	65,227
Other Receivables	66,115	-	-	-	39,285
Prepayments	903,262	990,586	780,015	553,244	317,857
<b>Total Assets</b>	<b><u>\$ 25,674,643</u></b>	<b><u>\$ 26,213,301</u></b>	<b><u>\$ 43,746,340</u></b>	<b><u>\$ 31,270,283</u></b>	<b><u>\$ 30,673,996</u></b>
<b>Liabilities, Deferred Inflows of Resources and Fund Balances:</b>					
<i>Liabilities:</i>					
Accounts Payable	\$ 153,842	\$ 109,879	\$ 1,982,343	\$ 250,467	\$ 221,019
Payroll Deductions and Withholdings Payable	749,658	-	(1,805)	-	-
Accrued Wages Payable	6,665,124	5,996,741	5,502,299	3,122,747	3,391,525
Due to Other Funds	2,041,289	1,706,792	202,853	39,022	27,216
Due to Other Governments	192,969	222,864	5,166,051	1,067,488	-
Accrued Expenditures	-	325,924	318,405	66,569	72,040
<b>Total Liabilities</b>	<b><u>\$ 9,802,882</u></b>	<b><u>\$ 8,362,200</u></b>	<b><u>\$ 13,170,146</u></b>	<b><u>\$ 4,546,293</u></b>	<b><u>\$ 3,711,800</u></b>
<i>Deferred Inflows of Resources:</i>					
Unavailable Revenue - Property Taxes	\$ 1,970,021	\$ 1,940,187	\$ 1,692,789	\$ 1,633,136	\$ 1,561,937
<b>Total Deferred Inflows of Resources</b>	<b><u>\$ 1,970,021</u></b>	<b><u>\$ 1,940,187</u></b>	<b><u>\$ 1,692,789</u></b>	<b><u>\$ 1,633,136</u></b>	<b><u>\$ 1,561,937</u></b>
<i>Fund Balances:</i>					
Nonspendable Fund Balance:					
Prepaid Items	\$ 903,262	\$ 990,586	\$ 780,015	\$ 553,244	\$ 317,857
Committed Fund Balance:					
Construction	-	-	1,000,000	1,000,000	1,000,000
Capital Expenditures for Equipment	-	-	9,000,000	9,000,000	3,000,000
CTE and Technology Upgrades	-	-	-	-	1,000,000
Unassigned Fund Balance:	12,998,478	14,920,328	18,103,390	14,537,610	20,082,402
<b>Total General Fund Balances</b>	<b><u>\$ 13,901,740</u></b>	<b><u>\$ 15,910,914</u></b> <sup>(C)</sup>	<b><u>\$ 28,883,405</u></b>	<b><u>\$ 25,090,854</u></b>	<b><u>\$ 25,400,259</u></b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b><u>\$ 25,674,643</u></b>	<b><u>\$ 26,213,301</u></b>	<b><u>\$ 43,746,340</u></b>	<b><u>\$ 31,270,283</u></b>	<b><u>\$ 30,673,996</u></b>

<sup>(A)</sup> Unaudited, as of June 30, 2025.

<sup>(B)</sup> For time period of September 1, 2022 - June 30, 2023. Reflects initial period of District's change in fiscal year.

<sup>(C)</sup> The decrease in Total General Fund Balance was primarily due to (a) a commitment of \$4.4 million used to complete the bond projects included within the District's May and November 2021 Bond Programs, and (b) certain board approved one-time capital projects, including stadium renovation that encompassed new turf, resurfacing and addition of an 8<sup>th</sup> lane on the track, new lights for all sports complexes including Hornet Stadium, Baseball/Softball complex, and both junior high football fields.

Source: District's Audited Financial Statements and District records.

**Table 17**  
**COMPARATIVE STATEMENT OF GENERAL FUND REVENUES AND EXPENDITURES**

	Fiscal Years Ending August 31, 2021 - 2022 / June 30, 2023 - 2025				
	2025 <sup>(A)</sup>	2024	2023 <sup>(B)</sup>	2022	2021
<b>Beginning General Fund Balance</b>	<b>\$ 15,910,914</b>	<b>\$ 28,883,405</b>	<b>\$ 25,090,854</b>	<b>\$ 25,400,259</b>	<b>\$ 27,578,145</b>
<b><u>Revenues:</u></b>					
Local and Intermediate Sources	\$ 35,036,687	\$ 33,704,251	\$ 39,066,229	\$ 35,923,473	\$ 35,398,255
State Program Revenues	43,859,403	43,247,795	28,581,880	29,759,351	29,516,892
Federal Program Revenues	590,835	398,320	1,299,535	911,491	1,023,928
<b>Total Revenues</b>	<b>\$ 79,486,925</b>	<b>\$ 77,350,366</b>	<b>\$ 68,947,644</b>	<b>\$ 66,594,315</b>	<b>\$ 65,939,075</b>
<b><u>Expenditures:</u></b>					
Instruction	\$ 44,737,457	\$ 44,060,466	\$ 37,672,608	\$ 36,656,493	\$ 35,925,906
Instructional Resources and Media Services	809,223	856,269	724,118	763,614	698,505
Curriculum and Instructional Staff Development	225,832	306,310	233,811	194,873	195,912
Instructional Leadership	1,728,217	1,613,771	1,103,375	918,154	753,103
School Leadership	4,790,845	4,804,146	3,769,016	3,814,214	3,728,680
Guidance, Counseling and Evaluation Services	4,193,072	4,063,700	3,038,039	3,401,332	3,002,992
Social Work Services	249,757	163,419	72,619	250,737	332,446
Health Services	938,491	968,842	787,830	874,119	802,337
Student (Pupil) Transportation	4,835,611	4,484,790	2,720,722	3,773,975	2,561,695
Extracurricular Activities	2,848,647	2,976,295	2,472,340	2,456,695	2,265,148
General Administration	3,164,429	3,123,821	2,573,711	2,447,901	2,314,538
Facilities Maintenance and Operations	9,209,611	10,856,005	6,815,397	7,424,549	8,004,231
Security and Monitoring Services	1,824,069	2,281,536	1,379,770	827,918	716,477
Data Processing Services	2,330,050	2,770,449	1,634,870	1,822,636	2,656,300
Debt Service	322,828	309,514	309,514	175,778	175,778
Facilities Acquisition and Construction	331,693	1,898,478	828,401	1,596,298	3,740,352
Payments to Fiscal Agent/Member Districts of SSA	21,500	40,000	36,500	46,000	17,000
Payments to Juvenile Justice Alternative Ed. Prg.	10,449	-	-	-	-
Other Intergovernmental Charges	433,865	416,360	300,730	367,887	323,830
<b>Total Expenditures</b>	<b>\$ 83,005,646</b>	<b>\$ 85,994,171</b>	<b>\$ 66,473,371</b>	<b>\$ 67,813,173</b>	<b>\$ 68,215,230</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>\$ (3,518,721)</u>	<u>\$ (8,643,805)</u>	<u>\$ 2,474,273</u>	<u>\$ (1,218,858)</u>	<u>\$ (2,276,155)</u>
<b><u>Other Financing Sources and (Uses):</u></b>					
Other Sources	\$ 1,509,547	\$ 50,662	\$ 1,318,278	\$ 909,453	\$ 98,269
Other Uses	-	(4,379,348)	-	-	-
<b>Total Other Resources (Uses)</b>	<b>\$ 1,509,547</b>	<b>\$ (4,328,686)</b>	<b>\$ 1,318,278</b>	<b>\$ 909,453</b>	<b>\$ 98,269</b>
Net Change in General Fund Balance	<u>\$ (2,009,174)</u>	<u>\$ (12,972,491)</u>	<u>\$ 3,792,551</u>	<u>\$ (309,405)</u>	<u>\$ (2,177,886)</u>
<b>Ending General Fund Balance <sup>(C)</sup></b>	<b>\$ 13,901,740</b>	<b>\$ 15,910,914 <sup>(D)</sup></b>	<b>\$ 28,883,405</b>	<b>\$ 25,090,854</b>	<b>\$ 25,400,259</b>

<sup>(A)</sup> Unaudited, as of June 30, 2025.

<sup>(B)</sup> For time period of September 1, 2022 - June 30, 2023. Reflects initial period of District's change in fiscal year.

<sup>(C)</sup> Ending General Fund Balance includes Nonspendable, Committed and Unassigned Fund Balance.

<sup>(D)</sup> The decrease in Ending General Fund Balance was primarily due to (a) a commitment of \$4.4 million used to complete the bond projects included within the District's May and November 2021 Bond Programs, and (b) certain board approved one-time capital projects, including stadium renovation that encompassed new turf, resurfacing and addition of an 8<sup>th</sup> lane on the track, new lights for all sports complexes including Hornet Stadium, Baseball/Softball complex, and both junior high football fields.

Source: District's Audited Financial Statements and District records.

**Table 18**  
**CHANGE IN NET POSITION <sup>(A)</sup>**

	<b>Fiscal Years Ending August 31, 2021 - 2022 / June 30, 2023 - 2025</b>				
	<b>2025 <sup>(B)</sup></b>	<b>2024</b>	<b>2023 <sup>(C)</sup></b>	<b>2022</b>	<b>2021</b>
<b>Revenues:</b>					
<b>Program Revenues</b>					
Charges for Services	\$ 2,795,237	\$ 1,670,808	\$ 1,652,327	\$ 1,462,102	\$ 1,561,263
Operating Grants and Contributions	17,148,714	22,655,148	16,084,806	17,160,762	11,479,337
Total Program Revenues	\$ 19,943,951	\$ 24,325,956	\$ 17,737,133	\$ 18,622,864	\$ 13,040,600
<b>General Revenues</b>					
Maintenance and Operations Taxes	\$ 33,902,308	\$ 32,161,816	\$ 37,529,996	\$ 35,302,415	\$ 34,995,114
Debt Service Taxes	15,632,308	11,587,677	10,973,079	9,118,995	6,534,645
State Aid - Formula Grants	38,627,794	38,192,872	24,636,017	25,751,766	25,703,919
Investment Earnings	7,362,083	4,509,631	2,943,504	575,608	51,493
Miscellaneous Local and Intermediate Revenue	187,563	258,382	197,235	209,820	219,076
Total General Revenues	\$ 95,712,056	\$ 86,710,378	\$ 76,279,831	\$ 70,958,604	\$ 67,504,247
<b>Total Revenues.....</b>	<b>\$ 115,656,007</b>	<b>\$ 111,036,334</b>	<b>\$ 94,016,964</b>	<b>\$ 89,581,468</b>	<b>\$ 80,544,847</b>
<b>Expenses</b>					
Instruction	\$ 53,767,171	\$ 54,999,466	\$ 44,089,909	\$ 42,268,710	\$ 42,820,457
Instructional Resources and Media Services	898,790	948,532	782,838	807,477	757,391
Curriculum and Instructional Staff Development	372,672	434,568	303,691	330,616	307,102
Instructional Leadership	2,761,935	2,599,930	1,953,791	1,927,826	971,734
School Leadership	5,571,529	5,824,033	4,429,438	4,256,186	4,217,551
Guidance, Counseling and Evaluation Services	5,181,467	5,205,604	3,728,017	3,775,062	3,518,679
Social Work Services	263,134	183,568	164,302	260,626	343,526
Health Services	1,066,832	1,128,881	845,983	950,582	902,737
Student (Pupil) Transportation	3,840,867	3,704,319	2,728,411	2,655,516	2,531,032
Food Services	4,748,298	4,118,136	3,193,745	3,482,716	2,829,309
Extracurricular Activities	3,701,087	3,627,704	2,959,327	3,059,084	2,520,349
General Administration	3,806,060	3,610,197	2,754,999	2,672,900	2,565,409
Facilities Maintenance and Operations	12,216,709	10,237,796	7,656,948	8,621,489	8,660,331
Security and Monitoring Services	1,989,936	2,199,625	1,429,980	782,226	772,741
Data Processing Services	2,496,527	3,003,277	1,589,244	1,999,368	1,624,146
Community Services	75	7,200	10,369	-	-
Debt Service - Interest on Long-Term Debt	10,784,825	7,025,940	4,085,322	4,671,694	3,453,846
Debt Service - Bond Issuance Costs and Fees	17,417	1,358,653	2,000	276,674	450,112
Payments Related to Shared Services Arrangements	21,500	40,000	36,500	46,000	17,000
Payments to Juvenile Justice Alternative Ed. Prg.	10,449	-	-	-	-
Other Intergovernmental Charges	433,865	416,360	300,730	367,887	323,830
Business-Type Activities	648,860	-	-	-	-
<b>Total Expenses.....</b>	<b>\$ 114,600,005</b>	<b>\$ 110,673,789</b>	<b>\$ 83,045,544</b>	<b>\$ 83,212,639</b>	<b>\$ 79,587,282</b>
Increase/(Decrease) in Net Position	\$ 1,056,002	\$ 362,545	\$ 10,971,420	\$ 6,368,829	\$ 957,565
Beginning Net Position	51,138,265	47,409,705	36,438,285	30,069,456	29,111,891
Prior Period Adjustment	(441,443) <sup>(D)</sup>	3,366,015 <sup>(E)</sup>	-	-	-
<b>Ending Net Position.....</b>	<b>\$ 51,752,824</b>	<b>\$ 51,138,265</b>	<b>\$ 47,409,705</b>	<b>\$ 36,438,285</b>	<b>\$ 30,069,456</b>

<sup>(A)</sup> Financial operations for all governmental activities in accordance with GASB Statement No. 34.

<sup>(B)</sup> Unaudited, as of June 30, 2025.

<sup>(C)</sup> For time period of September 1, 2022 - June 30, 2023. Reflects initial period of District's change in fiscal year.

<sup>(D)</sup> Prior Period Adjustment due to a change in accounting principle to record a liability for compensated absences.

<sup>(E)</sup> Prior Period Adjustment due to the adoption of GASB Implementation Guide No. 2021-1 by the District. The net prior period adjustment was the result of an increase in capital assets of \$4,330,843 offset by an increase in accumulated depreciation of \$964,828.

Source: District's Audited Financial Statements and District records.

**APPENDIX B**

**GENERAL INFORMATION REGARDING  
THE DISTRICT AND ITS ECONOMY**

## GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

The Azle Independent School District (the “District”) is located approximately fourteen miles from the center of the City of Fort Worth on State Highway 199. Encompassing 92.89 square miles, the District is located in Tarrant, Parker and Wise Counties and includes the cities of Azle, Lakeside, Reno, Pelican Bay and Sanctuary.

The District is governed by a seven-member Board of Trustees (the “Board”). The members of the Board serve three-year staggered terms with at-large elections conducted annually. Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates 13 instructional facilities which are fully accredited by the Texas Education Agency. The number and types of instructional facilities are as follows:

Other Program Facilities	2
Elementary Schools	8
Junior High Schools	2
High Schools	<u>1</u>
<b>Total</b>	<b><u>13</u></b>

## DISTRICT ENROLLMENT INFORMATION

### SCHOLASTIC ENROLLMENT HISTORY

<u>YEAR</u>	<u>ENROLLMENT</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT CHANGE</u>
2015/16	6,242	86	1.40%
2016/17	6,345	103	1.65%
2017/18	6,496	151	2.38%
2018/19	6,578	82	1.26%
2019/20	6,815	237	3.60%
2020/21	6,685	(130)	(1.91%)
2021/22	6,889	204	3.05%
2022/23	7,089	200	2.90%
2023/24	7,218	129	1.82%
2024/25	7,304	86	1.19%
2025/26 <sup>(A)</sup>	7,194	(110)	(1.51%)

<sup>(A)</sup> Enrollment as of October 14, 2025.

Source: District records.

### PROJECTED STUDENT ENROLLMENT

<u>YEAR</u>	<u>ENROLLMENT</u>	<u>INCREASE/ (DECREASE)</u>	<u>PERCENT CHANGE</u>
2026/27	7,516	322	4.48%
2027/28	7,637	121	1.61%
2028/29	7,828	191	2.50%
2029/30	7,959	131	1.67%
2030/31	8,121	162	2.04%

Source: District projections.

**STUDENT ENROLLMENT BY GRADES – YEARS 2015/16 – 2025/26**

<b><u>YEAR</u></b>	<b><u>EE</u></b>	<b><u>PK</u></b>	<b><u>K</u></b>	<b><u>1</u></b>	<b><u>2</u></b>	<b><u>3</u></b>	<b><u>4</u></b>	<b><u>5</u></b>	<b><u>6</u></b>	<b><u>7</u></b>	<b><u>8</u></b>	<b><u>9</u></b>	<b><u>10</u></b>	<b><u>11</u></b>	<b><u>12</u></b>	<b><u>TOTAL</u></b>
2015/16	31	108	449	475	469	471	484	449	484	482	488	510	475	461	406	6,242
2016/17	34	91	477	476	478	483	501	492	476	491	483	558	469	453	383	6,345
2017/18	35	103	476	495	479	495	501	515	511	502	490	540	514	436	404	6,496
2018/19	46	112	461	501	499	495	527	517	524	524	488	535	496	471	382	6,578
2019/20	48	99	513	518	491	506	507	548	538	557	523	581	505	449	432	6,815
2020/21	42	99	443	521	501	461	485	501	555	527	538	613	519	467	413	6,685
2021/22	50	149	513	476	523	512	504	511	528	561	534	673	525	458	372	6,889
2022/23	44	161	520	523	481	552	532	539	525	542	556	642	584	492	396	7,089
2023/24	48	193	508	522	531	479	574	537	554	531	536	680	577	522	426	7,218
2024/25	40	201	482	531	528	551	481	582	559	558	541	619	620	536	475	7,304
2025/26 <sup>(A)</sup>	32	203	491	484	523	532	556	492	583	561	550	605	566	540	476	7,194

<sup>(A)</sup> Enrollment as of October 14, 2025.

Source: District records.

**STUDENT ENROLLMENT BY SCHOOL TYPE**

<b><u>YEAR</u></b>	<b><u>ELEMENTARY SCHOOL (GRADES EE-6)</u></b>	<b><u>JUNIOR HIGH SCHOOL (GRADES 7-8)</u></b>	<b><u>HIGH SCHOOL (GRADES 9-12)</u></b>	<b><u>TOTAL ENROLLMENT</u></b>
2015/16	3,420	970	1,852	6,242
2016/17	3,508	974	1,863	6,345
2017/18	3,610	992	1,894	6,496
2018/19	3,682	1,012	1,884	6,578
2019/20	3,768	1,080	1,967	6,815
2020/21	3,608	1,065	2,012	6,685
2021/22	3,766	1,095	2,028	6,889
2022/23	3,877	1,098	2,114	7,089
2023/24	3,946	1,067	2,205	7,218
2024/25	3,955	1,099	2,250	7,304
2025/26 <sup>(A)</sup>	3,896	1,111	2,187	7,194

<sup>(A)</sup> Enrollment as of October 14, 2025.

Source: District records.

**EMPLOYMENT OF THE DISTRICT**

<b><u>STAFF INFORMATION</u></b>	<b><u>DISTRICT EMPLOYEES</u></b>	
	<b><u>NUMBER</u></b>	<b><u>PERCENTAGE</u></b>
Teachers	503	45.11%
Administrators	50	4.48%
Teacher Aides & Secretaries	241	21.62%
Auxiliary Staff	222	19.91%
Other	99	8.88%
<b>Total Number of Employees</b>	<b><u>1,115</u></b>	<b><u>100.00%</u></b>

The District employs a staff of approximately 1,115. Beginning with the 2025/26 school year, entry level teachers without advanced degrees earn \$61,500 annually. Teachers with longevity or advanced degrees can earn between \$62,750 and \$79,750 annually. All teachers receive life and health insurance benefits worth approximately \$275 monthly.

Source: District records.

## PRESENT SCHOOL FACILITIES

<u>LOCATION</u>	<u>GRADES SERVED</u>	<u>FUNCTIONAL CAPACITY</u> <sup>(A)</sup>	<u>PRESENT ENROLLMENT</u> <sup>(B)</sup>	<u>FUNCTIONAL CAPACITY LESS PRESENT ENROLLMENT</u>
Azle High School	9 – 12	<u>2,400</u>	<u>2,146</u>	<u>254</u>
<b>HIGH SCHOOL TOTAL</b>		<b><u>2,400</u></b>	<b><u>2,146</u></b>	<b><u>254</u></b>
Azle Junior High School	7 – 8	730	609	121
Forte Junior High School	7 – 8	<u>739</u>	<u>502</u>	<u>237</u>
<b>JUNIOR HIGH SCHOOL TOTAL</b>		<b><u>1,469</u></b>	<b><u>1,111</u></b>	<b><u>358</u></b>
Azle Elementary School	5 – 6	664	552	112
Hoover Elementary School	5 – 6	540	523	17
Cross Timbers Elementary School	EE – 4	532	421	111
Eagle Heights Elementary School	EE – 4	476	465	11
Hilltop Elementary School	EE – 4	650	544	106
Liberty Elementary School	EE – 4	476	534	(58)
Silver Creek Elementary School	EE – 4	702	457	245
Walnut Creek Elementary School	EE – 4	<u>673</u>	<u>400</u>	<u>273</u>
<b>ELEMENTARY SCHOOL TOTAL</b>		<b><u>4,713</u></b>	<b><u>3,896</u></b>	<b><u>817</u></b>
Azle Hornet Academy <sup>(C)</sup>	9 – 12	---	<u>41</u>	<u>(41)</u>
<b>OTHER PROGRAM TOTAL</b>		<b><u>---</u></b>	<b><u>41</u></b>	<b><u>(41)</u></b>
<b>TOTALS</b>		<b><u>8,582</u></b>	<b><u>7,194</u></b>	<b><u>1,388</u></b>

<sup>(A)</sup> Includes student capacity of any portable buildings on this campus.

<sup>(B)</sup> Enrollment as of October 14, 2025.

<sup>(C)</sup> An open-enrollment campus that provides an opportunity for individuals that have previously dropped out of school to earn their high school diplomas. For those students that are under 20 years of age, classes are held at Azle High School, while for those students that are 20 years of age or older, classes are completed online.

Source: District records.

## SCHOOLS UNDER CONSTRUCTION

<u>NAME OF SCHOOL</u>	<u>PLANNED FUNCTIONAL CAPACITY OF FACILITY</u>	<u>GRADES SERVED</u>	<u>ESTIMATED COMPLETION DATE</u>
Azle Junior High School [Replacement Campus]	1,200	6 – 8	August 2026
Forte Junior High School [Addition]	1,200	6 – 8	August 2026

Source: District records.

## TARRANT COUNTY, TEXAS DEMOGRAPHIC AND ECONOMIC INFORMATION

### Location

Tarrant County (2020 census of 2,110,640 increasing 16.67% over 2010) is a north Texas county, and a component of the Dallas-Fort Worth Metropolitan Statistical Area. The county seat and largest city is Fort Worth. Other primary cities include Arlington, Richland Hills, North Richland Hills, Bedford, Euless, Grapevine, Hurst, Haltom City, Mansfield and Southlake.

### Economy

The economy of Tarrant County is based on manufacturing and commerce. Major institutions of higher education include The University of Texas at Arlington, Tarrant County College, Texas Christian University, Texas Wesleyan University, University of North Texas Health Science Center and Southwestern Baptist Theological Seminary. Diversified manufacturing is a significant factor in the economy of Tarrant County, including aircraft, automobile and electronic manufacturing. Other segments of the local economy include aerospace products, food and beverage, mobile homes, tourism, livestock and agri-business, transportation including major railroad services, financial services, and medical industries.

### Major Employers – Tarrant County

<u>COMPANY</u>	<u>INDUSTRY</u>	<u>ESTIMATED NUMBER OF EMPLOYEES</u>
Lockheed Martin	Aerospace and Defense	18,700
Dallas Fort Worth International Airport	Transportation	14,000
General Motors Alington Assembly Plant	Automobile Manufacturing	10,512
Naval Air Station Fort Worth Joint Reserve Base	Military	10,500
BNSF Railway	Freight Transportation	4,900
John Peter Smith Hospital	Health Care	4,600
Alcon Laboratories Inc	Eye Care	4,500
The University of Texas at Arlington	Higher Education	4,383
General Motors Financial	Automobile Financing	4,371
Texas Health Harris Methodist Hospital	Health Care	4,100

Source: Tarrant County – Economic Development.

### Comparative Unemployment Rates

<u>Entity</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025<sup>(A)</sup></u>
Tarrant County	7.4%	5.3%	3.7%	3.8%	3.9%	4.3%
Parker County	5.7	4.3	3.2	3.3	3.4	3.9
Wise County	6.3	4.6	3.4	3.5	3.7	4.3
State of Texas	7.7	5.6	3.9	4.0	4.1	4.7
United States of America	8.1	5.3	3.6	3.6	4.0	4.5

<sup>(A)</sup> As of August 2025.

Source: Labor Market Information Department, Texas Workforce Commission.



**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

## Proposed Form of Opinion of Bond Counsel

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

### AZLE INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2025

### IN THE AGGREGATE PRINCIPAL AMOUNT OF \$42,945,000

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

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

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

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



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

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

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

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

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



officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

## **APPENDIX D**

### **EXCERPTS FROM THE AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2024**

The information contained in this Appendix consists of excerpts from the Azle Independent School District Annual Financial Report for the Year Ended June 30, 2024, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Annual Financial Report for further information.

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**HANKINS, EASTUP, DEATON,  
TONN, SEAY & SCARBOROUGH**  
A Limited Liability Company

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CERTIFIED PUBLIC ACCOUNTANTS

902 NORTH LOCUST  
P.O. BOX 977  
DENTON, TX 76202-0977  
  
TEL. (940) 387-8563  
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Independent Auditor's Report

Azle Independent School District  
Azle, Texas

**Opinion**

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Azle Independent School District as of and for the year ended June 30, 2024 and the related notes to the financial statements, which collectively comprise Azle Independent School District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Azle Independent School District as of June 30, 2024, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Basis for Opinions**

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

**Responsibilities of Management for the Financial Statements**

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

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

**Auditor's Responsibility for the Audit of the Financial Statements**

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Azle Independent School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Azle Independent School District's ability to continue as a going concern for a reasonable period of time.

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

#### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 7 through 13 and the Teacher Retirement System schedules on pages 64 through 72 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 Azle Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, the required TEA schedules listed in the table of contents, and the schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required TEA schedules, and the Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

#### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2024 on our consideration of Azle Independent School District's internal control over financial reporting and on our tests of the 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 Azle Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Azle Independent School District's internal control over financial reporting and compliance.

*Hankins, Eastup, Deaton, Tonn, Seay & Scarborough*

Hankins, Eastup, Deaton, Tonn, Seay & Scarborough, LLC  
Denton, Texas

October 4, 2024

**AZLE INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2024  
(UNAUDITED)**

As management of Azle Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2024. Please read this narrative in conjunction with the independent auditors' report on page 5, and the District's Basic Financial Statements that begin on page 16.

**FINANCIAL HIGHLIGHTS**

- The assets and deferred outflows of Azle Independent School District exceeded its liabilities and deferred inflows at the close of the most recent fiscal period by \$51,138,265 (net position).
- The District's total net position increased by \$362,545 during the fiscal year from the result of current year operations, and increased \$3,366,015 from a prior period adjustment related to a change regarding the District's fixed asset capitalization threshold.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$176,883,401. 8.44% of this total amount (\$14,920,328) is unassigned and available for use within the District's commitments and policies.
- At the end of the current fiscal period, the fund balance of the general fund of \$15,910,914 was 18.50% of the total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 16 and 17). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District. The District has no component units for which it is financially accountable.

The notes to the financial statements (starting on page 31) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. The section labeled Federal Awards Section contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.



## **Reporting the District as a Whole**

### **The Statement of Net Position and the Statement of Activities**

The analysis of the District's overall financial condition and operations begins on page 16. Its primary purpose is to show whether the financial position of the District is improving or deteriorating as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows, deferred inflows and liabilities at the end of the year while the Statement of Activities includes all revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (the basis used by private sector companies).

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

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

In the Statement of Net Position and the Statement of Activities, we divide the District into two kinds of activities:

- Governmental activities—All of the District's basic services are reported here, including the instruction, counseling, extracurricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- Business-type activities—Activities in which the District charges a fee to “customers” to help it cover all or most of the cost of services it provides are reported here. During the year ended June 30, 2024 the District had no business-type activities.

## **Reporting the District's Most Significant Funds**

### **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 fund financial statements begin on page 18 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

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 government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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 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, and capital project funds 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 this report. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 18 through 24 of this report.
- **Proprietary funds.** The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. Enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The District currently has no enterprise funds. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the District's other programs and activities—such as the District's workers compensation self-insurance program.
- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the custodian, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a separate statement of changes in fiduciary fund net position that can be found on pages 29 and 30. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis presents both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Net position of the District's governmental activities increased from \$47,409,705 to \$51,138,265, during the current fiscal year. \$3,366,015 of this increase was from a prior period adjustment related to a change in the fixed asset capitalization threshold. \$362,545 of this increase was the result of current year operations and due to several factors. First, the District's revenues exceeded expenditures by \$8,612,482 (as adjusted for the effects of capital outlay and debt service principal payments.) However, the District recorded depreciation expense, which is a non-cash expense that reduces the value of District assets, in the amount of \$6,877,637. Also, various adjustments totaling \$1,372,300 were posted to revenues and expenses to account for prepaid expenses, interest accruals and tax revenues earned during the period under the full accrual method of accounting.

**Table I**  
**NET POSITION**

	Governmental Activities		
	June 30, 2023	June 30, 2024	Change
Current and other assets	\$81,150,912	\$ 187,731,202	\$ 106,580,290
Capital assets	<u>177,826,867</u>	<u>211,661,008</u>	<u>33,834,141</u>
Total assets	<u>258,977,779</u>	<u>399,392,210</u>	<u>140,414,431</u>
Deferred outflows of resources	<u>21,704,950</u>	<u>22,945,954</u>	<u>1,241,004</u>
Long-term liabilities	<u>183,288,626</u>	<u>336,148,343</u>	<u>152,859,717</u>
Other liabilities	<u>23,136,648</u>	<u>11,774,943</u>	<u>(11,361,705)</u>
Total liabilities	<u>206,425,274</u>	<u>347,923,286</u>	<u>141,498,012</u>
Deferred inflows of resources	<u>26,847,750</u>	<u>23,276,613</u>	<u>(3,571,137)</u>
Net Position:			
Net investments in capital assets	46,807,001	62,176,204	15,369,203
Restricted	10,641,740	14,162,018	3,520,278
Unrestricted	<u>(10,039,036)</u>	<u>(25,199,957)</u>	<u>(15,160,921)</u>
Total Net Position	<u>\$47,409,705</u>	<u>\$ 51,138,265</u>	<u>\$ 3,728,560</u>

**Table II**  
**CHANGES IN NET POSITION**

	Governmental Activities		
	Year Ended June 30, 2023	Year Ended June 30, 2024	Change
<b>Revenues:</b>			
Program Revenues:			
Charges for services	\$ 1,652,327	\$ 1,670,808	\$ 18,481
Operating grants and contributions	16,084,806	22,655,148	6,570,342
General Revenues:			
Maintenance and operations taxes	37,529,996	32,161,816	(5,368,180)
Debt service taxes	10,973,079	11,587,677	614,598
State aid - formula grants	24,636,017	38,192,872	13,556,855
Investment earnings	2,943,504	4,509,631	1,566,127
Miscellaneous	197,235	258,382	61,147
Total Revenue	<u>94,016,964</u>	<u>111,036,334</u>	<u>17,019,370</u>
<b>Expenses:</b>			
Instruction, curriculum and media services	45,176,438	56,382,566	11,206,128
Instructional and school leadership	6,383,229	8,423,963	2,040,734
Student support services	7,466,713	10,222,372	2,755,659
Food services	3,193,745	4,118,136	924,391
Cocurricular activities	2,959,327	3,627,704	668,377
General administration	2,754,999	3,610,197	855,198
Plant maintenance, security and data processing	10,686,541	15,447,898	4,761,357
Debt services	4,087,322	8,384,593	4,297,271
Intergovernmental charges	337,230	456,360	119,130
Total Expenses	<u>83,045,544</u>	<u>110,673,789</u>	<u>27,628,245</u>
Change in Net Position	10,971,420	362,545	(10,608,875)
Net Position - beginning of year	36,438,285	47,409,705	10,971,420
Prior Period Adjustment	-	3,366,015	3,366,015
Net Position - end of year	<u>\$ 47,409,705</u>	<u>\$ 51,138,265</u>	<u>\$ 3,728,560</u>

The cost of all governmental activities for the current fiscal period was \$110,673,789, as shown in the Statement of Activities on page 17, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$43,749,493 because some of the costs were paid by those who directly benefited from the programs (\$1,670,808) or by State funding (\$38,192,872).

## THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$176,883,401, an increase of \$119,672,379 from the prior year. Approximately 9% of this total amount (\$15,643,527) constitutes *committed, assigned and unassigned fund balance*. The remainder of fund balance is *nonspendable* or *restricted* to indicate that it is not available for new spending because it is already restricted for debt service (\$11,364,149), capital projects (\$146,810,469) or food service (\$2,074,670), or already spent on prepaid items (\$990,586).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$14,920,328, while the total fund balance was \$15,910,914. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 17.35% of the total general fund expenditures, while the total fund balance represents 18.50% of that same amount.

The fund balance of the District's general fund decreased by \$12,972,491 during the current fiscal year compared to a \$3,792,551 increase in the prior year. Key factors related to this change are as follows:

- Property tax revenue is \$5,555,925 less than the prior year due to a decrease in the property tax rate but that was offset by \$13,565,521 additional State funding. Expenditures are \$19,520,800 or 29.37% higher than the prior year primarily due to the change in fiscal year in the prior year.

The debt service fund has a total fund balance of \$11,364,149, all of which is restricted for the payment of debt service. The balance increased \$3,245,296 during the current fiscal year due to \$560,383 additional property tax revenue but also due to \$3,222,941 of capitalized interest received in a current year bond issuance and transferred to this fund.

The capital projects fund has a total fund balance of \$146,810,469, all of which is restricted for capital improvements. The \$129,124,952 increase in fund balance during the period was due primarily to \$154,724,059 net proceeds from a current bond issuance, offset by \$29,383,220 construction costs during the period.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in June, 2023). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The principal amendment in this case was an increase in the anticipated amount of State funding to be received. The third category involves amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$15,910,914 reported on page 17 differs from the General Fund's budgetary fund balance of \$24,186,773 reported in the budgetary comparison schedule on page 25. Actual expenditures were \$4,586,021 below the revised budget but actual revenues were \$8,533,194 below the revised final budget, primarily due to lower property tax revenue than was anticipated.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2024, the District had \$211,661,008 (net of accumulated depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$30,468,126, or 16.82%, above last year.

This fiscal year's major additions included:

Construction costs on various school renovations	\$19,170,856
Initial construction costs on a new middle school	3,056,185
Vehicle purchases	1,943,696
Stadium turf/track costs	1,860,983
Continuing costs on energy contract	2,027,898
Playground structures	794,874
Classroom furniture and equipment	<u>2,942,737</u>
Total	<u>\$31,797,229</u>

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

### Debt Administration

At year-end, the District had \$296,379,840 in bonds and capital leases outstanding (including bond premiums on bonds) versus \$148,786,522 last year—an increase of 99.20%. New debt incurred during the fiscal period consisted of a \$158,155,000 school building/refunding bond issuance. The District's underlying rating for unlimited tax bonds is "AA" by S&P, and "AA-" by Fitch but is considered AAA as a result of guarantees of the Texas Permanent School Fund.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10% of its total assessed valuation. The current debt limitation for the District is \$428,372,380, which is significantly in excess of the District's outstanding general obligation debt.

More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

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

Azle ISD continues to see growth in enrollment and demographics reports project enrollment of over 8,000 students for the 2029–2030 school year. Property values continue to increase due to residential developments and commercial growth as well. Azle ISD continues excellent financial management as is shown with another Superior Rating in the Financial Integrity Rating System of Texas. In addition, Azle ISD received an improved bond rating of AA+ from Fitch Rating System. Azle ISD continues to have a strong tax collection rate. While housing sales have slowed some due to higher interest rates there continues to be a positive outlook financially for the District.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for funds the District receives. If you have questions about this report or need additional financial information, contact the District's business office, at Azle Independent School District, 300 Roe, Azle, Texas 76020, (817) 444-0805.

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## BASIC FINANCIAL STATEMENTS



AZLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
JUNE 30, 2024

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 172,706,291
1220 Property Taxes - Delinquent	2,717,520
1230 Allowance for Uncollectible Taxes	(135,876)
1240 Due from Other Governments	11,444,127
1260 Internal Balances	8,554
1410 Prepayments	990,586
Capital Assets:	
1510 Land	2,748,265
1520 Buildings, Net	189,191,849
1530 Furniture and Equipment, Net	15,404,718
1580 Construction in Progress	4,316,176
1000 Total Assets	399,392,210
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Charge for Refunding	84,567
1705 Deferred Outflow Related to TRS Pension	16,792,224
1706 Deferred Outflow Related to TRS OPEB	6,069,163
1700 Total Deferred Outflows of Resources	22,945,954
<b>LIABILITIES</b>	
2110 Accounts Payable	219,161
2140 Interest Payable	4,191,577
2160 Accrued Wages Payable	6,476,849
2180 Due to Other Governments	222,864
2200 Accrued Expenses	616,637
2300 Unearned Revenue	47,855
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	5,729,108
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	290,650,732
2540 Net Pension Liability (District's Share)	27,889,649
2545 Net OPEB Liability (District's Share)	11,878,854
2000 Total Liabilities	347,923,286
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	5,987,187
2606 Deferred Inflow Related to TRS OPEB	17,289,426
2600 Total Deferred Inflows of Resources	23,276,613
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	62,176,204
Restricted:	
3820 Restricted for Federal and State Programs	2,074,670
3850 Restricted for Debt Service	11,364,149
3870 Restricted for Campus Activities	723,199
3900 Unrestricted	(25,199,957)
3000 Total Net Position	\$ 51,138,265

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

AZLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2024

EXHIBIT B-1

FOR THE YEAR ENDED JUNE 30, 2024					Net (Expense) Revenue and Changes in Net Position
Data		Program Revenues			
Control	1	3	4	6	
Codes			Operating	Primary Gov.	
	Expenses	Charges for	Grants and	Governmental	
		Services	Contributions	Activities	
<b>Primary Government:</b>					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 54,999,466	\$ -	\$ 9,644,389	\$ (45,355,077)
12	Instructional Resources and Media Services	948,532	-	52,011	(896,521)
13	Curriculum and Instructional Staff Development	434,568	-	128,012	(306,556)
21	Instructional Leadership	2,599,930	-	947,412	(1,652,518)
23	School Leadership	5,824,033	-	810,154	(5,013,879)
31	Guidance, Counseling, and Evaluation Services	5,205,604	-	950,117	(4,255,487)
32	Social Work Services	183,568	-	15,627	(167,941)
33	Health Services	1,128,881	373,173	114,780	(640,928)
34	Student (Pupil) Transportation	3,704,319	-	910,543	(2,793,776)
35	Food Services	4,118,136	1,083,962	3,458,678	424,504
36	Extracurricular Activities	3,627,704	188,339	860,976	(2,578,389)
41	General Administration	3,610,197	-	215,410	(3,394,787)
51	Facilities Maintenance and Operations	10,237,796	25,334	2,442,170	(7,770,292)
52	Security and Monitoring Services	2,199,625	-	485,819	(1,713,806)
53	Data Processing Services	3,003,277	-	224,639	(2,778,638)
61	Community Services	7,200	-	7,200	-
72	Debt Service - Interest on Long-Term Debt	7,025,940	-	1,387,211	(5,638,729)
73	Debt Service - Bond Issuance Cost and Fees	1,358,653	-	-	(1,358,653)
93	Payments Related to Shared Services Arrangements	40,000	-	-	(40,000)
99	Other Intergovernmental Charges	416,360	-	-	(416,360)
[TP] TOTAL PRIMARY GOVERNMENT:		\$ 110,673,789	\$ 1,670,808	\$ 22,655,148	(86,347,833)
Data	General Revenues:				
Control	Taxes:				
Codes					
MT	Property Taxes, Levied for General Purposes				32,161,816
DT	Property Taxes, Levied for Debt Service				11,587,677
SF	State Aid - Formula Grants				38,192,872
IE	Investment Earnings				4,509,631
MI	Miscellaneous Local and Intermediate Revenue				258,382
TR	Total General Revenues				86,710,378
CN	Change in Net Position				362,545
NB	Net Position - Beginning				47,409,705
PA	Prior Period Adjustment				3,366,015
NE	Net Position - Ending				\$ 51,138,265

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

AZLE INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2024

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 12,639,483	\$ 9,035,388	\$ 146,919,723
1220 Property Taxes - Delinquent	2,162,301	555,219	-
1230 Allowance for Uncollectible Taxes	(108,115)	(27,761)	-
1240 Due from Other Governments	10,158,523	536,849	-
1260 Due from Other Funds	370,523	1,749,969	-
1410 Prepayments	990,586	-	-
1000 Total Assets	<u>\$ 26,213,301</u>	<u>\$ 11,849,664</u>	<u>\$ 146,919,723</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 109,879	\$ -	\$ 109,254
2160 Accrued Wages Payable	5,996,741	-	-
2170 Due to Other Funds	1,706,792	-	-
2180 Due to Other Governments	222,864	-	-
2200 Accrued Expenditures	325,924	-	-
2300 Unearned Revenue	-	-	-
2000 Total Liabilities	<u>8,362,200</u>	<u>-</u>	<u>109,254</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	1,940,187	485,515	-
2600 Total Deferred Inflows of Resources	<u>1,940,187</u>	<u>485,515</u>	<u>-</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3430 Prepaid Items	990,586	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	146,810,469
3480 Retirement of Long-Term Debt	-	11,364,149	-
Committed Fund Balance:			
3545 Campus Activity	-	-	-
3600 Unassigned Fund Balance	14,920,328	-	-
3000 Total Fund Balances	<u>15,910,914</u>	<u>11,364,149</u>	<u>146,810,469</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 26,213,301</u>	<u>\$ 11,849,664</u>	<u>\$ 146,919,723</u>

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

Other Funds		Total Governmental Funds	
\$	3,042,965	\$	171,637,559
	-		2,717,520
	-		(135,876)
	748,755		11,444,127
	-		2,120,492
	-		990,586
<u>\$</u>	<u>3,791,720</u>	<u>\$</u>	<u>188,774,408</u>
\$	29	\$	219,162
	480,108		6,476,849
	405,146		2,111,938
	-		222,864
	60,713		386,637
	47,855		47,855
	<u>993,851</u>		<u>9,465,305</u>
	-		2,425,702
	-		2,425,702
	-		990,586
	2,074,670		2,074,670
	-		146,810,469
	-		11,364,149
	723,199		723,199
	-		14,920,328
	<u>2,797,869</u>		<u>176,883,401</u>
<u>\$</u>	<u>3,791,720</u>	<u>\$</u>	<u>188,774,408</u>

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AZLE INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
JUNE 30, 2024

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	<b>\$ 176,883,401</b>
1 Assets and liabilities of the internal service funds are not included in the fund financial statements.	838,733
2 Capital assets used in governmental activities are not financial resources, and therefore, are not reported in the fund financial statements.	278,104,813
3 Accumulated depreciation is not reported in the fund financial statements.	(66,443,805)
4 Bonds payable are not reported in the fund financial statements.	(273,195,000)
5 Capital leases payable are not reported in the fund financial statements.	(301,453)
6 Bond premiums are not recognized in the fund financial statements.	(22,883,387)
7 Deferred charge on bond refundings is not recognized in the fund financial statements.	84,567
8 Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(4,191,577)
9 Property tax revenue reported as deferred revenue in the fund financial statements was recognized as revenue in the government-wide financial statements.	2,425,702
10 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$27,889,649, a Deferred Resource Inflow related to TRS in the amount of \$5,987,187, and a Deferred Resource Outflow related to TRS in the amount of \$16,792,224. This amounted to a decrease in Net Position in the amount of \$17,084,612.	(17,084,612)
11 Included in the items related to debt is the recognition of the District's proportionate share of the net Other Post-Employment Benefit (OPEB) liability required by GASB 75 in the amount of \$11,878,854, a Deferred Resource Inflow related to TRS OPEB in the amount of \$17,289,426, and a Deferred Resource Outflow related to TRS OPEB in the amount of \$6,069,163. This amounted to a net decrease in Net Position in the amount of \$23,099,117.	(23,099,117)
<b>19 Net Position of Governmental Activities</b>	<b>\$ 51,138,265</b>

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

AZLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2024

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 33,704,251	\$ 11,824,806	\$ 2,783,498
5800 State Program Revenues	43,247,795	1,387,211	-
5900 Federal Program Revenues	398,320	-	-
5020 Total Revenues	77,350,366	13,212,017	2,783,498
EXPENDITURES:			
Current:			
0011 Instruction	44,060,466	-	-
0012 Instructional Resources and Media Services	856,269	-	-
0013 Curriculum and Instructional Staff Development	306,310	-	-
0021 Instructional Leadership	1,613,771	-	-
0023 School Leadership	4,804,146	-	-
0031 Guidance, Counseling, and Evaluation Services	4,063,700	-	-
0032 Social Work Services	163,419	-	-
0033 Health Services	968,842	-	-
0034 Student (Pupil) Transportation	4,484,790	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	2,976,295	-	13,950
0041 General Administration	3,123,821	-	142,202
0051 Facilities Maintenance and Operations	10,856,005	-	-
0052 Security and Monitoring Services	2,281,536	-	-
0053 Data Processing Services	2,770,449	-	-
0061 Community Services	-	-	-
Debt Service:			
0071 Principal on Long-Term Liabilities	293,602	6,485,000	-
0072 Interest on Long-Term Liabilities	15,912	5,755,550	-
0073 Bond Issuance Cost and Fees	-	6,804	1,351,849
Capital Outlay:			
0081 Facilities Acquisition and Construction	1,898,478	-	29,383,220
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	40,000	-	-
0099 Other Intergovernmental Charges	416,360	-	-
6030 Total Expenditures	85,994,171	12,247,354	30,891,221
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,643,805)	964,663	(28,107,723)
OTHER FINANCING SOURCES (USES):			
7911 Capital Related Debt Issued	-	9,965,000	148,190,000
7912 Sale of Real and Personal Property	50,662	-	-
7915 Transfers In	-	3,222,941	4,379,348
7916 Premium or Discount on Issuance of Bonds	-	1,765	7,885,908
8911 Transfers Out (Use)	(4,379,348)	-	(3,222,941)
8949 Other (Uses)	-	(10,909,073)	-
7080 Total Other Financing Sources (Uses)	(4,328,686)	2,280,633	157,232,315
1200 Net Change in Fund Balances	(12,972,491)	3,245,296	129,124,592
0100 Fund Balance - July 1 (Beginning)	28,883,405	8,118,853	17,685,877
3000 Fund Balance - June 30 (Ending)	\$ 15,910,914	\$ 11,364,149	\$ 146,810,469

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

Other Funds	Total Governmental Funds
\$ 1,973,607	\$ 50,286,162
928,513	45,563,519
12,340,224	12,738,544
15,242,344	108,588,225
4,819,992	48,880,458
76	856,345
124,110	430,420
598,995	2,212,766
317,538	5,121,684
528,597	4,592,297
7,177	170,596
15,697	984,539
35,315	4,520,105
4,110,635	4,110,635
582,267	3,572,512
63,166	3,329,189
2,161,998	13,018,003
411,677	2,693,213
95,567	2,866,016
7,200	7,200
-	6,778,602
-	5,771,462
-	1,358,653
1,087,355	32,369,053
-	40,000
-	416,360
14,967,362	144,100,108
274,982	(35,511,883)
-	158,155,000
-	50,662
-	7,602,289
-	7,887,673
-	(7,602,289)
-	(10,909,073)
-	155,184,262
274,982	119,672,379
2,522,887	57,211,022
\$ 2,797,869	\$ 176,883,401



AZLE INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2024

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	<b>\$ 119,672,379</b>
Current year capital asset additions are expenditures in the fund financial statements, but they are shown as increases in capital assets in the government-wide financial statements. The net effect of reclassifying the current year capital asset addition is to increase net position.	37,345,763
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position in the government-wide financial statements.	(6,877,637)
Interest is accrued on outstanding debt in the government-wide financial statements, whereas in the fund financial statements interest expenditures are reported when due.	(2,019,946)
Revenues from property taxes are deferred in the fund financial statements until they are considered available to finance current expenditures, but such revenues are recognized when assessed, net of an allowance for uncollectible amounts, in the government-wide financial statements.	367,962
The net income of internal service funds is not included in the fund financial statements but is reported with governmental activities in the government-wide financial statements.	191,600
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2023 caused net position to increase in the amount of \$2,002,262. These contributions were replaced with the District's pension expense for the year of \$5,000,190, which caused a decrease in net position. The impact of these is to decrease net position by \$2,997,928.	(2,997,928)
The implementation of GASB 75 required that certain expenditures be de-expended and recorded as deferred resource outflows. TRS OPEB contributions made after the measurement date of 8/31/2023 but during the current fiscal year caused the ending net position to increase in the amount of \$418,252. These contributions were replaced with the District's OPEB expense for the year, which was a \$(1,851,630) and also caused an increase in net position. The impact of both of these is to increase net position by \$2,269,882.	2,269,882
Current year amortization of deferred charge on bond refunding is not recorded in the fund financial statements, but is shown as a reduction of the deferred loss in the government-wide financial statements.	(5,285)
Current year issuances of bonds are shown as other resources in the fund financial statements, but are shown as increases in long-term debt in the government-wide financial statements.	(158,155,000)
The premium on the current year issuances of bonds is recorded as an other resource in the fund financial statements, but is shown as an increase in long-term debt in the government-wide financial statements.	(7,887,673)
Refunding bond proceeds deposited with an escrow agent are shown as an other use in the fund financial statements but are shown as a reduction in long-term debt and a deferred charge for refunding in the government-wide financial statements.	10,909,073
Current year amortization of the premium on bonds payable is not recorded in the fund financial statements, but is shown as a reduction in long-term debt in the government-wide financial statements.	770,753
Current year principal payments on bonds payable are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	6,485,000
Current year principal payments on capital leases are expenditures in the fund financial statements, but are shown as reductions in long-term debt in the government-wide financial statements.	293,602
<b>Change in Net Position of Governmental Activities</b>	<b>\$ 362,545</b>

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

**AZLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2024**

Data			Actual Amounts	Variance With	
Control	Budgeted Amounts		(GAAP BASIS)	Final Budget	
Codes	Original	Final		Positive or	
				(Negative)	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 39,675,422	\$ 39,683,859	\$ 33,704,251	\$ (5,979,608)
5800	State Program Revenues	41,475,858	44,405,901	43,247,795	(1,158,106)
5900	Federal Program Revenues	1,000,000	1,793,800	398,320	(1,395,480)
5020	Total Revenues	82,151,280	85,883,560	77,350,366	(8,533,194)
EXPENDITURES:					
Current:					
0011	Instruction	43,530,101	45,649,651	44,060,466	1,589,185
0012	Instructional Resources and Media Services	847,002	856,479	856,269	210
0013	Curriculum and Instructional Staff Development	332,252	341,237	306,310	34,927
0021	Instructional Leadership	1,761,562	1,675,402	1,613,771	61,631
0023	School Leadership	4,479,903	5,056,895	4,804,146	252,749
0031	Guidance, Counseling, and Evaluation Services	3,989,039	4,103,070	4,063,700	39,370
0032	Social Work Services	153,386	167,738	163,419	4,319
0033	Health Services	981,164	993,749	968,842	24,907
0034	Student (Pupil) Transportation	3,662,727	4,617,563	4,484,790	132,773
0036	Extracurricular Activities	2,887,696	3,281,652	2,976,295	305,357
0041	General Administration	3,199,633	3,616,054	3,123,821	492,233
0051	Facilities Maintenance and Operations	10,428,808	12,013,079	10,856,005	1,157,074
0052	Security and Monitoring Services	2,018,152	2,283,214	2,281,536	1,678
0053	Data Processing Services	2,133,218	2,836,548	2,770,449	66,099
Debt Service:					
0071	Principal on Long-Term Liabilities	500,000	285,956	293,602	(7,646)
0072	Interest on Long-Term Liabilities	92,340	23,559	15,912	7,647
Capital Outlay:					
0081	Facilities Acquisition and Construction	669,297	2,276,946	1,898,478	378,468
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	70,000	70,000	40,000	30,000
0095	Payments to Juvenile Justice Alternative Ed. Prg.	15,000	15,000	-	15,000
0099	Other Intergovernmental Charges	400,000	416,400	416,360	40
6030	Total Expenditures	82,151,280	90,580,192	85,994,171	4,586,021
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(4,696,632)	(8,643,805)	(3,947,173)
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	50,662	50,662
8911	Transfers Out (Use)	-	-	(4,379,348)	(4,379,348)
7080	Total Other Financing Sources (Uses)	-	-	(4,328,686)	(4,328,686)
1200	Net Change in Fund Balances	-	(4,696,632)	(12,972,491)	(8,275,859)
0100	Fund Balance - July 1 (Beginning)	2,883,405	28,883,405	28,883,405	-
3000	Fund Balance - June 30 (Ending)	\$ 2,883,405	\$ 24,186,773	\$ 15,910,914	\$ (8,275,859)

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

AZLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2024

	Governmental Activities -
	Internal Service Fund
<b>ASSETS</b>	
Current Assets:	
Cash and Cash Equivalents	\$ 1,068,733
Total Assets	<u>1,068,733</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accrued Expenses	<u>230,000</u>
Total Liabilities	<u>230,000</u>
<b>NET POSITION</b>	
Unrestricted Net Position	<u>838,733</u>
Total Net Position	<u><u>\$ 838,733</u></u>

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

AZLE INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2024

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 418,403
Total Operating Revenues	<u>418,403</u>
OPERATING EXPENSES:	
Other Operating Costs	<u>226,803</u>
Total Operating Expenses	<u>226,803</u>
Operating Income	191,600
Total Net Position - July 1 (Beginning)	<u>647,133</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 838,733</u></u>

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

AZLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2024

EXHIBIT D-3

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 418,403
Cash Payments for Claims	(226,803)
Net Cash Provided by Operating Activities	191,600
Net Increase in Cash and Cash Equivalents	191,600
Cash and Cash Equivalents at Beginning of Year	877,133
Cash and Cash Equivalents at End of Year	\$ 1,068,733
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss)	\$ 191,600

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

AZLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2024

	Total Custodial Funds
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 194,856
Total Assets	<u>194,856</u>
<b>LIABILITIES</b>	
Due to Other Funds	<u>8,554</u>
Total Liabilities	<u>8,554</u>
<b>NET POSITION</b>	
Unrestricted Net Position	<u>186,302</u>
Total Net Position	<u><u>\$ 186,302</u></u>

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

AZLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2024

	Total Custodial Funds
<b>ADDITIONS:</b>	
Received from Student Groups	\$ 196,358
Total Additions	<u>196,358</u>
<b>DEDUCTIONS:</b>	
Student Groups/Other	<u>171,500</u>
Total Deductions	<u>171,500</u>
Change in Fiduciary Net Position	24,858
Total Net Position - July 1 (Beginning)	<u>161,444</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 186,302</u></u>

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

AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Azle Independent School District (the "District") is a public educational agency operating under the applicable rules and regulations of the State of Texas. The District's combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

**A. REPORTING ENTITY**

The Board of Trustees, a seven member group elected by registered voters of the District, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees are elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the district. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basis financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, Azle Independent School District has no component units.

**B. BASIS OF PRESENTATION**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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



AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

**Fund Financial Statements:**

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **General Fund** - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.
3. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Internal Service Funds** - The District utilizes Internal Service Funds to account for revenues and expenses related to services provided to parties inside the District on a cost reimbursement basis. These funds facilitate distribution of support costs to the users of support services. The District has an internal service fund for its workers compensation self-insurance plan.
3. **Fiduciary Funds** - The District reports Custodial Funds as Fiduciary Funds. Custodial Funds are custodial in nature and account for activities of student and employee groups. Custodial Funds exist with the explicit approval of, and are subject to revocation by, the Board. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program. The District uses custodial funds to account for student activity funds and section 125 custodial funds.

**AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024**

Activities accounted for in the Special Revenue Funds are:

ESEA I, A Improving Basic Programs – funds granted to serve students needing reading and math assistance  
IDEA-Part B Formula – funds granted for children with disabilities  
IDEA-Part B Preschool – funds granted for preschool children with disabilities  
National Breakfast and Lunch Program – funds granted to serve meals to disadvantaged children  
Career and Technical – funds granted for vocational program for students  
ESEA II, A Training and Recruiting – funds for training to improve teacher and principal quality  
Title III, A English Lang. Acquisition – funds to improve the education of limited English proficient children  
ESSER III TCLAS – funds granted to provide emergency relief related to the COVID-19 pandemic  
ESSER II – funds granted to provide emergency relief related to the COVID-19 pandemic  
ESSER III – funds granted to provide emergency relief related to the COVID-19 pandemic  
IDEA-Part B Formula ARP – funds granted through the American Rescue Plan for children with disabilities  
Emergency Connectivity Fund – funds granted through the Federal Communications Commission for technology needs  
Summer School LEP – funds for summer education of limited English proficient students  
ESEA, Title IV, Part A – funds to improve use of technology for student learning  
Visually Impaired – funds granted for visually impaired students  
Advanced Placement Incentives – funds to support staff development opportunities  
State Instructional Materials – funds granted for textbook and technology needs  
EAF Grant – accounts for the use of a grant received by the District for a specific purpose  
SPED Fiscal Support-ESC20 – funds granted to assist in the cost of providing for special education students  
Ready to Read – funds from state license plate fees for reading programs  
Campus Activity Funds – accounts for funds raised by a campus for the benefit of that campus  
TAMU Grant – accounts for the use of a grant received by the District for a specific purpose

The internal service fund is a proprietary fund type. Proprietary funds distinguish operating revenues and expenses from non-operating 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. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets, deferred outflows of resources and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total position. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A 60 day availability period is also used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

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

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

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as unearned revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR.

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

AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

**D. BUDGETARY CONTROL**

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

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations, as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Child Nutrition Special Revenue Fund and the Debt Service Fund. The remaining special revenue funds and the Capital Projects Fund adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	June 30, 2024 <u>Fund Balance</u>
Appropriated Budget Funds-Food Service Special Revenue Fund	\$2,074,670
Nonappropriated Budget Funds	<u>723,199</u>
All Special Revenue Funds	<u>\$2,797,869</u>

**E. ENCUMBRANCE ACCOUNTING**

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

There were no outstanding encumbrances at June 30, 2024 that were subsequently provided for in the 2024-25 budget.

**F. PREPAID ITEMS**

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year, and the amount of prepaid items has been recognized as nonspendable fund balance to signify that a portion of fund balance is not available for other subsequent expenditures.

AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

**G. INVENTORIES**

The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Inventories of food commodities are recorded at market value supplied by the Texas Department of Human Services, since they are received at no cost. In addition, reported inventories are shown as nonspendable fund balance indicating that they are unavailable as current expendable financial resources.

**H. INTERFUND RECEIVABLES AND PAYABLES**

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Advances to/from other funds" and are offset by a fund balance reserve account. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances" and "internal advances".

**I. CAPITAL ASSETS**

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	50 Years
Furniture and Equipment	10 Years
Vehicles	6 Years

In May 2021, GASB Implementation Guide No. 2021-1 updated guidance to require the capitalization of purchases of certain groups of assets with individual values less than the capitalization threshold, effective for fiscal years beginning after June 15, 2023. In prior years, the District had expended purchases of groups of assets with individual values less than the District's capitalization threshold.

**J. COMPENSATED ABSENCES**

It is the District's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

In addition to the State sick leave program, professional employees are authorized five additional local sick leave days each year. Maximum accumulation of personal leave is fifty days and will not be compensated upon termination of employment with the District. Authorized absences which qualify under the State sick leave program are applied first against such available accumulated days. The District has not recorded a liability for accumulated sick leave since the amount is not considered material.

AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

**K. CASH EQUIVALENTS**

For purposes of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid with maturity within one year or less.

**L. NET POSITION**

Net position represents the difference between assets, deferred outflows of resources, deferred inflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

**M. 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, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

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.

**N. RISK MANAGEMENT**

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

**Unemployment Compensation Pool**

During the year ended June 30, 2024, Azle ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended June 30, 2024 the Fund anticipates that Azle ISD has no additional liability beyond the contractual obligation for payments of contributions.

AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

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

**Auto, Liability and Property Programs**

During the year ended June 30, 2024, the District participated in the following TASB Risk Management Fund programs:

Auto Liability  
Auto Physical Damage  
Privacy & Information Security  
Property  
School Liability

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves. For the year ended June 30, 2024, the Fund anticipates Azle ISD has no additional liability beyond the contractual obligations for payment of contributions.

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

**O. DEFERRED OUTFLOWS/INFLOWS OF RESOURCES**

Deferred outflows and inflows of resources are reported in the statement of financial position as described below:

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

**Deferred outflows of resources for refunding** - Reported in the government-wide statement of net position, the deferred charge on bond refundings results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities for the deferred charge on bond refundings at June 30, 2024 was \$84,567.

AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

**Deferred outflows of resources for pension** - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently approximately 5.6705 years.

A deferred outflow for pension expense results from payments made to the TRS pension plan by the District after the plan's measurement date. The amount of deferred outflows reported in the governmental activities for deferred pension expenses at June 30, 2024 was \$16,792,224.

**Deferred outflows of resources for OPEB**- Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of differences between expected and actual investment earnings and changes in proportionate share. The 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 next fiscal year. The other OPEB related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with OPEB through the OPEB plan which is currently approximately 9.2215 years. The amount of deferred outflows reported in the governmental activities for deferred OPEB expense at June 30, 2024 was \$6,069,163.

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District has three items that qualify for reporting in this category:

**Deferred inflows of resources for unavailable revenues** - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District reported property taxes that are unavailable as deferred inflows of resources in the fund financial statements. The amount of deferred inflows of resources reported in the governmental funds at June 30, 2024 was \$2,425,702.

**Deferred inflows of resources for pension** - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period. In fiscal year 2024, the District reported deferred inflows of resources for pensions in the governmental activities in the amount of \$5,987,187.

**Deferred inflows of resources for OPEB** - Reported in the government-wide financial statement of net position, these deferred inflows result primarily from differences between expected and actual experience and from changes in assumptions. These amounts will be amortized over the average expected remaining service life (AERSL) of all members (9.2215 years for the 2023 measurement year). In fiscal year 2024, the District reported deferred inflows of resources for OPEB in the governmental activities in the amount of \$17,289,426.

**P. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.



AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024

**Q. DATA CONTROL CODES**

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

**NOTE 2. FUND BALANCE**

The District implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" in a prior year. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

**Fund Balance Classification:** The governmental fund financial statements present 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 amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. The District has classified prepaid items and inventories as being nonspendable as these items are not expected to be converted to cash.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Debt service resources are to be used for future servicing of the District's bonded debt and are restricted through debt covenants. Food service resources are being restricted because their use is restricted pursuant to the mandates of the National School Lunch and Breakfast Program.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. The Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This can also be done through adoption and amendment of the budget. These amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The Board of Trustees have committed resources as of June 30, 2024 for campus activities.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the Board of Trustees or through the Board of Trustees delegating this responsibility to other individuals in the District. Under the District's adopted policy, only the Board of Trustees may assign amounts for specific purposes. This classification also includes the remaining positive fund balance for all governmental funds except for the General Fund. The District has not assigned any fund balance of the General Fund as of June 30, 2024.
- **Unassigned:** This classification includes all amounts not included in other spendable classifications, including the residual fund balance for the General Fund.

**AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024**

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

During the current fiscal period, the Board of Trustees adopted a fund balance policy that expresses an intent to maintain a level of assigned and unassigned fund balance in the general fund equal to 25 percent of the fund's operating expenditures.

The details of the fund balances are included in the Governmental Funds Balance Sheet (pages 18 and 19) and are described below:

**General Fund**

The General Fund has unassigned fund balance of \$14,920,328 at June 30, 2024. Prepaid expenditures (prepaid items) of \$990,586 are considered nonspendable fund balance.

**Other Funds**

The Debt Service Fund has restricted funds of \$11,364,149 at June 30, 2024 consisting primarily of property tax collections that are restricted for debt service payments on bonded debt. The fund balance of \$723,199 of the Campus Activity Fund (a special revenue fund) is shown as committed due to Board policy committing those funds to campus activities. The fund balance of the Food Service Fund of \$2,074,670 is shown as restricted for food service operations. The fund balance of the Capital Projects Fund of \$146,810,469 consists primarily of unspent bond funds restricted for capital acquisition.

**NOTE 3. DEPOSITS AND INVESTMENTS**

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

**1. Cash Deposits:**

At June 30, 2024, the carrying amount of the District's deposits checking accounts and interest-bearing savings accounts was \$(1,543,365) and the bank balance was \$2,107,692. The District's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name at June 30, 2024 and at all times during the current fiscal period.

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2. Investments:

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District’s deposits may not be returned to it. As of June 30, 2024, the District’s cash balances totaled \$2,107,692. This entire amount was either collateralized with securities held by the District’s financial institution’s agent in the District’s name or covered by FDIC insurance. Thus, the District’s deposits are not exposed to custodial credit risk.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2024, the District held all of its investments in three public funds investment pools (TexStar, Lone Star and Texas Class), money market funds, US Government securities and one certificate of deposit. Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk - This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The District has no policy relating to the credit risk of investments. The credit quality rating for TexStar and Texas Class at year-end was AAAM (Standard & Poor’s), and the credit quality rating for Lone Star was AA Af (Standard & Poor’s).
- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the TexStar, Texas Class and Lone Star investments is less than 60 days.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2024, the District was not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

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

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

The District's investments at June 30, 2024, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
Money Market Funds	\$ 35,970,667	\$ 35,970,667
TexStar Investment Pool	9,256,000	9,256,000
Texas Class Investment Pool	4,060,526	4,060,526
Lone Star Investment Pool	2,031,605	2,031,605
US Government Securities	122,811,463	122,811,463
Certificate of Deposit	312,854	312,854
Total	<u>\$174,443,115</u>	<u>\$174,443,115</u>

**Fair Value Measurements**

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgement and considers factors specific to each asset or liability.

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**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>Investments by Fair Value level:</u>	<u>Balance at 6/30/24</u>			
US Government Securities	\$122,811,463	\$122,811,463	\$ -	\$ -
Certificate of Deposit	312,854	-	312,854	-
Total	<u>\$123,124,317</u>	<u>\$122,811,463</u>	<u>\$312,854</u>	<u>\$ -</u>

The fair value of the certificate of deposit at June 30, 2024 was determined based on level 2 inputs. The District estimates the fair value of these investments using inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The District's investments in the TexStar, Texas Class and Lone Star investment pools (statewide 2a7-like external investment pools) are not required to be measured at fair value but are measured at amortized cost.

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2024, was as follows:

	Balance July 1	Additions/ Completions	Retirement/ Adjustments	Balance June 30
Governmental Activities:				
Capital assets not being depreciated				
Land	\$ 2,748,265	\$ -	\$ -	\$ 2,748,265
Construction in progress	48,678,624	28,199,093	(72,561,541)	4,316,176
Total capital assets not being depreciated	51,426,889	28,199,093	(72,561,541)	7,064,441
Capital assets, being depreciated				
Buildings and improvements	164,770,649	74,858,162	-	239,628,811
Furniture and equipment	24,918,403	6,850,049	(356,891)	31,411,561
Total capital assets being depreciated	189,689,052	81,708,211	(356,891)	271,040,372
Less accumulated depreciation for:				
Buildings and improvements	(46,599,019)	(3,837,943)	-	(50,436,962)
Furniture and equipment	(13,324,040)	(3,039,694)	356,891	(16,006,843)
Total accumulated depreciation	(59,923,059)	(6,877,637)	356,891	(66,443,805)
Total capital assets, being depreciated, net	129,765,993	74,830,574	-	204,596,567
Governmental activities capital assets, net	<u>\$ 181,192,882</u>	<u>\$103,029,667</u>	<u>\$ (72,561,541)</u>	<u>\$ 211,661,008</u>

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Depreciation expense was charged as direct expense to programs of the District as follows:

Governmental activities:	
Instruction	\$2,560,567
Instructional Resources & Media Services	38,846
Curriculum & Instructional Staff Development	1,266
Instructional Leadership	122,930
School Leadership	266,145
Guidance, Counseling & Evaluation Services	235,062
Social Work Services	5,115
Health Services	55,359
Student (Pupil) Transportation	148,133
Food Services	86,582
Cocurricular/Extracurricular Activities	92,106
General Administration	120,277
Plant Maintenance and Operations	241,033
Security and Monitoring Services	34,740
Data Processing Services	<u>81,440</u>
Total depreciation expense-Governmental activities	<u>\$6,877,637</u>

**NOTE 5. LONG-TERM DEBT**

Long-term debt consists of one refunding bond issue, five building bond issues and one financing lease at June 30, 2024. All long-term debt represents transactions in the District's governmental activities.

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

The following is a summary of the changes in the District's Long-term Debt for the year ended June 30, 2024:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 7/1/23</u>	<u>Additions</u>	<u>Refunded/ Retired</u>	<u>Amounts Outstanding 6/30/24</u>	<u>Due Within One Year</u>
<b>Bonded Indebtedness:</b>						
2014 Building	3.25-5.00%	\$ 14,385,000	\$ -	\$ 14,385,000	\$ -	\$ -
2017 Building	2.00-5.00%	52,400,00	-	1,545,000	50,855,000	1,620,000
2018 Refunding	3.00-4.00%	4,645,000	-	-	4,645,000	-
2021 Building	3.00-5.00%	39,780,000	-	1,035,000	38,745,000	1,090,000
2022 Building	4.00-5.00%	21,215,000	-	420,000	20,795,000	870,000
2024 Bldg/Refunding	4.00-5.00%	-	<u>158,155,000</u>	-	<u>158,155,000</u>	<u>775,000</u>
Total Bonded Indebtedness		<u>132,425,000</u>	<u>158,155,000</u>	<u>17,385,000</u>	<u>273,195,000</u>	<u>4,355,000</u>
Financing Lease Payable	2.674%	595,055	-	293,602	301,453	301,453
Premiums on Bond Issuance		<u>15,766,467</u>	<u>7,887,673</u>	<u>770,753</u>	<u>22,883,387</u>	<u>1,072,655</u>
Total Obligations of District		<u>\$148,786,522</u>	<u>\$166,042,673</u>	<u>\$18,449,355</u>	<u>\$296,379,840</u>	<u>\$5,729,108</u>

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2024.

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Debt service requirements to maturity are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2025	\$ 4,355,000	\$ 11,603,757	\$ 15,958,757
2026	4,970,000	11,818,350	16,788,350
2027	5,970,000	11,569,850	17,539,850
2028	7,020,000	11,271,350	18,291,350
2029	7,360,000	10,920,350	18,280,350
2030-2034	42,530,000	49,040,150	91,570,150
2035-2039	53,570,000	38,220,000	91,790,000
2040-2044	57,145,000	25,117,050	82,262,050
2045-2049	46,270,000	13,993,600	60,263,600
2050-2054	44,005,000	5,420,000	49,425,000
	<u>\$273,195,000</u>	<u>\$188,974,457</u>	<u>\$462,169,457</u>

**NOTE 6. FINANCING LEASE PAYABLE**

In March, 2022 the District entered into a finance purchase agreement through Government Capital Corporation for the purchase of 8 school buses at a cost of \$881,011. The lease calls for three equal annual payments, including an effective interest rate of 2.674% of \$309,514. Payments on the finance purchase agreement are accounted for as debt service expenditures in the General Fund.

A summary of finance purchase activity during the year is as follows:

	<u>Amount Outstanding 6/30/23</u>	<u>Additions</u>	<u>Retirements</u>	<u>Amount Outstanding 6/30/24</u>
8 School Buses	<u>\$595,055</u>	<u>\$ -</u>	<u>\$293,602</u>	<u>\$301,453</u>
Total	<u>\$595,055</u>	<u>\$ -</u>	<u>\$293,602</u>	<u>\$301,453</u>

Future minimum lease payments due on the financed purchase is as follows:

<u>Year Ending June 30</u>	<u>Annual Lease Payment</u>
2025	<u>\$309,514</u>
Total Lease Payments	309,514
Imputed Interest Amount	<u>(8,061)</u>
Present Value Outstanding	<u>\$301,453</u>

**NOTE 7. DEFEASED BONDS OUTSTANDING**

In prior years, the District issued refunding bonds to defease certain outstanding bonds for the purpose of consolidation and to achieve debt service savings. The District placed the proceeds from the refunding issues in irrevocable escrow accounts with a trust agent to ensure payment of debt service on the refunded bonds.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from those earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On June 30, 2024, \$0 of bonds outstanding are considered defeased.

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**NOTE 8. PROPERTY TAXES**

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code which established an appraisal district and an appraisal review board in each county in the State of Texas. Tarrant County Appraisal District (TCAD) is responsible for the appraisal of property for all taxing units in Tarrant County, including the District. A portion of the District's boundaries are also in Parker County and Wise County. Under the terms of contracts for appraisal services, the District paid the three counties \$416,360 in fiscal year 2024 for appraising property.

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2023-24 fiscal year was based was \$4,283,723,805. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended June 30, 2024, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.751 and \$0.274 per \$100 valuation, respectively, for a total of \$1.025 per \$100 valuation.

Current tax collections for the year ended June 30, 2024 were 97.49% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2024, property taxes receivable, net of estimated uncollectible taxes, totaled \$1,940,187 and \$485,515 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and unavailable revenue at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

**NOTE 9. DEFINED BENEFIT PENSION PLAN**

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

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

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



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

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

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

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

<u>Contribution Rates</u>		
	<u>2023</u>	<u>2024</u>
Member	8.00%	8.25%
Non-Employer Contributing Entity (State)	8.00%	8.25%
Employers	8.00%	8.25%
Azle ISD FY2024 Employer Contributions		\$ 2,353,429
Azle ISD FY2024 Member Contributions		\$ 4,853,687
Azle ISD FY2024 NECE On-Behalf Contributions		\$ 2,921,186

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.

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- When any part or all of an employee's salary is paid by federal funding source or a privately sponsored source, from non-educational and general, or local funds.
- All public schools must contribute 1.8 percent of the member's salary beginning in fiscal year 2023, gradually increasing to 2 percent in fiscal year 2025.

In addition to the employer contributions listed above, there are 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.

**Actuarial Assumptions.** The total pension liability in the August 31, 2023 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2023	4.13%
Inflation	2.30%
Salary Increases Including Inflation	2.95% to 8.95%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

**Discount Rate.** A single discount rate of 7.00 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 9.50 percent of payroll in fiscal year 2024 gradually increasing to 9.56 percent in fiscal year 2025 and thereafter. This includes all employer and state contributions for active and rehired retirees.

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

The long-term rate of return on pension plan investments is 7.00%.

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

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Asset Class	Target Allocation <sup>1</sup>	Long-Term Expected Arithmetic Real Rate of Return <sup>2</sup>	Expected Contribution To Long-Term Portfolio Returns
<b>Global Equity</b>			
U.S.	18%	4.0%	1.00%
Non-U.S. Developed	13%	4.5%	0.90%
Emerging Markets	9%	4.8%	0.70%
Private Equity	14%	7.0%	1.50%
<b>Stable Value</b>			
Government Bonds	16%	2.5%	0.50%
Absolute Return <sup>4</sup>	0%	3.6%	0.00%
Stable Value Hedge Funds	5%	4.1%	0.20%
<b>Real Return</b>			
Real Estate	15%	4.9%	1.10%
Energy, Natural Resources	6%	4.8%	0.40%
Commodities	0%	4.4%	0.00%
<b>Risk Parity</b>			
Risk Parity	8%	4.5%	0.40%
<b>Leverage</b>			
Cash	2%	3.7%	0.00%
Asset Allocation Leverage	-6%	4.4%	-0.10%
Inflation Expectation	-		2.30%
Volatility Drag <sup>3</sup>	-		-0.90%
<b>Total</b>	<b>100%</b>		<b>8.00%</b>

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Azle ISD's proportionate share of the net pension liability:	\$41,696,568	\$27,889,649	\$16,409,185

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At June 30, 2024, Azle Independent School District reported a liability of \$27,889,649 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Azle Independent School District. The amount recognized by Azle Independent School 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 Azle Independent School District were as follows:

District's Proportionate share of the collective net pension liability	\$27,889,649
State's proportionate share that is associated with the District	<u>39,036,577</u>
Total	<u>\$66,926,226</u>

<sup>1</sup> Target allocations are based on the FY23 policy model.

<sup>2</sup> Capital Market Assumptions come from Aon Hewitt (as of 06/30/2023).

<sup>3</sup> The volatility drag results from the conversion between arithmetic and geometric mean returns.

<sup>4</sup> Absolute Return includes credit sensitive investments.

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

At August 31, 2023 the employer's proportion of the collective net pension liability was 0.0406019888%, an increase of 8.65% from its proportionate share of 0.0373682692% at August 31, 2022.

**Changes in Assumptions and Benefits Since the Prior Actuarial Valuation.**

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

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

The amount of pension expense recognized by Azle Independent School District in the reporting period was \$3,585,247.

For the year ended June 30, 2024 Azle Independent School District recognized pension expense of \$5,894,185 and revenue of \$5,894,185 for support by the State.

At June 30, 2024, Azle Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (The amounts shown below will be the cumulative layers from the current and prior years combined.):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 993,718	\$ 337,713
Changes in actuarial assumptions	2,637,814	645,533
Difference between projected and actual investment earnings	8,714,672	4,656,051
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,443,758	347,890
Contributions paid to TRS subsequent to the measurement date	2,002,262	-
Total	\$16,792,224	\$5,987,187

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

Year ended June 30:	Pension Expense Amount	Balance of Deferred Outflows (Deferred Inflows)
2025	\$ 1,912,723	\$ 6,890,052
2026	1,276,297	5,613,755
2027	3,903,681	1,710,074
2028	1,432,403	277,671
2029	277,671	-
Thereafter	-	-

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**NOTE 10. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS**

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

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

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

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

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

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

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

\* or surviving spouse

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

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

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	<u>Contribution Rates</u>	
	<u>2023</u>	<u>2024</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
 Azle ISD FY24 Employer Contributions		\$498,456
Azle ISD FY24 Member Contributions		\$384,246
Azle ISD FY24 NECE On-behalf Contributions		\$561,655

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

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

**Actuarial Assumptions.** The actuarial valuation was performed as of August 31, 2022. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2023

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

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

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

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

**AZLE INDEPENDENT SCHOOL DISTRICT  
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***Additional Actuarial Methods and Assumptions:***

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	4.13%
Aging Factors	Based on specific plan experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs
Projected Salary Increases	2.95% to 8.95%, including inflation
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65
Ad hoc post-employment benefit changes	None

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

The source of the municipal bond rate is the Fidelity “20-year Municipal GO AA Index” as of August 31, 2023 using the fixed-income market data/yield curve/data municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

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

	1% Decrease in Discount Rate (3.13%)	Current Single Discount Rate (4.13%)	1% Increase in Discount Rate (5.13%)
District’s proportionate share of the Net OPEB Liability:	\$13,990,816	\$11,878,854	\$10,155,443

***Healthcare Cost Trend Rates Sensitivity Analysis*** - The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is one-percentage less than or one-percentage point greater than the health trend rates is assumed.

	1% Decrease in Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
District’s proportionate share of the Net OPEB Liability:	\$9,781,642	\$11,878,854	\$14,576,923

***OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.*** At June 30, 2024, the District reported a liability of \$11,878,854 for its proportionate share of the TRS’s Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District.

**AZLE INDEPENDENT SCHOOL DISTRICT  
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The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's Proportionate share of the collective Net OPEB Liability	\$11,878,854
State's proportionate share that is associated with the District	<u>\$14,333,664</u>
Total	<u>\$26,212,518</u>

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

At August 31, 2023 the employer's proportion of the collective Net OPEB Liability was 0.0536574699%, an increase of 6.64% compared to the August 31, 2022 proportionate share of 0.0503154095%.

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

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

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

The amount of OPEB expense recognized by the District in the reporting period was \$1,025,591.

For the year ended June 30, 2024, the District recognized OPEB expense of \$(3,064,235) and revenue of \$(3,064,235) for support provided by the State.

At June 30, 2024, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits related to OPEB from the following sources (the amounts shown below will be the cumulative layers for the current and prior years combined.):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 537,428	\$ 9,993,806
Changes in actuarial assumptions	1,621,377	7,273,738
Difference between projected and actual investment earnings	27,014	21,882
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	3,465,092	-
Contributions paid to TRS subsequent to the measurement date	418,252	-
Total	\$6,069,163	\$17,289,426

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



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Year ended June 30:	OPEB Expense Amount	Balance of Deferred Outflows (Deferred Inflows)
2025	\$ (2,760,149)	\$ (8,878,366)
2026	(2,215,325)	(6,663,041)
2027	(1,477,717)	(5,185,324)
2028	(1,822,235)	(3,363,089)
2029	(1,531,463)	(1,831,626)
Thereafter	(1,831,626)	-

**NOTE 11. MEDICARE PART D**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are recognized as equal revenues and expenditures/expenses by the District. For the year ended June 30, 2024, the contribution made on behalf of the District was \$337,996.

**NOTE 12. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at June 30, 2024, consisted of the following individual fund receivables and payables:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
<u>General Fund</u>		
Debt Service Fund	\$ -	\$1,749,969
Special Revenue Fund	361,967	-
Fiduciary Fund	8,556	-
Total General Fund	<u>370,523</u>	<u>1,749,969</u>
<u>Debt Service Fund</u>		
General Fund	<u>1,749,969</u>	-
Total Debt Service Fund	<u>1,749,969</u>	-
<u>Special Revenue Fund</u>		
General Fund	-	<u>361,967</u>
Total Special Revenue Fund	-	<u>361,967</u>
<u>Fiduciary Fund</u>		
General Fund	-	<u>8,556</u>
Total Fiduciary Fund	-	<u>8,556</u>
Total	<u>\$2,120,492</u>	<u>\$2,120,492</u>

Virtually all interfund balances are short-term loans due to the fact that the District has separate checking accounts for most types of fund but much activity initially flows through a general fund cash or investment account. There are no interfund balances that are not expected to be repaid within one year.

There were two interfund transfers for the year ended June 30, 2024:

- \$4,379,348 transferred from the general fund to the capital projects fund toward the funding of construction projects.
- \$3,222,941 transferred from the capital projects fund to the debt service fund representing excess premium on the current bond sale for capitalized interest.

AZLE INDEPENDENT SCHOOL DISTRICT  
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**NOTE 13. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at June 30, 2024, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 2,162,301	\$ 10,158,523	\$ 370,523	\$ -	\$ 12,691,347
Debt Service Fund	555,219	536,849	1,749,969	-	2,842,037
Special Revenue Fund	-	748,755	-	-	748,755
Capital Projects Fund	-	-	-	-	-
Total - Governmental Activities	<u>\$ 2,717,520</u>	<u>\$ 11,444,127</u>	<u>\$ 2,120,492</u>	<u>\$ -</u>	<u>\$ 16,282,139</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 135,876</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 135,876</u>

Payables at June 30, 2024, were as follows:

	Accounts	Salaries and Benefits	Due to Other Funds	Other	Total Payables
Governmental Activities:					
General Fund	\$ 109,878	\$ 5,996,741	\$ 1,706,792	\$ 548,788	\$ 8,362,199
Special Revenue Fund	29	480,108	405,146	60,713	945,996
Capital Projects Fund	109,254	-	-	-	109,254
Total - Governmental Activities	<u>\$ 219,161</u>	<u>\$ 6,476,849</u>	<u>\$ 2,111,938</u>	<u>\$ 609,501</u>	<u>\$ 9,417,449</u>
Amounts not scheduled for payment during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 14. SELF-INSURED WORKERS' COMPENSATION**

On September 1, 1993, the District established a workers compensation self-insurance fund for District employees to minimize the total cost of workers compensation to the District. All premiums were paid to a third party administrator acting on behalf of a self-funded pool. The District has retained the risk of loss and thus uses an Internal Service Fund to account for the activity. The District records activities of the plan in accordance with governmental accounting standards. These costs are reported as interfund services provided and used to the extent of amounts determined. Accordingly, they are treated as operating revenues of the Internal Service Fund and operating expenditures of the General Fund. Additional payments, if any, to the self-insurance funds are treated as an equity transfer. In addition, the District obtained a \$1,000,000 excess employer's liability policy for claims exceeding \$300,000. During the year ended June 30, 2024 payments for claims totaled \$226,803.

The District contracts with JI Specialty Services, Inc. to process all claims filed by or for the benefit of employees of the District. On a monthly basis the contractor reports to the District all financial information relating to claims incurred, amounts paid and reserve requirements for claims pending. In addition, the District contracts with Edward's Risk Management, Inc. to provide management-salary consulting services including loss-control services.

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The accrued liability for unpaid claims at June 30, 2024 includes incurred but not reported claims. Claims Administrative Services, Inc., through an actuarial review of the self-insurance program, projected an estimated outstanding loss of \$230,000 at that date. This liability is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not reflect necessarily in an exact amount.

Changes in the workers' compensation claims liability amounts in fiscal 2023 and 2024 are represented below:

	Ten Mos Ended <u>June 30, 2023</u>	Year Ended <u>June 30, 2024</u>
Unpaid claims, beginning of year	\$ 230,000	\$ 230,000
Incurred claims (including IBNR)	157,433	226,803
Claim payments	<u>(157,433)</u>	<u>(226,803)</u>
Unpaid claims, end of fiscal year	<u>\$ 230,000</u>	<u>\$ 230,000</u>

**NOTE 15. DEFERRED COMPENSATION PLAN**

The District offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all District employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency.

All amounts or compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held in trust for the exclusive benefit of the participants and their beneficiaries.

**NOTE 16. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2024, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>State Grants &amp; Entitlements</u>	<u>Federal Grants</u>	<u>Local Governments</u>	<u>Total</u>
General	\$10,158,523	\$ -	\$ -	\$10,158,523
Debt Service	536,849	-	-	536,849
Special Revenue	-	<u>748,755</u>	-	<u>748,755</u>
Total	<u>\$10,695,372</u>	<u>\$748,755</u>	<u>\$ -</u>	<u>\$11,444,127</u>

**AZLE INDEPENDENT SCHOOL DISTRICT  
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**NOTE 17. CONTINGENT LIABILITIES**

The Tax Reform Act of 1986 imposed regulations on tax-exempt bond issues. Governmental bonds issued after August 31, 1986 are subject to the rebate provisions of the Tax Reform Act of 1986. The rebate applies to earnings from bond issue proceeds investments which exceed bond issue stated interest rates. The exact amount of liability, if any, is not known until as long as five years from the bond issuance date. At June 30, 2024, the estimated rebate liability on outstanding bond series was zero.

**NOTE 18. LITIGATION AND CONTINGENCIES**

The District is a party to various legal actions none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

Minimum foundation funding received from the Agency is based primarily upon information concerning average daily attendance at the District's schools which is compiled by the District and supplied to the Agency. Federal funding for Food Services under child nutrition programs is based primarily upon the number and type of meals served and on user charges as reported to the USDA. Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made in compliance with program guidelines to the grantor agencies.

The programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, that the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of funding monies may be required. In the opinion of the District's administration, there are no significant contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the accompanying financial statements for such contingencies.

The Tarrant County Appraisal District is a defendant in various lawsuits involving the property values assigned to property located within the District's boundaries on which the District assesses property taxes. The District could be required to refund property taxes paid on values which were greater than the ultimate final assessed valuation assigned by the court. Such lawsuits could continue several years into the future.

**NOTE 19. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property taxes	\$ 31,570,392	\$ -	\$ 11,380,011	\$ -	\$ 42,950,403
Investment income	1,368,440	22,343	357,693	2,783,498	4,531,974
Food sales	-	1,083,962	-	-	1,083,962
Penalties, interest and other					
tax related income	344,026	-	87,102	-	431,128
Co-curricular student activities	188,339	865,198	-	-	1,053,537
Gas royalties	15,168	-	-	-	15,168
Insurance recovery	8,053	-	-	-	8,053
Facilities rentals	17,281	-	-	-	17,281
Other	192,552	2,104	-	-	194,656
Total	<u>\$ 33,704,251</u>	<u>\$ 1,973,607</u>	<u>\$ 11,824,806</u>	<u>\$ 2,783,498</u>	<u>\$ 50,286,162</u>

AZLE INDEPENDENT SCHOOL DISTRICT  
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**NOTE 20. UNEARNED REVENUE**

Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
TAMU Grant	\$ -	\$ 7,896	\$ -	\$ 7,896
State Instructional Materials	-	29,648	-	29,648
SPED Fiscal Support ESC20	-	741	-	741
Ready to Read	-	14	-	14
Advanced Placement Incentives	-	9,556	-	9,556
Total	<u>\$ -</u>	<u>\$ 47,855</u>	<u>\$ -</u>	<u>\$ 47,855</u>

**NOTE 21. GENERAL FUND FEDERAL SOURCE REVENUES**

<u>Program or Source</u>	<u>FALN</u>	<u>Amount</u>
General Fund:		
Medicaid Reimbursement (SHARS)	N/A	\$373,173
SPED Capacity Grant	84.027A	<u>25,147</u>
Total for General Fund		<u>\$398,320</u>

**NOTE 22. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION**

The Texas Education Agency requires the budgets for the Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in no functional categories for the year ended June 30, 2024.

**NOTE 23. SHARED SERVICE ARRANGEMENTS**

The District participates in a shared services arrangement for juvenile justice alternative education services with several other school districts. Although the District contributes to the shared services arrangement based on its participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Azle ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. During the year ended June 30, 2024, the District made no payments to this joint venture.

The District participates in a shared services arrangement for deaf education services with several other school districts. Although the District contributes to the shared services arrangement based on its participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Azle ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. During the year ended June 30, 2024, the District contributed \$40,000 to the fiscal agent as its share of the costs related to this joint venture.

**AZLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2024**

The District also participates in a shared services arrangement with several other school districts to provide services to students with visual impairment. Although the District contributes to the shared service arrangement based on its participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Azle ISD. The fiscal agent manager, Parker County Co-op, is responsible for all financial activities of the shared services arrangement. During the year ended June 30, 2024, the District made no payments to this joint venture.

**NOTE 24. SUBSEQUENT EVENT**

Management has reviewed events subsequent to June 30, 2024 through October 4, 2024, which is the date the financial statements were available to be issued. No subsequent events were identified that were required to be recorded or disclosed in the financial statements.

**NOTE 25. TAX ABATEMENTS**

In accordance with GASB Statement No. 77, the District did not have any outstanding tax abatements for the year ended June 30, 2024.

**NOTE 26. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS**

In May 2020, GASB issued Statement No. 96 – Subscription-Based Information Technology Arrangements (“SBITA”). This statement increases the usefulness of governments’ financial statements by requiring recognition of certain right-to-use subscription assets and corresponding subscription liabilities for SBITAs that were previously recognized as outflows of resources based on the payment provisions of the contract. The statement was effective for fiscal years beginning after June 15, 2022.

Per review of the information technology arrangements identified by the District as potential SBITAs, the arrangements were determined to either not meet the definition of a SBITA or were immaterial to the financial statements.

**NOTE 27. PRIOR PERIOD ADJUSTMENT**

As described in Note 1, during the current fiscal year the District implemented GASB Implementation Guide No. 2021-1 which updated guidance concerning the capitalization of purchases of group of assets with individual values less than the District’s capitalization threshold. As part of the implementation, the District recorded a prior period adjustment for \$3,366,015 increasing the beginning net position of the Governmental Activities. The net prior period adjustment was the result of an increase in capital assets of \$4,330,843 offset by an increase in accumulated depreciation of \$964,828.

## **APPENDIX E**

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

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

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

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

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

### **History and Purpose**

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

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

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

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

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



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

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

### **Management and Administration of the Fund**

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

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

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

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

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

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

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

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

### **The Total Return Constitutional Amendment**

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

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

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

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

	<b>Annual Distributions to the Available School Fund<sup>(1)</sup></b>									
<u>Fiscal Year Ending</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023<sup>(2)</sup></u>	<u>2024</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156
PSF(SBOE) Distribution	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-
PSF(SLB) Distribution	-	-	-	-	300	600	600 <sup>(3)</sup>	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	432	440	430

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

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

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

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

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

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

<sup>(1)</sup> Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the PSF Corporation 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
<b>Equity</b>				
Domestic Small Cap	\$3,651.3	\$ 2,975.1	\$ 676.2	22.7%
Domestic Large Cap	<u>8,084.6</u>	<u>7,896.5</u>	<u>188.1</u>	<u>2.4%</u>
Total Domestic Equity	11,735.9	10,871.6	864.3	8.0%
International Equity	<u>4,131.1</u>	<u>7,945.5</u>	<u>(3,814.4)</u>	<u>(48.0%)</u>
Total Equity	15,867.0	18,817.1	(2,950.1)	(15.7%)
<b>Fixed Income</b>				
Domestic Fixed Income	-	5,563.7	-	-
U.S. Treasuries	-	937.5	-	-
Core Bonds	8,151.6	-	-	-
Bank Loans	2,564.1	-	-	-
High Yield Bonds	2,699.5	1,231.6	1,467.9	119.2%
Emerging Market Debt	-	<u>869.7</u>	-	-
Total Fixed Income	13,415.2	8,602.5	4,812.7	55.9%
<b>Alternative Investments</b>				
Absolute Return	3,106.0	3,175.8	(69.8)	(2.2%)
Real Estate	6,101.0	6,525.2	(424.2)	(6.5%)
Private Equity	8,958.8	8,400.7	558.1	6.6%
Emerging Manager Program	-	134.5	-	-
Real Return	-	1,663.7	-	-
Private Credit	2,257.9	-	-	-
Real Assets	<u>4,648.1</u>	<u>4,712.1</u>	<u>(64.0)</u>	<u>(1.4%)</u>
Total Alternative Investments	25,071.8	24,612.0	459.8	1.9%
Unallocated Cash	<u>2,583.2</u>	<u>348.2</u>	<u>2,235</u>	<u>641.9%</u>
Total PSF(CORP) Investments	56,937.2	\$ 52,379.8	\$ 4,557.4	8.7%

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

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

<b>Investment Schedule – PSF(SLB)<sup>(1)</sup></b>	
	<u>Fair Value (in millions) August 31, 2024</u>
<u>Investment Type</u>	<u>As of</u>
Investments in Real Assets	<u>8-31-24</u>
Sovereign Lands	\$ 277.47
Discretionary Internal Investments	457.01
Other Lands	153.15
Minerals <sup>(2)(3)</sup>	<u>4,540.61</u> <sup>(6)</sup>
Total Investments <sup>(4)</sup>	5,428.23
Cash in State Treasury <sup>(5)</sup>	—
Total Investments & Cash in State Treasury	\$ 5,428.23

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

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

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

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

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

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

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

### **The School District Bond Guarantee Program**

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

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

also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

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

### **The Charter District Bond Guarantee Program**

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

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

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

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

The Charter District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a charter district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed charter district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond resolution provision requiring an interest rate change. The guarantee does not extend to any obligation of a charter district under any

agreement with a third party relating to guaranteed bonds that is defined or described in State law as a “bond enhancement agreement” or a “credit agreement,” unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

The CDBG 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 CDBG 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 CDBG 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 “CDBG 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG 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.

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

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

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

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

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

Based upon historical performance of the Fund, the legal restrictions relating to the amount of bonds that may be guaranteed has generally resulted in a lower ratio of guaranteed bonds to available assets as compared to many other types of credit enhancements that may be available for Texas school district bonds and charter district bonds. However, the ratio of Fund assets to guaranteed bonds and the growth of the Fund in general could be adversely affected by a number of factors, including Fund investment performance, investment objectives of the Fund, an increase in bond issues by school districts in the State or legal restrictions on the Fund, changes



in State laws that implement funding decisions for school districts and charter districts, which could adversely affect the credit quality of those districts, the implementation of the Charter District Bond Guarantee Program, or significant changes in distributions to the ASF. The issuance of the IRS Notice and the Final IRS Regulations resulted in a substantial increase in the amount of bonds guaranteed under the Guarantee Program.

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

### **2017 Legislative Changes to the Charter District Bond Guarantee Program**

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

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.86% in February 2025. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

### **Charter District Risk Factors**

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district’s facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter

District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

#### Ratings of Bonds Guaranteed Under the Guarantee Program

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

#### Valuation of the PSF and Guaranteed Bonds

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

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

<sup>(2)</sup> At August 31, 2024, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.2 million, and \$318.9 million, respectively, and market values of approximately \$4,540.6 million, \$277.4 million, \$153.1 million, and \$457.0 million, respectively.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
2020	\$ 90,336,680,245
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603 <sup>(2)</sup>

<sup>(1)</sup> Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

<sup>(2)</sup> At August 31, 2024 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$196,294,405,488, of which \$70,478,423,885 represents interest to be paid. As shown in the table above, at August 31, 2024, there were \$125,815,981,603 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$169,961,518,160 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of January 31, 2025, 7.69% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of January 31, 2025, the amount of outstanding bond guarantees represented 76.33% of the Capacity Limit (which is currently the State Capacity Limit). January 31, 2025 values are based on unaudited data, which is subject to adjustment.

<b>Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup></b>						
<u>School District Bonds</u>			<u>Charter District Bonds</u>		<u>Totals</u>	
<u>Fiscal Year</u> <u>Ended 8/31</u>	<u>Number</u> <u>of Issues</u>	<u>Principal</u> <u>Amount</u>	<u>Number</u> <u>of Issues</u>	<u>Principal</u> <u>Amount</u>	<u>Number</u> <u>of Issues</u>	<u>Principal</u> <u>Amount</u>
2020	3,296	\$ 87,800,478,245	64	\$ 2,536,202,000	3,360	\$ 90,336,680,245
2021	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682
2024 <sup>(2)</sup>	3,330	121,046,871,603	103	4,769,110,000	3,433	125,815,981,603

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

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

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

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

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

Effective February 1, 2024, Texas PSF transitioned into a new strategic asset allocation. The new allocation of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include private credit, absolute return, private equity, real estate, natural resources, and infrastructure. For a description of the

accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2024 Annual Report which is included by reference herein.

**PSF Returns Fiscal Year Ended 8-31-2024<sup>(1)</sup>**

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

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

<sup>(2)</sup> Benchmarks are as set forth in the Annual Report for year ended August 31, 2024.

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

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

### **Other Events and Disclosures**

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

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

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

### **PSF Continuing Disclosure Undertaking**

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

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

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

### **Annual Reports**

The PSF Corporation, on behalf of the TEA, and the TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this offering document under “Appendix E – 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 under different bases of accounting.

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

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

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

### **Event Notices**

The TEA and the PSF Corporation will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA or the PSF Corporation will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves

reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption, or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

#### **Availability of Information**

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

#### **Limitations and Amendments**

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

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

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

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

### **Compliance with Prior Undertakings**

Except as stated below, during the last five years, the TEA and the PSF Corporation have not failed to substantially comply with their previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022, TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents. On March 31, 2025, the TEA and the PSF Corporation became aware that the 2022 operating data was not timely filed with EMMA due to an administrative oversight. TEA and PSF Corporation took corrective action and filed a notice of late filing with EMMA on April 4, 2025. The annual operating data was previously posted to EMMA on March 31, 2023.

### **SEC Exemptive Relief**

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