

OFFICIAL STATEMENT

Dated July 16, 2025

Ratings:

Moody's: "Aaa"/"Aa3"

Fitch: "AAA"/"AA"

PSF Guaranteed

See: "OTHER INFORMATION - Ratings" and "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein

NEW ISSUE – Book-Entry-Only

In the opinion of Bond Counsel to the District, interest on the Bonds (defined below) will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions on the date thereof, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on certain corporations.



\$90,820,000

LOCKHART INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Caldwell County, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025

Dated: August 7, 2025

Due: August 1, as shown on the inside cover page

Interest to Accrue From the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$90,820,000 Lockhart Independent School District (the "District") Unlimited Tax School Building Bonds, Series 2025 (the "Bonds") will accrue from the Date of Initial Delivery, defined below, will be payable on August 15, 2025 (an irregular interest payment date) and each February 1 and August 1 thereafter until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry-only system described herein (see "THE BONDS – BOOK-ENTRY-ONLY SYSTEM"). Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the Beneficial Owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distributions of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, National Association, Dallas, Texas (see "THE BONDS – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, Texas Education Code, and Chapter 1371, Texas Government Code, each as amended, an election held on May 3, 2025, the order authorizing the Bonds adopted by the Board of Trustees of the District (the "Board") on June 23, 2025 (the "Bond Order") and an approval certificate executed by the District's authorized pricing officer on the date of sale of the Bonds (the "Approval Certificate" and, together with the Bond Order, the "Order") and are direct and voted obligations of the District, payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS – AUTHORITY FOR ISSUANCE"). The Bonds are direct obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order. **An application has been filed and conditional approval has been received by the District for the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the (i) designing, constructing, renovating, improving, upgrading, updating, modernizing, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), with priority given to a new middle school and the purchase of the necessary sites for school facilities, and (ii) payment of costs associated with the issuance of the Bonds (see "THE BONDS – PURPOSE").

CUSIP PREFIX: 539770

MATURITY SCHEDULE

SEE INSIDE COVER PAGE

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers identified below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on August 7, 2025 (the "Date of Initial Delivery").

SAMCO CAPITAL
FROST BANK

SIEBERT WILLIAMS SHANK
HILLTOP SECURITIES

MATURITY SCHEDULE

Maturity (August 1)	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2028	\$ 1,000,000	5.000%	2.630%	539770MV6
2029	1,635,000	5.000%	2.650%	539770MW4
2030	1,715,000	5.000%	2.750%	539770MX2
2031	1,800,000	5.000%	2.920%	539770MY0
2032	1,890,000	5.000%	3.090%	539770MZ7
2033	1,985,000	5.000%	3.180%	539770NA1
2034	2,085,000	5.000%	3.350%	539770NB9
2035	2,190,000	5.000%	3.540% ⁽²⁾	539770NC7
2036	2,300,000	5.000%	3.730% ⁽²⁾	539770ND5
2037	2,415,000	5.000%	3.890% ⁽²⁾	539770NE3
2038	2,535,000	5.000%	4.040% ⁽²⁾	539770NF0
2039	2,665,000	5.000%	4.140% ⁽²⁾	539770NG8
2040	2,795,000	5.000%	4.250% ⁽²⁾	539770NH6
2041	2,935,000	5.000%	4.360% ⁽²⁾	539770NJ2
2042	3,080,000	5.000%	4.480% ⁽²⁾	539770NK9
2043	3,235,000	5.000%	4.590% ⁽²⁾	539770NL7
2044	3,400,000	5.000%	4.670% ⁽²⁾	539770NM5
2045	3,570,000	5.000%	4.720% ⁽²⁾	539770NN3
2046	3,745,000	5.250%	4.740% ⁽²⁾	539770NP8
2047	3,945,000	5.250%	4.790% ⁽²⁾	539770NQ6

\$13,115,000 5.250% Term Bonds due August 1, 2050 priced to Yield 4.890%⁽²⁾ – 539770NT0⁽¹⁾

\$18,285,000 5.250% Term Bonds due August 1, 2055 priced to Yield 4.960%⁽²⁾ – 539770NY9⁽¹⁾

\$8,500,000 4.750% Term Bonds due August 1, 2055 priced to Yield 5.100% – 539770NZ6⁽¹⁾

(Interest to accrue from the Date of Initial Delivery)

- (1) 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. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers have been assigned by an independent company not affiliated with the District, the Financial Advisor or the Underwriters. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancements by investors that is applicable to all or a portion of the Bonds. None of the District, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 1, 2034, the first optional call date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

REDEMPTION . . . The Bonds having stated maturities on and after August 1, 2035, are subject to redemption at the option of the District, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2034 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – REDEMPTION”). Additionally, Term Bonds maturing on August 1 in the years 2050 and 2055 are subject to mandatory sinking fund redemption (see “THE BONDS – MANDATORY SINKING FUND REDEMPTION”).

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

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

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

Certain information set forth herein has been provided by sources other than the District that the District believes are reliable, but the District makes no representation as to the accuracy of such information. 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 D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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 the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE 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 JURISDICTION IN WHICH THESE SECURITIES HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM DESCRIBED UNDER "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED UNDER "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

The agreements of the District and others related to the Bonds are contained solely in the Order and other documents 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 purchasers of the Bonds. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The Lockhart Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Caldwell County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”) the members of which serve staggered four-year terms with elections being held in November of each even numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors (see “INTRODUCTION – DESCRIPTION OF THE DISTRICT”).
THE BONDS	The \$90,820,000 Unlimited Tax School Building Bonds, Series 2025 (the “Bonds”) are expected to be issued as serial bonds maturing on August 1 in each of the years 2028 through and including 2047 and as Term Bonds maturing on August 1 in the years 2050 and 2055 (see “THE BONDS – DESCRIPTION OF THE BONDS”).
PAYMENT OF INTEREST	Interest on the Bonds accrues from the Date of Initial Delivery and is payable August 15, 2025 (an irregular interest payment date) and each February 1 and August 1 thereafter until stated maturity or prior redemption (see “THE BONDS – DESCRIPTION OF THE BONDS”).
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 45, Texas Education Code, and Chapter 1371, Texas Government Code, each as amended, an election held on May 3, 2025, an order adopted by the Board on June 23, 2025 (the “Bond Order”) and an approval certificate executed by the District’s authorized pricing officer on the date of sale of the Bonds (the “Approval Certificate” and, together with the Bond Order, the “Order”) (see “THE BONDS – AUTHORITY FOR ISSUANCE”).
SECURITY FOR THE BONDS	The Bonds constitute direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE BONDS – SECURITY AND SOURCE OF PAYMENT” and “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
PSF GUARANTEE	The District has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
REDEMPTION	The Bonds having stated maturities on and after August 1, 2035, are subject to redemption at the option of the District, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2034 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – REDEMPTION”). Additionally, Term Bonds maturing on August 1 in the years 2050 and 2055 are subject to mandatory sinking fund redemption (see “THE BONDS – MANDATORY SINKING FUND REDEMPTION”).
TAX EXEMPTION	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 the caption “TAX MATTERS” herein, including the alternative minimum tax on corporations.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for the (i) designing, constructing, renovating, improving, upgrading, updating, modernizing, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), with priority given to a new middle school and the purchase of the necessary sites for school facilities, and (ii) payment of costs associated with the issuance of the Bonds (see “THE BONDS – PURPOSE”).

RATINGS	The Bonds have been rated “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by Fitch Ratings, Inc. (“Fitch”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and certain of the outstanding tax-supported debt of the District are rated “Aa3” by Moody’s and “AA” by Fitch without regard to credit enhancement. Certain of the outstanding tax-supported debt of the District is also rated “A+” by S&P without regard to credit enhancement. No application has been made to S&P for a rating on the Bonds. The District also has one outstanding issue which is rated “AAA” by S&P and another that is rated “Aaa” by Moody’s and “AAA” by Fitch Ratings, each by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “OTHER INFORMATION – RATINGS”).
BOOK-ENTRY-ONLY SYSTEM.....	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. Beneficial ownership of the Bonds may be acquired in denominations having a maturity amount of \$5,000 or any integral multiple thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – BOOK-ENTRY-ONLY SYSTEM”).
PAYMENT RECORD	The District has never defaulted in payment of its tax supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 6/30	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Tax Supported Debt ⁽³⁾	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to TAV
2021	26,768	\$ 1,792,989,375	\$ 66,983	\$ 63,519,961	\$ 2,373	3.54%
2022	27,726	2,140,522,351	77,203	59,829,961	2,158	2.80%
2023	28,447	2,795,333,993	98,265	124,614,961	4,381	4.46%
2024	29,401	3,162,200,125	107,554	121,919,961	4,147	3.86%
2025	30,123	3,824,432,712	126,961	210,001,145 ⁽⁴⁾	6,971 ⁽⁴⁾	5.49% ⁽⁴⁾

(1) Source: The Municipal Advisory Council of Texas.

(2) Values, with the exception of 2025, are as reported by the District’s audited financial statements. 2025 values are reported by the Caldwell County Appraisal District. Includes frozen values.

(3) Excludes the Tax and Revenue Notes, Series 2017.

(4) Projected, includes the Bonds (which are expected to be delivered on August 7, 2025).

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DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Term Expires</u>
Michael Wright President	November 2026
Tom Guyton Vice President	November 2026
Dr. Barbara Sanchez Secretary	November 2028
Rene Rayos Trustee	November 2028
Rebecca Pulliam Trustee	November 2026
Sam Lockhart Trustee	November 2028
Chris Charles Trustee	November 2028

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Mark Estrada	Superintendent	12½ Years ⁽¹⁾
Nicole Weiser	Chief Financial Officer	4 Years

(1) Mr. Estrada was named as the District's Superintendent in July 2018 and previously served the District as the Assistant Superintendent of Curriculum and Instruction.

CONSULTANTS AND ADVISORS

Auditors	Pattillo, Brown & Hill, L.L.P. Certified Public Accountants Waco, Texas
Bond Counsel	McCall, Parkhurst & Horton L.L.P. Austin, Texas
Financial Advisor	Specialized Public Finance Inc. Austin, Texas

For additional information regarding the District, please contact:

Nicole Weiser Chief Financial Officer Lockhart Independent School District 419 Bois D'Arc Lockhart, Texas 78644 512/398-0045 512/398-0025 Fax	or	Jennifer Ritter Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 512/275-7300 512/275-7305 Fax
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**OFFICIAL STATEMENT
RELATING TO

\$90,820,000
LOCKHART INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$90,820,000 Lockhart Independent School District (the “District”) Unlimited Tax School Building Bonds, Series 2025 (the “Bonds”).

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 45, Texas Education Code and Chapter 1371, Texas Government Code, each as amended, an order adopted by the Board of Trustees of the District (the “Board”) on June 23, 2025, and an approval certificate executed on the date of sale of the Bonds, pursuant to the Bond Order, by an authorized representative of the District (the “Approval Certificate” and together with the Bond Order, the “Order”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District’s Financial Advisor, Specialized Public Finance Inc., Austin, Texas.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision of the State of Texas (the “State”) located in Caldwell County, Texas. The District is governed by a seven-member Board of Trustees (the “Board”) the members of which serve staggered four-year terms with elections being held in November of each even numbered year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 302 square miles in Caldwell County.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated August 7, 2025 and mature on August 1 in each of the years and in the amounts shown on page 2 hereof. Interest on the Bonds will accrue from the Date of Initial Delivery and will be payable on August 15, 2025 (an irregular interest payment date) and each February 1 and August 1 thereafter until stated maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the Beneficial Owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “THE BONDS – BOOK-ENTRY-ONLY SYSTEM” herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including Chapter 45, Texas Education Code, Chapter 1371, Texas Government Code, each as amended, an election held in the District on May 3, 2025, and the Order.

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

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Bonds, the District has submitted an application to, and received conditional approval from, the Texas Education Agency for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading “APPENDIX D – 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.

REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2035, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2034, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

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

MANDATORY SINKING FUND REDEMPTION . . . The Bonds maturing on August 1 in the years 2050 and 2055 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity in the following amounts, on the following dates and at a price of par to the date of redemption by lot:

Term Bonds Due August 1, 2050		5.250% Term Bonds Due August 1, 2055	
Redemption Date	Principal Amount	Redemption Date	Principal Amount
August 1, 2048	\$ 4,150,000	August 1, 2051	\$ 3,295,000
August 1, 2049	4,370,000	August 1, 2052	3,465,000
August 1, 2050*	4,595,000	August 1, 2053	3,650,000
		August 1, 2054	3,835,000
		August 1, 2055*	4,040,000

4.750% Term Bonds Due August 1, 2055	
Redemption Date	Principal Amount
August 1, 2051	\$ 1,545,000
August 1, 2052	1,620,000
August 1, 2053	1,695,000
August 1, 2054	1,780,000
August 1, 2055*	1,860,000

*Stated Maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bonds of the stated maturity which, at least 50 days prior to a mandatory redemption date, (1) shall have been acquired by the District, at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with monies in the Bond Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

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

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

DTC REDEMPTION PROVISIONS . . . 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 Direct Participant (defined below) or Indirect

Participant (defined below) 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 Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption 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 Direct Participants, Indirect Participants, or beneficial owners of the selection of portions of the Bonds for redemption. See “THE BONDS – BOOK-ENTRY-ONLY SYSTEM” herein.

DEFEASANCE OF OUTSTANDING BONDS . . . The Order provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on the Bonds plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Government Securities, that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Government Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the District’s Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution as provided in the Order. The Order provides that “Government Securities” means: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America and (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding 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 the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Government Security will be maintained at any particular rating category.

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

After defeasance, the Permanent School Fund Guarantee will cease to apply to the Bonds.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds are to be transferred and how the 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 take no responsibility for the accuracy or completeness thereof.*

The District 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 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, in the aggregate principal amount of each such maturity, and will be deposited with DTC.

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100

countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

Redemption proceeds and principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable dates in accordance with their respective holdings shown on DTC's records. Payments by 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 or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District 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.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District and the Underwriters believe to be reliable, but the District and the Underwriters take no responsibility for the accuracy thereof.

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, its 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 “THE BONDS – Transfer, Exchange and Registration” below.

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount or maturity amount as the Bonds surrendered for exchange or transfer. See “BOOK-ENTRY-ONLY SYSTEM” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

LIMITATION ON TRANSFER OF BONDS . . . Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) during the period commencing at the close of business on the Record Date and ending at the opening of business on the next interest payment date, and (ii) called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the fifteenth (15th) calendar day of the preceding month; provided, however, the Record Date for the initial irregular interest payment date shall be the Date of Initial Delivery.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date,” which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner of a Current Interest Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

AMENDMENTS . . . In the Order the District has reserved the right to amend the Order, without the consent of or notice to any Owner, from time to time and at any time, in any manner not detrimental to the interests of the Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission in the Order. The Order provides in addition, that the District, with the written consent of Owners holding a majority in aggregate principal amount of the Bonds then outstanding affected thereby, may amend, add to, or rescind any of the provisions of the Order; provided that, without the consent of all Owners of then outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any,

and interest on the Bonds, reduce the principal amount thereof, redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission. Reference is made to the Order for further provisions relating to the amendment of the Order.

BONDHOLDERS' REMEDIES . . . The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so 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. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (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 proceeding authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371, in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – AUTHORITY FOR ISSUANCE"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of 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.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the (i) designing, constructing, renovating, improving, upgrading, updating, modernizing, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), with priority given to a new middle school and the purchase of the necessary sites for school facilities, and (ii) payment of costs associated with the issuance of the Bonds.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds are expected to be applied as follows:

Sources:

Par Amount of Bonds	\$	90,820,000.00
Net Reoffering Premium		<u>3,553,412.35</u>
Total Sources	\$	94,373,412.35

Uses:

Deposit to Construction Fund	\$	93,500,000.00
Deposit to Debt Service Fund		2,818.56
Underwriters' Discount		508,191.29
Costs of Issuance		<u>362,402.50</u>
Total Uses	\$	94,373,412.35

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW. . . . The following language constitutes only a summary of the Finance System as it is currently structured. The information contained under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding based on information available to the District as of the date of this Official Statement, see “2025 LEGISLATIVE SESSION” below. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

Local funding 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 are prohibited from levying an M&O tax rate for the purpose of creating a surplus in M&O tax revenues to pay the district’s debt service. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS – I&S TAX RATE LIMITATIONS” herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district’s M&O tax rate.

2025 LEGISLATIVE SESSION . . . The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the “89th Regular Session”). The Texas Legislature (the “Legislature”) meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda.

During the 89th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System (as defined herein) and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Subject to voter approval at a Statewide election to be held on November 4, 2025, legislation passed by both houses of the Legislature would increase: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) effective January 1, 2026, the exemption for tangible personal property used in the “production of income” from the current \$2,500 to \$125,000.

Additionally, legislation passed by the Legislature and signed into law by the Governor 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 Legislature and signed into law by the Governor will create an education savings account program (commonly referred to as vouchers) for students that attend private schools or are homeschooled. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District’s attendance-based funding.

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

2025 TEXAS LEGISLATIVE SPECIAL SESSION . . . The Governor called for a special session on June 23, 2025, which is set to begin on July 21, 2025, and may last no longer than 30 days. The Governor has identified several bills that were vetoed or filed without signature that will be placed on the upcoming special session agenda for further consideration. Additional special sessions may be called by the Texas Governor. During this time, the Texas Legislature may enact laws that materially change current law as it relates to funding public school, including the District and its finances.

The District can make no representations or predictions regarding any actions the Legislature has taken or may take concerning the substance or the effect of any legislation passed in a previous session or a future session of the Legislature.

2023 LEGISLATIVE SESSIONS . . . The regular session of the 88th Texas Legislature began on January 10, 2023 and adjourned on May 29, 2023 (the “88th Regular Session”). The Governor called and the Legislature concluded four special sessions during the 88th Texas Legislature (such special sessions, together with the 88th Regular Session, the “2023 Legislative Sessions”).

During the 88th Regular Session, legislation enacted by the Legislature fully-funded the Foundation School Program for the 2023-2024 State fiscal biennium and increased the state guaranteed yield on the first \$0.08 cents of tax effort beyond a school district’s Maximum Compressed Tax Rate (as defined herein) to \$126.21 per penny of tax effort per student in WADA (as defined herein) in 2024 (from \$98.56 in 2023) and \$129.52 per penny of tax effort per student in WADA in 2025. See “– STATE FUNDING FOR SCHOOL DISTRICTS – TIER TWO.” The Legislature also provided for an increase in funding for the school safety allotment to \$10.00 (from \$9.72 in the prior year) per ADA (as defined herein) and \$15,000 per campus.

During the second called special session, legislation was passed, and at an election held in the State on November 7, 2023, voters approved a State constitutional amendment that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and held districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibited school districts, cities and counties from repealing or reducing a general optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20% (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad

valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. At an election held on November 7, 2023, voters approved a State constitutional amendment effectuating the legislative changes. The legislation adopted during the second called special session reduces the amount of property taxes paid by homeowners and businesses and increases the State's share of the cost of funding public education.

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

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

MAXIMUM COMPRESSED TAX RATE . . . The "Maximum Compressed Tax Rate" or the "MCR" is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate (described below) to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the "State Compression Percentage" (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year 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. The MCR for the 2025-2026 school year was established as \$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 for such year. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM– STATE FUNDING FOR SCHOOL DISTRICTS – TIER TWO" herein.

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district to increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as 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 Finance System also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2024-2025 State fiscal biennium, the Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

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

The fast growth allotment weights are 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$320 million for the 2024-2025 school year.

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

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

the 2024-2025 State fiscal biennium, the Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

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

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

LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT . . . A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district’s Tier One Tax Rate and Copper Pennies in excess of the school district’s respective funding entitlements (a “Chapter 49 school district”), is subject to the local revenue reduction provisions contained in Chapter 49 of Texas Education Code, as amended (“Chapter 49”). Additionally, in years in which the amount of State funds appropriated specifically excludes the amount necessary to provide the guaranteed yield for Golden Pennies, local revenues generated on a school district’s Golden Pennies in excess of the school district’s respective funding entitlement are subject to the local revenue reduction provisions of Chapter 49. To reduce local revenue, 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.

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. The provisions governing detachment and annexation of taxable property by the Commissioner do not provide for assumption of any of the transferring school district's existing debt.

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2024-2025 school year, the District was not designated as an "excess local revenue" Chapter 49 school district by 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 revenues" 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 will be required to exercise one or more of the permitted wealth equalization 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 an annexing district.

For a detailed discussion of State funding for school district see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – STATE FUNDING FOR SCHOOL DISTRICTS."

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.

The District is currently evaluating legislation approved during the 89th Legislative Session which may impact ad valorem taxation of property within the District. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 LEGISLATIVE SESSION" for information on legislation affecting ad valorem taxation exemptions

VALUATION OF TAXABLE PROPERTY . . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Guadalupe Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in their 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. Effective January 1, 2024, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain 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, unless extended by the State legislature, the maximum property value may be increased or decreased by the product of the preceding state fiscal year’s increase or decrease in the consumer price index, as applicable, to the maximum property value. For the 2025 tax year, the Maximum Property Value was increased to \$5,160,000.

State law provides that eligible owner 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”).

STATE MANDATED HOMESTEAD EXEMPTIONS . . . State law grants, with respect to each school district in the State, (1) a \$100,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons 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 SESSION” herein for a discussion of a potential increase in the general State mandated homestead exemption from \$100,000 to \$140,000 and a potential 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 an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

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

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. House Bill 9 approved by the 89th Texas Legislature, increases exemption for tangible personal property used in the “production of income” from the current \$2,500 to \$125,000. This legislation is effective January 1, 2026 but is contingent on the passage of a Constitutional amendment at the November 2025 State-wide Constitutional election. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 LEGISLATIVE SESSION.”

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

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

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

OTHER EXEMPT PROPERTY . . . Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent 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. Section 11.35 of the Tax Code further provides that “damage” for purposes of such statute is limited to “physical damages.” For more information on the exemption, reference is made to Section 11.35 of the Tax Code as amended.

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

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

TAX LIMITATION AGREEMENTS . . . The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that is not fully taxable is excluded from the school district’s taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. The 87th Texas Legislature did not vote to extend this program, which expired by its terms, effective December 31, 2022 (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 maintenance and operations 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 maintenance and operations taxes for eligible property during a project’s construction period. **Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under Chapter 403T.** Eligible projects must involve manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects and projects must create and maintain jobs, as well as meet certain minimum investment requirements. The effective date of Chapter 403T was January 1, 2024, and the District is still in the process of reviewing Chapter 403T and cannot make any representations as to what impact, if any, Chapter 403T will have on its finances or operations.

For a discussion of how the various exemptions described above are applied by the District, see “AD VALOREM PROPERTY TAXATION – DISTRICT APPLICATION OF PROPERTY TAX CODE” herein.

DISTRICT AND TAXPAYER REMEDIES . . . Under certain circumstances, taxpayers and taxing units, including the District, may appeal to 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 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, 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 – 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, penalties, 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 action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

DISTRICT APPLICATION OF PROPERTY TAX CODE . . . The District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$14,000; the District does grant an exemption to the market value of the residence homestead of the disabled of \$10,000*.

The District grants a State mandated \$100,000 general residence homestead exemption*.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

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

The District does not tax nonbusiness personal property; and Caldwell County Appraisal District collects taxes for the District.

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

The District does not tax freeport property and does tax goods-in-transit.

The District has not adopted a tax abatement policy.

The District does not participate in any tax increment financing zones.

*See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Session” herein for a discussion of a potential

increase in the general State mandated homestead exemption from \$100,000 to \$140,000 and a potential 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.

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS . . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on August 4, 1962 in accordance with the provisions of Chapter 20 and 2784 e-1, Texas Education Code (now codified as Section 45.003, Texas Education Code, as amended).

The maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93 (see "TAX RATE LIMITATIONS – PUBLIC HEARING AND VOTER-APPROVAL TAX RATE" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – LOCAL FUNDING FOR SCHOOL DISTRICTS" herein).

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

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 – SOURCE AND SECURITY FOR PAYMENT").

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

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

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

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

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

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

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

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

TABLE 1 – VALUATION, EXEMPTIONS AND TAX-SUPPORTED DEBT

2024/25 Market Valuation Established by Caldwell County Appraisal District		
(excluding totally exempt property)		\$ 7,600,696,525
Less Exemptions/Reductions at 100% Market Value		3,776,263,813
2024/25 Net Taxable Assessed Valuation		\$ 3,824,432,712 ⁽¹⁾
Debt Payable from Ad Valorem Taxes (as of 6/1/2025)	\$ 119,181,145 ⁽²⁾	
The Bonds	90,820,000	
Total Debt Payable from Ad Valorem Taxes		\$ 210,001,145
Interest and Sinking Fund (as of 6/1/2025)		\$ 11,710,586
Ratio of Net Tax Supported Debt		5.49%
2025 Estimated Population - 30,123		
Per Capita Taxable Assessed Valuation - \$126,961		
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$6,971		

(1) Includes frozen values.

(2) Excludes the Bonds and the Tax and Revenue Notes, Series 2017.

TABLE 2 – VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year ⁽³⁾	Ratio Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2021	26,768	\$ 1,792,989,375	\$ 66,983	\$ 63,519,961	3.54%	\$ 2,373
2022	27,726	2,140,522,351	77,203	59,829,961	2.80%	2,158
2023	28,447	2,795,333,993	98,265	124,614,961	4.46%	4,381
2024	29,401	3,162,200,125	107,554	121,919,961	3.86%	4,147
2025	30,123	3,824,432,712	126,961	210,001,145 ⁽⁴⁾	5.49% ⁽⁴⁾	6,971 ⁽⁴⁾

(1) Source: The Municipal Advisory Council of Texas.

(2) Includes frozen values.

(3) Excludes the Tax and Revenue Notes, Series 2017.

(4) Projected; includes the Bonds (which are expected to be delivered on August 7, 2025).

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 6/30	Total Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund ⁽¹⁾	Interest and Sinking Fund			
2021	\$ 1.1671	\$ 0.9094	\$ 0.2577	\$ 20,925,979	95.61%	99.74%
2022	1.1297	0.8720	0.2577	24,181,481	95.52%	98.56%
2023	1.1123	0.8546	0.2577	31,092,500	94.33%	96.01%
2024	0.9569	0.6992	0.2577	30,259,093	92.75%	96.03%
2025	0.9546	0.6969	0.2577	34,299,154	93.21% ⁽²⁾	96.09% ⁽²⁾

(1) The levies are subject to change during the ensuing year due to settlement of contested valuation, etc.

(2) Partial collections as of April 30, 2024.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2024/25 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Permian Highway Pipeline	\$ 110,463,230	2.89%
LCRA Transmission Services Corporation	48,253,400	1.26%
Atmos Energy/Mid-Tex Pipeline	45,937,710	1.20%
Exeter 130 Cahill LP	22,125,000	0.58%
FHR Corpus Christi, LLC	18,816,350	0.49%
Wal-Mart Stores Texas LP	15,577,640	0.41%
Chelle Holdings Inc.	14,862,678	0.39%
Union Pacific Railroad Company	12,117,540	0.32%
Continental Homes of Texas LP	11,382,500	0.30%
Blackjack Block I LLC	11,325,860	0.30%
	<u>\$ 310,861,908</u>	<u>8.13%</u>

TABLE 5 – TAX ADEQUACY⁽¹⁾

Average Annual Principal and Interest Requirements, 2025-2055	\$ 11,858,212
\$0.3164 Tax Rate at 98% Collection Produces	\$ 11,858,495
Maximum Principal and Interest Requirements, 2040	\$ 13,539,965
\$0.3613 Tax Rate at 98% Collection Produces	\$ 13,541,322

(1) Includes the Bonds.

TABLE 6 – ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	Total Tax Supported Debt	Estimated % Applicable	District's Overlapping Tax Supported Debt as of 6/30/2025
Lockhart ISD	\$ 210,001,145 ⁽¹⁾	100.00%	\$ 210,001,145 ⁽¹⁾
Caldwell County	12,695,000	70.44%	8,942,358
Caldwell County MUD No. 2	5,455,000	100.00%	5,455,000
City of Lockhart	17,845,000	100.00%	17,845,000
City of Mustang Ridge	295,000	17.35%	51,183
Total Direct and Overlapping Tax Supported Debt			\$ 242,294,686
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation			6.34%
Per Capita Overlapping Tax Supported Debt			\$ 8,044

(1) Includes the Bonds and excludes the Tax and Revenue Notes, Series 2017.

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DEBT INFORMATION

TABLE 7 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Year Ending 12/31 ⁽¹⁾	Outstanding Debt ⁽²⁾			The Bonds ⁽³⁾			Total Tax Supported Debt Service
	Principal	Interest	Total	Principal	Interest	Total	
2025	\$ 4,366,290	\$ 6,141,632	\$ 10,507,921	\$ -	\$ 102,611	\$ 102,611	\$ 10,610,532
2026	2,264,856	6,060,070	8,324,925	-	4,437,907	4,437,907	12,762,832
2027	4,435,000	3,887,057	8,322,057	-	4,617,475	4,617,475	12,939,532
2028	3,640,000	3,698,413	7,338,413	1,000,000	4,617,475	5,617,475	12,955,888
2029	3,795,000	3,540,213	7,335,213	1,635,000	4,567,475	6,202,475	13,537,688
2030	3,960,000	3,375,213	7,335,213	1,715,000	4,485,725	6,200,725	13,535,938
2031	4,060,000	3,269,012	7,329,012	1,800,000	4,399,975	6,199,975	13,528,987
2032	4,180,000	3,156,275	7,336,275	1,890,000	4,309,975	6,199,975	13,536,250
2033	4,295,000	3,036,448	7,331,448	1,985,000	4,215,475	6,200,475	13,531,923
2034	4,420,000	2,910,871	7,330,871	2,085,000	4,116,225	6,201,225	13,532,096
2035	4,555,000	2,777,801	7,332,801	2,190,000	4,011,975	6,201,975	13,534,776
2036	4,700,000	2,636,804	7,336,804	2,300,000	3,902,475	6,202,475	13,539,279
2037	4,850,000	2,487,430	7,337,430	2,415,000	3,787,475	6,202,475	13,539,905
2038	5,005,000	2,329,871	7,334,871	2,535,000	3,666,725	6,201,725	13,536,596
2039	5,165,000	2,164,696	7,329,696	2,665,000	3,539,975	6,204,975	13,534,671
2040	5,325,000	2,013,240	7,338,240	2,795,000	3,406,725	6,201,725	13,539,965
2041	5,480,000	1,855,431	7,335,431	2,935,000	3,266,975	6,201,975	13,537,406
2042	5,645,000	1,689,519	7,334,519	3,080,000	3,120,225	6,200,225	13,534,744
2043	5,785,000	1,518,189	7,303,189	3,235,000	2,966,225	6,201,225	13,504,414
2044	4,260,000	1,342,019	5,602,019	3,400,000	2,804,475	6,204,475	11,806,494
2045	2,725,000	1,196,044	3,921,044	3,570,000	2,634,475	6,204,475	10,125,519
2046	2,840,000	1,083,638	3,923,638	3,745,000	2,455,975	6,200,975	10,124,613
2047	2,955,000	966,488	3,921,488	3,945,000	2,259,363	6,204,363	10,125,850
2048	3,075,000	844,594	3,919,594	4,150,000	2,052,250	6,202,250	10,121,844
2049	3,205,000	717,750	3,922,750	4,370,000	1,834,375	6,204,375	10,127,125
2050	3,335,000	585,544	3,920,544	4,595,000	1,604,950	6,199,950	10,120,494
2051	3,475,000	447,975	3,922,975	4,840,000	1,363,713	6,203,713	10,126,688
2052	3,620,000	304,631	3,924,631	5,085,000	1,117,338	6,202,338	10,126,969
2053	3,765,000	155,306	3,920,306	5,345,000	858,475	6,203,475	10,123,781
2054	-	-	-	5,615,000	586,338	6,201,338	6,201,338
2055	-	-	-	5,900,000	300,450	6,200,450	6,200,450
	<u>\$ 119,181,145</u>	<u>\$ 66,192,173</u>	<u>\$ 185,373,318</u>	<u>\$90,820,000</u>	<u>\$ 91,411,267</u>	<u>\$ 182,231,267</u>	<u>\$ 367,604,585</u>

(1) Due to the timing of tax collections receipts, the District budgets for debt payments on a calendar year basis.

(2) Excludes the Bonds and the Tax and Revenue Notes, Series 2017.

(3) Interest calculated at the rates shown on the inside cover page hereof.

TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 6-30-25	\$ 8,774,831
Interest and Sinking Fund, 6-30-24.....	\$ 10,347,014
Interest and Sinking Fund Tax Levy @ 97% Collection.....	<u>9,559,896</u> <u>19,906,910</u>
Estimated Balance, 6-30-25	\$11,132,079

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TABLE 9 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
School Building	5/3/2025	\$ 93,500,000	\$ -	\$ 93,500,000 ⁽¹⁾	\$ -
Total		\$ 93,500,000	\$ -	\$ 93,500,000	\$ -

(1) Includes allocated premium to be used against the voted authority.

In addition to unlimited tax bonds, the District may issue or 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.

ANTICIPATED ISSUANCE OF ADDITIONAL TAX DEBT . . . The District does not anticipate issuing additional debt secured by either its limited or unlimited taxing authority within the next twelve months.

TABLE 10 – OTHER OBLIGATIONS . . . See Notes to the Financial Statements. See “APPENDIX B – EXCERPTS FROM THE DISTRICT’S ANNUAL FINANCIAL REPORT.”

PENSION FUND AND OTHER POST-EMPLOYMENT BENEFITS . . . Pension funds for employees of Texas school districts, and any employee in public education in the State, are administered by the Teacher Retirement System of Texas (the “System”). The individual employees contribute a fixed amount of their salary to the System, currently 6.4%, and the State contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. For more detailed information concerning the retirement plan, see “APPENDIX B – EXCERPTS FROM THE DISTRICT’S ANNUAL FINANCIAL REPORT.”

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FINANCIAL INFORMATION

TABLE 11 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended June 30,				
REVENUES:	2024	2023	2022	2021	2020
Local and Intermediate Sources	\$ 23,377,592	\$ 25,864,700	\$ 19,471,327	\$ 17,349,390	\$ 16,288,537
State Program Revenues	44,344,560	35,063,611	37,117,850	39,362,124	38,372,653
Federal Program Revenues	612,104	1,126,682	736,560	439,717	319,846
Total Revenues	<u>\$ 68,334,256</u>	<u>\$ 62,054,993</u>	<u>\$ 57,325,737</u>	<u>\$ 57,151,231</u>	<u>\$ 54,981,036</u>
EXPENSES:					
Instruction	\$ 36,939,526	\$ 35,119,261	\$ 32,336,738	\$ 28,901,620	\$ 29,730,928
Instruction, Resources and Media Services	639,448	640,947	614,026	595,042	619,449
Curriculum and Instructional Staff Development	811,062	1,019,674	910,633	688,008	731,173
Instructional and School Leadership	4,147,334	4,034,727	3,724,689	3,672,587	3,574,005
Guidance, Counseling and Evaluation Services	1,378,874	1,349,167	1,347,999	1,013,537	1,080,335
Social Work Services	301,649	174,436	182,073	179,961	155,147
Health Services	713,480	620,428	540,234	486,961	575,620
Student Transportation	3,764,926	3,507,131	2,952,095	2,563,438	2,097,856
Food Services	-	-	-	-	5,441
Cocurricular/Extracurricular Activities	1,729,372	1,737,490	1,605,245	1,433,691	1,713,888
General Administration	3,015,440	2,816,354	2,632,102	2,341,415	2,244,715
Plant Maintenance and Operations	5,943,004	5,619,480	5,190,821	4,813,134	4,946,927
Security and Monitoring Services	545,699	280,359	294,830	193,084	242,968
Data Processing Services	1,218,325	1,211,264	1,188,185	821,432	706,984
Community Services	29,436	18,992	17,333	13,931	25,470
Debt Service	432,511	414,235	11,080	30,926	71,030
Capital Outlay	309,721	626,728	1,071,188	2,484,168	863,480
Payments to Shared Service Arrangements	1,248,688	1,731,498	1,566,492	1,421,217	1,403,205
Intergovernmental Charges	796,107	596,901	479,303	365,283	374,024
Total Expenditures	<u>\$ 63,964,602</u>	<u>\$ 61,519,072</u>	<u>\$ 56,665,066</u>	<u>\$ 52,019,435</u>	<u>\$ 51,162,645</u>
Excess/Deficiency of Revenues Over Expenditures	\$ 4,369,654	\$ 535,921	\$ 660,671	\$ 5,131,796	\$ 3,818,391
Transfers Out	(768,597)	(1,389,104)	(350,170)	(669,203)	(741,589)
Fund Balance - Beginning	23,953,526	24,806,709	24,496,208	20,033,615	16,956,801 ⁽¹⁾
Fund Balance - Ending ⁽²⁾	<u>\$ 27,554,583</u>	<u>\$ 23,953,526</u>	<u>\$ 24,806,709</u>	<u>\$ 24,496,208</u>	<u>\$ 20,033,603</u>

Source: District's Comprehensive Annual Financial Reports.

(1) Restated.

(2) The District's unaudited general fund balance for fiscal year ending June 30, 2025 is approximately \$23,054,583.

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TABLE 11A – CHANGES IN NET POSITION

	Fiscal Year Ended June 30,				
REVENUES:	2024	2023	2022	2021	2020
Program Revenues:					
Charges for Services	\$ 439,908	\$ 434,365	\$ 399,816	\$ 180,462	\$ 388,061
Operating Grants and Contributions	19,151,992	17,455,980	16,648,292	16,376,245	11,693,339
General Revenues:					
Maintenance and Operations Taxes	\$ 22,057,873	\$ 24,094,101	\$ 20,221,375	\$ 16,480,526	\$ 15,750,406
Debt Service Taxes	8,168,780	7,251,665	5,963,106	4,674,340	4,732,542
State Aid-Formula Grants	41,524,222	32,484,226	34,705,255	39,130,576	39,113,647
Investment Earnings	4,597,074	1,652,709	88,006	165,473	416,634
Miscellaneous	798,489	1,482,263	842,647	781,764	2,013,800
Total Revenues	<u>\$ 96,738,338</u>	<u>\$ 84,855,309</u>	<u>\$ 78,868,497</u>	<u>\$ 77,789,386</u>	<u>\$ 74,108,429</u>
EXPENSES:					
Instruction, Curriculum and Media Services	\$ 48,271,830	\$ 47,630,894	\$ 43,165,252	\$ 43,393,066	\$ 41,977,518
Instructional and School Leadership	4,976,040	4,976,067	4,358,247	4,513,653	4,622,055
Student Support Services	8,252,259	8,015,238	7,146,940	6,830,893	6,795,378
Child Nutrition	6,173,340	5,442,921	3,812,152	3,543,119	4,306,789
Extracurricular Activities	1,973,020	1,972,967	1,734,400	1,653,879	1,651,994
General Administration	3,897,484	2,986,405	2,711,289	2,670,608	2,681,006
Plant Maintenance, Security and Data Processing	8,807,919	8,109,808	7,523,273	7,623,667	7,490,519
Community Services	798,300	563,708	120,933	39,669	100,661
Debt Services	5,530,185	2,268,741	1,606,998	2,155,737	2,901,576
Payments to Fiscal Agents	1,248,688	1,731,498	1,600,422	1,438,819	1,420,482
Intergovernmental Charges	796,107	596,901	479,303	365,283	374,024
Total Expenses	<u>\$ 90,725,172</u>	<u>\$ 84,295,148</u>	<u>\$ 74,259,209</u>	<u>\$ 74,228,393</u>	<u>\$ 74,322,002</u>
Increase/(Decrease) in Net Assets	\$ 6,013,166	\$ 560,161	\$ 4,609,288	\$ 3,560,993	\$ (213,573)
Transfers	(245,699)	(1,113,789)	(134,551)	(308,988)	1,154
Net Beginning Position	6,490,767	7,044,395	2,569,658	(682,347)	(469,928)
Net Ending Position	<u>\$ 12,258,234</u>	<u>\$ 6,490,767</u>	<u>\$ 7,044,395</u>	<u>\$ 2,569,658</u>	<u>\$ (682,347)</u>

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INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE DISTRICT . . . Under State law, the District is authorized to invest in:

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

described in this paragraph, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities.

In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below.

A political subdivision such as the District may enter into securities lending programs if:

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

As a school district that qualifies as an "issuer" under Chapter 1371, as amended, Texas Government Code, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines "corporate bonds" as senior secured debt obligations issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below "AA-" (or the equivalent thereof) or, with respect to a corporate bond rated "AA-" (or the equivalent thereof), such corporate bond is placed on negative credit watch. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Official Statement, the District has not taken the steps necessary to allow for investing in corporate bonds or made investments in that type of instrument.

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

The District is specifically prohibited from investing in:

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

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

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's

investment officers must submit an investment report to the Board detailing: (1) the investment position of the District, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategies and (b) State law. No person may invest District funds without express written authority from the Board.

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

TABLE 12 – CURRENT INVESTMENTS

As of April 30, 2025 (unaudited), the District's investable funds were invested in the following categories:

Investments	Market Value	% of Total
First Lockhart National Bank	\$ 3,127,722	4.54%
TexPool	34,658,741	50.32%
Texas Daily	31,088,174	45.14%
	<u>\$ 68,874,637</u>	<u>100.00%</u>

TexPool is a governmental investment pool that operates as a money market equivalent. TexPool currently maintains an "AAA" rating from S&P Global Ratings and has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investments or redemptions of funds are allowed by the participants.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. 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.

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TAX MATTERS

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

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

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

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. Existing Law is subject to change by 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 property financed or refinanced with proceeds of the Bonds. 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 Issuer 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 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 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 a corporation's "adjusted financial statement income" as imposed by 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 IRS. 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.

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CYBERSECURITY RISKS

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. 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 specified material events, to the MSRB. This information will be available to securities brokers and others who subscribe to receive the information from the vendors. See "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas, as the case may be, and to provide timely notice of specified material events related to the guarantee to the MSRB.

ANNUAL REPORTS . . . Under Texas law, the District must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report with the Board Secretary within six months after the close of the District's fiscal year. The District's fiscal records and audit reports are available for public inspection during the regular business hours, and the District is required to provide a copy of the District's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Service Commission.

The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 5 and 7 through 12 and in APPENDIX B. The District will update and provide information of the general type included in the numbered tables within six months after the end of each fiscal year and audited financial statements of the District within 12 months after the end of each fiscal year beginning with the fiscal year ending in and after 2025. The District will provide the updated information to the MSRB. The MSRB intends to make the information available to the public without charge through an internet portal as part of an expansion of its EMMA system. Investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements within 12 months after the fiscal year end and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated tables described above by the last day of December in each year following the end of its fiscal year and its audited financial statements by June 30 of the following year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB.

EVENT NOTICES . . . The District will also provide to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into of 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 the trustee, if material; (15) incurrence of a financial obligation of the District (as defined by the Rule, which includes certain debt,

debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. (Neither the Bonds nor the Ordinance make any provision for debt service reserves, credit enhancement (other than the Permanent School Fund Guarantee) or a trustee.)

For these purposes, (a) any event described in clause (12) in the 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 preceding paragraph and the definition of financial obligation in this section to have the meanings ascribed to them in SEC Release No. 34-83885, dated August 20, 2018.

The District will also file notice with the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data as described above in “– ANNUAL REPORTS” by the time required.

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered and beneficial owners of the Bonds.

The District may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the District also may amend the provisions of its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (i) such provisions as so amended and (ii) any amendments or interpretations of the Rule.

If the District so amends its continuing disclosure agreement as described in this section, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “ANNUAL REPORTS” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

AVAILABILITY OF INFORMATION FROM THE MSRB . . . All information and documentation filings required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. To make such information available to the public free of charge, the MSRB has established the EMMA system, which may be accessed over the internet at www.emma.msrb.org.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

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OTHER INFORMATION

RATINGS . . . The Bonds have been rated “Aaa” by Moody’s Investors Service, Inc. (“Moody’s”) and “AAA” by Fitch Ratings, Inc. (“Fitch”) by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and certain of the outstanding tax-supported debt of the District are rated “Aa3” by Moody’s and “AA” by Fitch without regard to credit enhancement. Additionally, certain of the outstanding tax-supported debt of the District is rated “A+” by S&P without regard to credit enhancement. No application has been made to S&P for a rating on the Bonds. The District also has one outstanding issue which is rated “AAA” by S&P and another that is rated “Aaa” by Moody’s and “AAA” by Fitch Ratings, each by virtue of the guarantee of the Permanent School Fund of the State of Texas (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”). An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective view of such organizations and the District makes no representation as to the appropriateness of the ratings. A rating is not a recommendation to buy, hold, or sell securities. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of the company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

LEGAL MATTERS . . . The District will furnish the Underwriters a transcript of certain proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of the State of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District. The District will also furnish the approving legal opinion of Bond Counsel to the effect that (i), based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and the laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the registered owners of the Bonds may be limited by laws relating to governmental immunity, bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and (ii) the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. See “APPENDIX C – FORM OF BOND COUNSEL’S OPINION.” Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions “THE BONDS” (except for “PERMANENT SCHOOL FUND GUARANTEE,” “DTC REDEMPTION PROVISIONS,” “BOOK-ENTRY-ONLY SYSTEM,” “BONDHOLDERS’ REMEDIES,” “PURPOSE” and “SOURCES AND USES OF PROCEEDS”), “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” (except for the subcaption “CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT”), “TAX RATE LIMITATIONS – M&O TAX RATE LIMITATIONS” (the first paragraph only), “TAX MATTERS” “CONTINUING DISCLOSURE OF INFORMATION” (except for the subheading “COMPLIANCE WITH PRIOR UNDERTAKINGS”), “OTHER INFORMATION – REGISTRATION AND QUALIFICATION

OF BONDS FOR SALE,” “OTHER INFORMATION – LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS,” and “OTHER INFORMATION – LEGAL MATTERS” (except for the third to last sentence of the first paragraph thereof) to determine that the information relating to the Bonds and the Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Bond Counsel’s legal opinion will accompany the Bonds deposited with DTC or will be printed on or attached to the Bonds in the event of discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. In connection with the issuance of the Bonds, Bond Counsel has been engaged by, and only represents, the District. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

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

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

UNDERWRITING . . . The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an underwriting discount of \$508,191.29. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

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

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

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

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

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

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

In the Bond Order, the Board authorized certain District representatives to approve, and in the Approval Certificate an authorized District representative approved, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement, or amendment thereto and (ii) the Underwriters' use of this Official Statement in connection with the public offering and sale of the Bonds in accordance with the provisions of the Rule.

/s/ Nicole Weiser

Pricing Officer

Lockhart Independent School District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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THE DISTRICT

Located in central Caldwell County approximately 30 miles south of Austin, Lockhart Independent School District (the “District”) covers an area of approximately 302 square miles. Traditionally, the economy in the District has been based on agriculture, farming and ranching. In recent years there has been a trend toward more manufacturing, more development of land area and less dependency on agriculture, although farming and ranching continue to be a vital part of the area’s economy.

The District facilities are all located in the City of Lockhart, with the exception of Alma Brewer Strawn Elementary which is located in Lytton Springs, Texas, within the District boundaries. These facilities include one pre-kindergarten, five elementaries, one junior high and one high school campus. Enrollment is approximately 6,160 students, with over 2,882 students in the elementary grades of pre-kindergarten through fifth grade. All schools are fully accredited by the Texas Education Agency.

The District also operates an alternative school, called the “Pride School,” which addresses drop out problems, and increases graduation rates. Students aged 16-21 who have dropped out of school prior to graduation are eligible to apply. The class schedule is flexible so that students can work part-time while completing their high school requirements. Currently there are some 59 students enrolled in the “Pride School.”

ENROLLMENT

<u>Year</u>	<u>Enrollment</u>
2017	5,661
2018	5,925
2019	6,123
2020	6,160
2021	6,043
2022	6,127
2023	6,444
2024	6,604

CIVILIAN LABOR FORCE ESTIMATES

Caldwell County		
	<u>May 2025</u>	<u>May 2024</u>
Total Civilian Labor Force	25,150	24,657
Total Employment	24,263	23,829
Total Unemployment	887	828
Percent Unemployed	3.5%	3.4%
State of Texas		
	<u>May 2025</u>	<u>May 2024</u>
Total Civilian Labor Force	15,826,370	15,501,676
Total Employment	15,194,230	14,913,510
Total Unemployment	632,140	588,166
Percent Unemployed	4.0%	3.8%

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APPENDIX B

EXCERPTS FROM THE
LOCKHART INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the Year Ended June 30, 2024

The information contained in this APPENDIX consists of excerpts from the Lockhart 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 Report for further information.

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
Lockhart Independent School District
Lockhart, Texas

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of Lockhart Independent School District (the "District"), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise Lockhart 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, business-type activities, each major fund, and the aggregate remaining fund information of Lockhart 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Lockhart 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

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

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

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

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 GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 Lockhart Independent School District's basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, 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 Information Included in the Annual Comprehensive Financial Report

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
November 18, 2024

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Lockhart Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2024. We encourage readers to consider the information presented here in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$12,258,234 (*net position*). Of this amount, (\$4,835,652) (*unrestricted net position - deficit*) may be used to meet the District's ongoing obligations.
- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of \$96,703,549, a decrease of \$9,531,442 in comparison with the prior year. \$23,200,304 is available for spending at the District's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$23,200,304, or 36% of total General Fund expenditures.

USING THIS ANNUAL FINANCIAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the District as a whole and present a long-term view of the District's property and 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 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. The remaining statements, the 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 government.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The combining statements for nonmajor funds are presented immediately following the required supplementary information. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations is shown with the Statement of Net Position and Statement of Activities. Its primary objective is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, liabilities and deferred inflows/outflows of resources while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the same used by most private sector companies.

All of the current year's revenue and expenses are considered regardless of when cash is received or paid. The District's revenue is 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 revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). All of the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

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

Governmental Activities – Most of the District's basic services are reported here, including the instruction, counseling, co-curricular 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 – The District's enterprise activities are reported here. These activities are intended to recover all or a significant portion of their costs through user fees and charges.

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements 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 ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has three types of funds:

Governmental Funds – The District reports most of its basic services in governmental funds. These funds use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and they report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the governmental fund financial statements. The District currently reports 34 governmental funds.

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. The internal service fund reports activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs. The District, at present, maintains seven proprietary funds.

Fiduciary Funds – The District accounts for resources held for the benefit of individuals and groups outside the District in fiduciary funds. These funds are not included in the government-wide financial statements because the resources reported in these funds are not available to fund the operations of the District. The District maintains two fiduciary funds: the Scholarship Fund, a private-purpose trust fund; and the Student Activity Fund, a custodial fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

Net position of the District's governmental activities increased from \$6,490,767 to \$12,258,234 as shown in Table 1. Unrestricted net position was (\$4,835,652) at June 30, 2024 as shown in Table 1.

Unrestricted net position reflects a deficit primarily as a result of the District's proportionate shares of the TRS pension and OPEB liabilities presented in accordance with GASB 68 and GASB 75, respectively. The total district liability is reported in the governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the TRS-Care plan is funded on a pay-as-you-go basis. The District has made all contractually required contributions as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors.

The District's total revenues increased by \$11,883,029 primarily as the result of increased operating grants and contributions.

The cost of all governmental activities this year as shown in the Statement of Activities was \$90,725,172 compared to \$84,295,148 last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was \$30,226,653 because some of the costs were paid by other government and organizations that subsidized certain programs with grants and contributions.

TABLE 1
CONDENSED SCHEDULE OF NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
Assets:						
Current and other assets	\$ 112,641,525	\$ 119,207,211	\$ 93,254	\$ 110,932	\$ 112,734,779	\$ 119,318,143
Capital assets	<u>81,185,465</u>	<u>67,595,139</u>	<u>-</u>	<u>-</u>	<u>81,185,465</u>	<u>67,595,139</u>
Total assets	<u>193,826,990</u>	<u>186,802,350</u>	<u>93,254</u>	<u>110,932</u>	<u>193,920,244</u>	<u>186,913,282</u>
Deferred Outflows of Resources:						
Deferred charge for refunding	1,457,774	1,527,192	-	-	1,457,774	1,527,192
Teach Retirement System	<u>17,167,276</u>	<u>13,984,089</u>	<u>-</u>	<u>-</u>	<u>17,167,276</u>	<u>13,984,089</u>
Total deferred outflows of resources	<u>18,625,050</u>	<u>15,511,281</u>	<u>-</u>	<u>-</u>	<u>18,625,050</u>	<u>15,511,281</u>
Liabilities:						
Long-term liabilities	168,078,455	166,530,626	-	-	168,078,455	166,530,626
Other liabilities	<u>15,678,126</u>	<u>11,358,176</u>	<u>93,254</u>	<u>110,932</u>	<u>15,771,380</u>	<u>11,469,108</u>
Total liabilities	<u>183,756,581</u>	<u>177,888,802</u>	<u>93,254</u>	<u>110,932</u>	<u>183,849,835</u>	<u>177,999,734</u>
Deferred Inflows of Resources:						
Teacher Retirement System	<u>16,437,225</u>	<u>17,934,062</u>	<u>-</u>	<u>-</u>	<u>16,437,225</u>	<u>17,934,062</u>
Net position:						
Net investment in capital assets	7,311,602	2,252,718	-	-	7,311,602	2,252,718
Restricted	9,782,284	13,708,988	-	-	9,782,284	13,708,988
Unrestricted	<u>(4,835,652)</u>	<u>(9,470,939)</u>	<u>-</u>	<u>-</u>	<u>(4,835,652)</u>	<u>(9,470,939)</u>
Total net position	<u>\$ 12,258,234</u>	<u>\$ 6,490,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,258,234</u>	<u>\$ 6,490,767</u>

TABLE 2
CONDENSED SCHEDULE OF CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Total	
	2024	2023	2024	2023	2024	2023
REVENUES						
Program revenues:						
Charges for services	\$ 439,908	\$ 434,365	\$ 807,272	\$ 799,268	\$ 1,247,180	\$ 1,233,633
Operating grants and contributions	19,151,992	17,455,980	75,553	61,605	19,227,545	17,517,585
General revenues:						
Maintenance and operations taxes	22,057,873	24,094,101	-	-	22,057,873	24,094,101
Debt service taxes	8,168,780	7,251,665	-	-	8,168,780	7,251,665
Grants and contributions not restricted	41,524,222	32,484,226	-	-	41,524,222	32,484,226
Investment earnings	4,597,074	1,652,709	-	-	4,597,074	1,652,709
Miscellaneous	798,489	1,482,263	-	-	798,489	1,482,263
Total revenues	<u>96,738,338</u>	<u>84,855,309</u>	<u>882,825</u>	<u>860,873</u>	<u>97,621,163</u>	<u>85,716,182</u>
EXPENSES						
Instruction	46,173,952	45,320,059	-	-	46,173,952	45,320,059
Instructional resources and media services	767,639	755,262	-	-	767,639	755,262
Curriculum and staff development	1,330,239	1,555,573	-	-	1,330,239	1,555,573
Instructional leadership	1,051,644	1,284,333	-	-	1,051,644	1,284,333
School leadership	3,924,396	3,691,734	-	-	3,924,396	3,691,734
Guidance, counseling, and evaluation services	2,678,117	2,919,694	-	-	2,678,117	2,919,694
Social work services	621,302	410,876	-	-	621,302	410,876
Health services	782,585	654,106	-	-	782,585	654,106
Student (pupil) transportation	4,170,255	4,030,562	-	-	4,170,255	4,030,562
Food service	6,173,340	5,442,921	-	-	6,173,340	5,442,921
Extracurricular activities	1,973,020	1,972,967	-	-	1,973,020	1,972,967
General administration	3,897,484	2,986,405	-	-	3,897,484	2,986,405
Facilities maintenance and operations	6,756,430	6,382,374	-	-	6,756,430	6,382,374
Security and monitoring services	881,411	453,079	-	-	881,411	453,079
Data processing services	1,170,078	1,274,355	-	-	1,170,078	1,274,355
Community services	798,300	563,708	-	-	798,300	563,708
Interest on long-term debt	5,530,185	2,268,741	-	-	5,530,185	2,268,741
Payments related to SSA	1,248,688	1,731,498	-	-	1,248,688	1,731,498
Other intergovernmental charges	796,107	596,901	-	-	796,107	596,901
Business-type activities	-	-	1,128,524	1,092,162	1,128,524	1,092,162
Total expenses	<u>90,725,172</u>	<u>84,295,148</u>	<u>1,128,524</u>	<u>1,092,162</u>	<u>91,853,696</u>	<u>85,387,310</u>
Increase/(Decrease) in net position before transfers and special item	6,013,166	560,161	(245,699)	(231,289)	5,767,467	328,872
TRANSFERS	<u>(245,699)</u>	<u>(231,289)</u>	<u>245,699</u>	<u>231,289</u>	<u>-</u>	<u>-</u>
SPECIAL ITEM	<u>-</u>	<u>(882,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(882,500)</u>
CHANGE IN NET POSITION	<u>5,767,467</u>	<u>(553,628)</u>	<u>-</u>	<u>-</u>	<u>5,767,467</u>	<u>(553,628)</u>
NET POSITION, BEGINNING	<u>6,490,767</u>	<u>7,044,395</u>	<u>-</u>	<u>-</u>	<u>6,490,767</u>	<u>7,044,395</u>
NET POSITION, ENDING	<u>\$ 12,258,234</u>	<u>\$ 6,490,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,258,234</u>	<u>\$ 6,490,767</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented on the governmental fund balance sheet) reported a combined fund balance of \$96,703,549, which is less than last year's total of \$106,234,991. This decrease in fund balance is mainly attributable to funds from the District's Series 2023 Unlimited Tax School Construction Bonds being spent on capital projects during the year.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two 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 estimated in June 2023). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The General Fund balance of \$27,554,583 reported in the financials differs from the General Fund's budgetary fund balance of \$24,075,573 reported in the budgetary comparison schedule, largely as a result of faster than expected growth in state foundation revenue. This accompanied an overall increase in fund balance of \$3,601,057 in the General Fund. This was primarily due to growing attendance figures throughout the District.

The Debt Service Fund reported an increase in fund balance of \$651,173 in the current year. This was the result of revenue from property taxes and state entitlement programs continuing to exceed principal and interest payments on long-term debt during the current year.

The ESSER III Fund account for proceeds and disbursements related to the Elementary and Secondary School Emergency Relief Fund of the ARP Act, which was awarded to the District to aid with costs incurred during the COVID-19 pandemic. The fund reported zero fund balance at year end, as revenues equaled expenditures in the fund.

The Capital Projects Fund was created during the prior year to account for the proceeds from the District's Series 2023 Unlimited Tax School Construction Bonds, which will be used for a variety of construction and renovation projects throughout the District. The fund reported ending fund balance of \$56,831,375, all of which is restricted for capital acquisitions.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

As of June 30, 2024, the District had \$81,185,465 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Significant capital additions during the year included various construction projects totaling \$16,345,464.

Additional information about the District's capital assets is presented in Note II. D in the notes to the financial statements.

Long-Term Liabilities

As of June 30, 2024, the District had total long-term debt outstanding which totaled \$132,364,127. This is an increase of \$1,547,829 from June 30, 2023. The main reason for the increase was the recognition of the District's arbitrage liability of \$1,312,534 related to the issuance of its Series 2023 Unlimited Tax School Construction Bonds during the prior year.

The District also reported a net pension liability of \$25,225,621 and a net OPEB liability of \$10,488,707 as presented in accordance with GASB 68 and GASB 75, respectively.

Additional information about the District's long-term debt is presented in Note II. E in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2024-2025 budget and tax rates. Those factors include property values, increases in enrollment, the economy, projections of future budget years, and legislative mandates.

A steadily increasing enrollment population, coupled with a moderate increase in property values, has led to a General Fund budget of \$71.8 million for the 2024-2025 fiscal year. The budget increased from 2023-2024 to 2024-2025 by \$9.4 million, a result of 3% enrollment growth expected from demographer. Since the 2024-2025 school year began, the District has been experiencing the projected 3% enrollment growth.

Future enrollments are forecasted to have moderate enrollment growth and property values are forecasted to gradually increase, which will continue to produce revenues that will support projected expenditures in the near future. For the 2024-2025 budget year, the District has lowered total property tax rate to \$0.9546 per \$100 of taxable value, down from \$0.9569 in 2023-2024. Due to State Property Value Assignment in Tax Year 2022, the District experienced a decline in state revenues causing the need of a Voter Approval Tax Ratification Election that was passed in November of 2023.

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 show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Lockhart Independent School District, P.O. Box 120, Lockhart, TX 78644, or by calling 512-398-0000.

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BASIC FINANCIAL STATEMENTS

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LOCKHART INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

JUNE 30, 2024

Control Codes		Governmental Activities	Business-type Activities	Total
ASSETS				
1110	Cash and cash equivalents	\$ 88,571,698	\$ 120,127	\$ 88,691,825
1220	Property taxes receivable (delinquent)	4,079,040	-	4,079,040
1230	Allowance for uncollectible taxes	(203,952)	-	(203,952)
1240	Due from other governments	20,025,233	-	20,025,233
1250	Accrued interest	1,547	-	1,547
1260	Internal balances	93,820	(93,820)	-
1290	Other receivables	28,460	66,947	95,407
1410	Prepaid items	45,679	-	45,679
	Capital assets:			
1510	Land	2,366,551	-	2,366,551
1520	Buildings and improvements, net	59,702,089	-	59,702,089
1530	Furniture and equipment, net	2,071,783	-	2,071,783
1580	Construction in progress	17,045,042	-	17,045,042
1000	Total assets	<u>193,826,990</u>	<u>93,254</u>	<u>193,920,244</u>
DEFERRED OUTFLOWS OF RESOURCES				
1701	Deferred charge for refunding	1,457,774	-	1,457,774
1705	Deferred outflows related to NPL	10,741,921	-	10,741,921
1706	Deferred outflows related to OPEB	6,425,355	-	6,425,355
1700	Total deferred outflows of resources	<u>18,625,050</u>	<u>-</u>	<u>18,625,050</u>
LIABILITIES				
2110	Accounts payable	5,074,128	6,310	5,080,438
2140	Interest payable	3,267,826	-	3,267,826
2150	Payroll deductions & withholding	546,334	7,739	554,073
2160	Accrued wages payable	6,269,215	56,552	6,325,767
2180	Due to other governments	649	-	649
2300	Unearned revenue	519,974	22,653	542,627
	Noncurrent liabilities:			
	Due within one year:			
2501	Long-term debt	3,083,816	-	3,083,816
	Due in more than one year:			
2502	Long-term debt	129,280,311	-	129,280,311
2540	Net pension liability	25,225,621	-	25,225,621
2545	Net OPEB liability	10,488,707	-	10,488,707
2000	Total liabilities	<u>183,756,581</u>	<u>93,254</u>	<u>183,849,835</u>
DEFERRED INFLOWS OF RESOURCES				
2605	Deferred inflows related to NPL	1,026,104	-	1,026,104
2606	Deferred inflows related to OPEB	15,411,121	-	15,411,121
2600	Total deferred inflows of resources	<u>16,437,225</u>	<u>-</u>	<u>16,437,225</u>
NET POSITION				
3200	Net investment in capital assets	7,311,602	-	7,311,602
	Restricted:			
3820	Restricted for federal and state programs	1,879,254	-	1,879,254
3850	Restricted for debt service	7,903,030	-	7,903,030
3900	Unrestricted	(4,835,652)	-	(4,835,652)
3000	Total net position	<u>\$ 12,258,234</u>	<u>\$ -</u>	<u>\$ 12,258,234</u>

The accompanying notes are an integral part of this financial statement.

LOCKHART INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2024

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues	
			3 Charges for Services	4 Operating Grants and Contributions
Primary government:				
Governmental activities:				
11	Instruction	\$ 46,173,952	\$ -	\$ 8,093,444
12	Instructional resources and media services	767,639	-	30,491
13	Curriculum and staff development	1,330,239	-	476,469
21	Instructional leadership	1,051,644	-	444,612
23	School leadership	3,924,396	-	219,265
31	Guidance, counseling, and evaluation services	2,678,117	-	1,239,053
32	Social work services	621,302	-	285,230
33	Health services	782,585	-	62,062
34	Student (pupil) transportation	4,170,255	-	78,219
35	Food service	6,173,340	275,488	5,914,591
36	Extracurricular activities	1,973,020	114,697	43,820
41	General administration	3,897,484	-	173,062
51	Facilities maintenance and operations	6,756,430	49,723	82,366
52	Security and monitoring services	881,411	-	341,262
53	Data processing services	1,170,078	-	47,021
61	Community services	798,300	-	651,179
72	Interest on long-term debt	5,530,185	-	920,940
93	Payments related to SSA	1,248,688	-	48,906
99	Other intergovernmental charges	796,107	-	-
TG	Total governmental activities	90,725,172	439,908	19,151,992
Business-type activities:				
01	Summer recreation	82,957	108,419	5,474
02	After school program	200,873	269,942	15,288
03	Cubhouse students	255,817	-	18,723
04	GED Adult Education	87,610	84,669	-
06	Cubhouse employees	302,801	303,151	21,843
07	Community Ed Adm	198,466	41,091	14,225
TB	Total business-type activities	1,128,524	807,272	75,553
TP	Total primary government	91,853,696	1,247,180	19,227,545
General revenues:				
Taxes:				
MT	Property taxes, levied for general purposes			
DT	Property taxes, levied for debt service			
IE	Investment earnings			
GC	Grants and contributions not restricted to specific programs			
MI	Miscellaneous			
FR	Transfers			
TR	Total general revenues and transfers			
CN	Change in net position			
NB	Net position, beginning			
NE	Net position, ending			

The accompanying notes are an integral part of this financial statement.

Net (Expense) Revenue and Changes in Net Position		
6	7	8
Governmental Activities	Business-type Activities	Total
\$ (38,080,508)	\$ -	\$ (38,080,508)
(737,148)	-	(737,148)
(853,770)	-	(853,770)
(607,032)	-	(607,032)
(3,705,131)	-	(3,705,131)
(1,439,064)	-	(1,439,064)
(336,072)	-	(336,072)
(720,523)	-	(720,523)
(4,092,036)	-	(4,092,036)
16,739	-	16,739
(1,814,503)	-	(1,814,503)
(3,724,422)	-	(3,724,422)
(6,624,341)	-	(6,624,341)
(540,149)	-	(540,149)
(1,123,057)	-	(1,123,057)
(147,121)	-	(147,121)
(4,609,245)	-	(4,609,245)
(1,199,782)	-	(1,199,782)
(796,107)	-	(796,107)
<u>(71,133,272)</u>	<u>-</u>	<u>(71,133,272)</u>
-	30,936	30,936
-	84,357	84,357
-	(237,094)	(237,094)
-	(2,941)	(2,941)
-	22,193	22,193
-	(143,150)	(143,150)
-	(245,699)	(245,699)
<u>(71,133,272)</u>	<u>(245,699)</u>	<u>(71,378,971)</u>
22,057,873	-	22,057,873
8,168,780	-	8,168,780
4,597,074	-	4,597,074
41,524,222	-	41,524,222
798,489	-	798,489
(245,699)	245,699	-
<u>76,900,739</u>	<u>245,699</u>	<u>77,146,438</u>
<u>5,767,467</u>	<u>-</u>	<u>5,767,467</u>
<u>6,490,767</u>	<u>-</u>	<u>6,490,767</u>
<u>\$ 12,258,234</u>	<u>\$ -</u>	<u>\$ 12,258,234</u>

LOCKHART INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

JUNE 30, 2024

Data Control Codes		10 <u>General</u>	50 Debt Service	282 <u>ESSER III</u>
ASSETS				
1110	Cash and cash equivalents	\$ 14,921,865	\$ 9,787,953	\$ -
1220	Property taxes - delinquent	3,126,434	952,606	-
1230	Allowance for uncollectible taxes	(156,322)	(47,630)	-
1240	Due from other governments	13,720,316	477,927	3,373,156
1250	Accrued interest	1,547	-	-
1260	Due from other funds	5,825,755	-	-
1290	Other receivables	27,028	-	-
1410	Prepaid items	38,294	-	-
1000	Total assets	<u>37,504,917</u>	<u>11,170,856</u>	<u>3,373,156</u>
LIABILITIES				
2110	Accounts payable	1,063,626	-	4,950
2150	Payroll deductions and withholdings	460,343	-	14,282
2160	Accrued wages payable	5,583,014	-	115,262
2170	Due to other funds	133,407	-	3,238,662
2180	Due to other governments	32	-	-
2300	Unearned revenue	6,078	-	-
2000	Total liabilities	<u>7,246,500</u>	<u>-</u>	<u>3,373,156</u>
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable revenue - property taxes	<u>2,703,834</u>	<u>823,842</u>	<u>-</u>
2600	Total deferred inflows of resources	<u>2,703,834</u>	<u>823,842</u>	<u>-</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3430	Prepaid items	38,294	-	-
Restricted Fund Balance:				
3450	Federal or state funds grant restriction	-	-	-
3470	Capital acquisitions	-	-	-
3480	Retirement of long-term debt	-	10,347,014	-
Committed Fund Balance:				
3510	Construction	4,012,381	-	-
3545	Other committed fund balance	303,604	-	-
3545	Campus activity	-	-	-
3600	Unassigned fund balance	<u>23,200,304</u>	<u>-</u>	<u>-</u>
3000	Total fund balances	<u>27,554,583</u>	<u>10,347,014</u>	<u>-</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 37,504,917</u>	<u>\$ 11,170,856</u>	<u>\$ 3,373,156</u>

The accompanying notes are an integral
part of this financial statement.

60 Capital Projects	Other Funds	Total Governmental Funds
\$ 60,284,037	\$ 2,806,246	\$ 87,800,101
-	-	4,079,040
-	-	(203,952)
-	2,453,834	20,025,233
-	-	1,547
-	131,819	5,957,574
-	1,432	28,460
-	7,385	45,679
<u>60,284,037</u>	<u>5,400,716</u>	<u>117,733,682</u>
3,452,457	553,095	5,074,128
-	71,709	546,334
-	570,939	6,269,215
205	1,719,883	5,092,157
-	617	649
-	513,896	519,974
<u>3,452,662</u>	<u>3,430,139</u>	<u>17,502,457</u>
-	-	3,527,676
-	-	<u>3,527,676</u>
-	-	38,294
-	1,879,254	1,879,254
56,831,375	-	56,831,375
-	-	10,347,014
-	-	4,012,381
-	-	303,604
-	91,323	91,323
-	-	23,200,304
<u>56,831,375</u>	<u>1,970,577</u>	<u>96,703,549</u>
<u>\$ 60,284,037</u>	<u>\$ 5,400,716</u>	<u>\$ 117,733,682</u>

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LOCKHART INDEPENDENT SCHOOL DISTRICT**EXHIBIT C-2****RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
THE STATEMENT OF NET POSITION**

JUNE 30, 2024

Total fund balances - governmental funds	\$ 96,703,549
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	81,185,465
2 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Losses on refunding of bonds and the premium on issuance of bonds payable are netted against the long-term liabilities in the statement of net position.	(134,174,179)
3 Included in the items related to debt is the recognition of the District's proportion share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$10,741,921, a deferred resource inflow in the amount of \$1,026,104, and a net pension liability in the amount of \$25,225,621. This resulted in a decrease in net position.	(15,509,804)
4 Included in the items related to debt is the recognition of the District's proportion share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$6,425,355, a deferred resource inflow in the amount of \$15,411,121, and a net OPEB liability in the amount of \$10,488,707. This resulted in a decrease in net position.	(19,474,473)
5 Uncollected property taxes and penalties and interest are reported as deferred inflows in the governmental funds balance sheet, but are recognized as revenue in the statement of activities.	<u>3,527,676</u>
29 Net position of governmental activities	<u>\$ 12,258,234</u>

LOCKHART 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 <u>General</u>	50 Debt Service	282 ESSER III
REVENUES				
5700	Local and intermediate sources	\$ 23,377,592	\$ 8,365,443	\$ -
5800	State program revenues	44,344,560	920,940	-
5900	Federal program revenues	<u>612,104</u>	<u>-</u>	<u>3,373,156</u>
5020	Total revenues	<u>68,334,256</u>	<u>9,286,383</u>	<u>3,373,156</u>
EXPENDITURES				
Current:				
0011	Instruction	36,939,526	-	2,548,223
0012	Instructional resources and media services	639,448	-	7,688
0013	Curriculum and instructional staff development	811,062	-	140,091
0021	Instructional leadership	594,504	-	142,259
0023	School leadership	3,552,830	-	44,879
0031	Guidance, counseling, and evaluation services	1,378,874	-	36,706
0032	Social work services	301,649	-	281,415
0033	Health services	713,480	-	10,751
0034	Student (pupil) transportation	3,764,926	-	-
0035	Food service	-	-	-
0036	Extracurricular activities	1,729,372	-	4,417
0041	General administration	3,015,440	-	81,279
0051	Facilities maintenance and operations	5,943,004	-	13,939
0052	Security and monitoring services	545,699	-	1,148
0053	Data processing services	1,218,325	-	8,632
0061	Community services	29,436	-	50,462
Debt Service:				
0071	Principal on long-term debt	387,961	4,745,000	-
0072	Interest on long-term debt	44,550	3,888,710	-
0073	Bond issuance costs and fees	-	1,500	-
Capital Outlay:				
0081	Facilities acquisition and construction	309,721	-	1,267
Intergovernmental:				
0093	Payments to shared service arrangements	1,248,688	-	-
0099	Other intergovernmental	<u>796,107</u>	<u>-</u>	<u>-</u>
6030	Total expenditures	<u>63,964,602</u>	<u>8,635,210</u>	<u>3,373,156</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	4,369,654	651,173	-
OTHER FINANCING SOURCES (USES)				
7912	Sale of real and personal property	5,505	-	-
8911	Transfers out	<u>(774,102)</u>	<u>-</u>	<u>-</u>
7080	Total other financing sources (uses)	<u>(768,597)</u>	<u>-</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	<u>3,601,057</u>	<u>651,173</u>	<u>-</u>
0100	FUND BALANCES, BEGINNING	<u>23,953,526</u>	<u>9,695,841</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 27,554,583</u>	<u>\$ 10,347,014</u>	<u>\$ -</u>

The accompanying notes are an integral
part of this financial statement.

60		
Capital Projects	Other Funds	Total Governmental Funds
\$ 4,356,987	\$ 2,147,271	\$ 38,247,293
-	662,347	45,927,847
-	10,564,952	14,550,212
<u>4,356,987</u>	<u>13,374,570</u>	<u>98,725,352</u>
-	4,484,882	43,972,631
-	65,490	712,626
-	299,998	1,251,151
-	265,948	1,002,711
-	35,890	3,633,599
-	1,106,204	2,521,784
-	-	583,064
-	403	724,634
-	47,830	3,812,756
-	6,719,986	6,719,986
-	78,597	1,812,386
-	961	3,097,680
-	365,367	6,322,310
-	337,828	884,675
-	-	1,226,957
-	722,356	802,254
-	-	5,132,961
-	-	3,933,260
-	-	1,500
16,983,489	-	17,294,477
-	-	1,248,688
-	-	796,107
<u>16,983,489</u>	<u>14,531,740</u>	<u>107,488,197</u>
(12,626,502)	(1,157,170)	(8,762,845)
-	-	5,505
-	-	(774,102)
-	-	(768,597)
<u>(12,626,502)</u>	<u>(1,157,170)</u>	<u>(9,531,442)</u>
<u>69,457,877</u>	<u>3,127,747</u>	<u>106,234,991</u>
<u>\$ 56,831,375</u>	<u>\$ 1,970,577</u>	<u>\$ 96,703,549</u>

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

FOR THE YEAR ENDED JUNE 30, 2024

Net change in fund balances - total governmental funds \$ (9,531,442)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful live as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Additions to capital assets	19,428,647
Disposals of capital assets	(57,039)
Depreciation on capital assets	(5,781,282)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. 454,160

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items.

Principal payments on long-term debt	5,131,006
Amortization of bond premiums	346,006
Arbitrage liability	(1,312,534)
Amortization of deferred loss on bond refunding	(69,418)
Accrued interest payable	(1,808,354)
Accreted interest on capital appreciation bonds	(61,704)

GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$1,734,518. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$1,574,637. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$2,891,102. The net result is a decrease in the change in net position. (2,731,221)

GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$350,854. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$343,918. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense increased the change in net position by \$1,753,706. The net result is an increase in the change in net position. 1,760,642

Change in net position of governmental activities \$ 5,767,467

LOCKHART INDEPENDENT SCHOOL DISTRICT**EXHIBIT D-1**STATEMENT OF NET POSITION
PROPRIETARY FUNDS

JUNE 30, 2024

	Business-type Activities	Governmental Activities
	Nonmajor Enterprise Funds	Internal Service Fund
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 120,127	\$ 771,597
Due from other funds	1,588	-
Other receivables	66,947	-
Total assets	188,662	771,597
LIABILITIES		
Current liabilities:		
Accounts payable	6,310	-
Payroll deduction and withholdings	7,739	-
Accrued wages payable	56,552	-
Due to other funds	95,408	771,597
Unearned revenues	22,653	-
Total liabilities	188,662	771,597
NET POSITION		
Total net position	-	-
Total net position	\$ -	\$ -

The accompanying notes are an integral
part of this financial statement.

LOCKHART INDEPENDENT SCHOOL DISTRICT**EXHIBIT D-2**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2024

	Business-type Activities Nonmajor Enterprise Funds	Governmental Activities Internal Service Fund
OPERATING REVENUES:		
Local and intermediate sources	\$ 807,272	\$ 4,411,491
State program revenues	<u>75,553</u>	<u>-</u>
Total operating revenues	<u>882,825</u>	<u>4,411,491</u>
OPERATING EXPENSES:		
Payroll costs	1,055,749	-
Professional and contracted services	27,104	-
Supplies and materials	33,699	-
Other operating costs	<u>11,972</u>	<u>4,939,894</u>
Total operating expenses	<u>1,128,524</u>	<u>4,939,894</u>
INCOME (LOSS) BEFORE TRANSFERS	<u>(245,699)</u>	<u>(528,403)</u>
TRANSFERS IN(OUT)		
Transfers in	383,185	528,403
Transfers out	<u>(137,486)</u>	<u>-</u>
Total transfers in (out)	<u>245,699</u>	<u>528,403</u>
CHANGE IN NET POSITION	-	-
NET POSITION, BEGINNING	<u>-</u>	<u>-</u>
NET POSITION, ENDING	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral
part of this financial statement.

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LOCKHART INDEPENDENT SCHOOL DISTRICT

EXHIBIT D-3

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2024

	Business-type Activities Nonmajor Enterprise Funds	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 788,584	\$ 4,411,491
Cash receipts from grants	75,553	-
Cash payments to employees	(908,105)	-
Cash payments to suppliers for goods and services	(99,223)	(4,168,297)
Net cash provided by operating activities	(143,191)	243,194
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Transfers from other funds	383,185	528,403
Transfers to other funds	(137,486)	-
Net cash provided by non-capital financing activities	245,699	528,403
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	102,508	771,597
CASH AND CASH EQUIVALENTS, BEGINNING	90,180	-
CASH AND CASH EQUIVALENTS, ENDING	192,688	771,597
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	(245,699)	(528,403)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Decrease (increase) in customer receivable	(25,269)	-
Decrease (increase) in due from other funds	(27,340)	-
Increase (decrease) in accounts payable	(1,210)	-
Increase (decrease) in payroll deductions	(2,921)	-
Increase (decrease) in wages payable	(20,487)	-
Increase (decrease) in due to other funds	173,070	771,597
Increase (decrease) in unearned revenue	6,665	-
Net cash provided (used) by operating activities	\$ (143,191)	\$ 243,194

LOCKHART INDEPENDENT SCHOOL DISTRICT**EXHIBIT E-1**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

JUNE 30, 2024

	Private-Purpose Trust Fund	Custodial Fund
	Scholarship Fund	Student Activity Fund
ASSETS		
Cash and cash equivalents	\$ 195,324	\$ 191,818
Accrued interest	1,081	-
Restricted assets	98,669	-
Total assets	<u>295,074</u>	<u>191,818</u>
LIABILITIES		
Accounts payable	148	5,768
Unearned revenue	10	-
Total liabilities	<u>158</u>	<u>5,768</u>
NET POSITION		
Held in trust	294,916	-
Restricted for other purposes	-	186,050
Total net position	<u>\$ 294,916</u>	<u>\$ 186,050</u>

LOCKHART INDEPENDENT SCHOOL DISTRICT**EXHIBIT E-2**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2024

	Private-Purpose Trust Fund	Custodial Fund
	Scholarship Fund	Student Activity Fund
ADDITIONS		
Gifts and bequests	\$ 16,682	\$ -
Student fundraising activities	-	600,187
Investment income	5,907	-
Total additions	<u>22,589</u>	<u>600,187</u>
DEDUCTIONS		
Scholarships and awards	25,030	-
Cocurricular/extracurricular activities	-	519,857
Total deductions	<u>25,030</u>	<u>519,857</u>
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	(2,441)	80,330
NET POSITION, BEGINNING	<u>297,357</u>	<u>105,720</u>
NET POSITION, ENDING	<u>\$ 294,916</u>	<u>\$ 186,050</u>

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LOCKHART INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2024

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Lockhart Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide").

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB").

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* include programs supported by taxes, state foundation and intergovernmental revenue. The fund equity is segregated into the following categories: invested in capital assets net of related debt, restricted net position, and unrestricted net position. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from / to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Property taxes, state foundation funds and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The proprietary fund financial statements are accounted for using the *economic resources measurement focus* and the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and expenses in the accounting period in which they are incurred. Under this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The fiduciary funds use the *economic resources measurement focus* and utilize the accrual basis of accounting for reporting assets, liabilities, additions and deductions.

The District reports the following major governmental funds:

The General Fund – The General Fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

The Capital Projects Fund – This fund accounts for construction expenditures made from the proceeds of the District's Series 2023 Unlimited Tax School Construction Bond.

The ESSER III Grant Fund – This fund accounts for the District's expenditures related to the Elementary and Secondary School Emergency Relief grant of the ARP act. The District received this grant to assist with costs incurred during the COVID-19 pandemic.

Additionally, the District reports the following fund types:

Governmental Funds:

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

Proprietary Funds:

Enterprise Funds – Revenues and expenses related to services provided to organizations outside the District on a cost reimbursement basis are accounted for in enterprise funds.

Internal Service Fund – Revenues and expenses related to services provided to individuals and departments within the District on a cost reimbursement basis are accounted for in an internal service fund.

Fiduciary Funds:

Private Purpose Trust Fund – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Lockhart Education Foundation Fund.

Custodial Fund – The District accounts for resources held for others in a custodial capacity in Custodial Funds. The District's Custodial Fund is the Student Activities Fund.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments such as certificates of deposits, money market funds, local government investment pools, Treasury bills, and commercial paper that have a maturity from time of purchase of three months or less

2. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The District recognizes prepaid items as expenditures when consumed (consumption method) rather than when purchased (purchases method).

3. Capital Assets

Capital assets, which include land, building, furniture and equipment are reported in the governmental activities column in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire the asset with equivalent service potential at the acquisition date. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Infrastructure	30
Buildings	50
Building improvements	20
Vehicles	2-15
Office equipment	3-15
Computer equipment	3-15

Land and construction in progress are not depreciated.

4. Unearned Revenue

Certain payments related to state and local grant programs are received by the District prior to the criteria for revenue recognition being met. These amounts are recorded as unearned revenue until spent according to the terms of the relevant grant agreements.

5. 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 reported as current year debt service expenditures.

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.

6. Pensions

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

7. Other Post-Employment Benefits

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

8. Deferred outflows/inflows of resources

Deferred outflows and inflows of resources are reported in the financial statements 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 had the following deferred outflows of resources:

- Deferred outflows of resources for refunding - A deferred charge on refunding 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.
- Deferred outflows of resources for pensions – 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, the results of differences between expected and actual experience, and changes in actuarial assumptions. 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.
- 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 pension liability, the differences between projected and actual investment earnings, and changes in proportion and difference between the employer's contributions and the proportionate share of contributions. The deferred outflows related to OPEB resulting to District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year.

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 had three items that qualify for reporting in this category:

- Deferred inflow of resources for unavailable revenues – Reported only in the governmental funds balance sheet, for unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of revenues in the period that the amounts become available. During the current year, the District recorded deferred inflow of resources as unavailable revenues – property taxes with the General Fund and Debt Service Fund respectively.
- Deferred inflow of resources for pensions – Reported in the government-wide financial statement of net position, these deferred inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, as well as changes in proportion and difference between the employer's contributions and the proportionate share of contributions.
- Deferred inflow of resources for OPEB – Reported in the government-wide financial statement of net position, these deferred inflows result from differences between expected and actual economic experience and changes in actuarial assumptions.

9. Interfund activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

10. 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. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year. It also includes the long-term amount of loans and notes receivable.
- **Restricted:** This classification includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
- **Committed:** This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal resolution of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use of the amounts by adopting a new resolution.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

11. Fund Balance Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, as signed, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

12. Net Position

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by 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.

13. Net Position Flow Assumption

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

14. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus delinquent collection fees for attorney costs. 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.

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 taxes are periodically reviewed and written off by the District as provided by specific statutory authority from the Texas Legislature.

15. Data Control Codes

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

16. Estimates

The presentation of financial statements, in conformity with Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and 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, and (9) bid solicitation preferences for certificates of deposit.

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, the contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank 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. During 2024 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

Cash and deposits of the District include all amounts deposited at the District's depository bank, including demand deposits and certificates of deposit. At June 30, 2024, the carrying amount of the District's deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Custodial Credit Risk - Investments

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. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

Concentration of Credit Risk

Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

Investment Pools

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

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Rating</u>
TexPool Prime	\$ 24,279,019	41	AAAm
Texas TERM/Range DAILY	61,700,428	41	AAAmmf
Total	<u>\$ 85,979,447</u>		

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

The investment pools used by the District are organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pools are Public Funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investments.

The District's investment in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable net asset value of \$1.00. The book value of the position in the pools is the same as the number of the shares in each pool; the fair value of a share should approximately equal the book value of a share.

In accordance with state law and the District's investment policy, investments in investment pools must be rated at least AAA or have an equivalent rating, and obligations of states, agencies, counties and cities must be rated at least A or its equivalent. As of June 30, 2024, the District's investments in investment pools met or exceeded the ratings criteria.

Texas Term and TexPool each have a redemption notice period of one day and may redeem daily. The investment pools' authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

B. Due from Other Governments

The District participates in 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 reported on the combined financial statements as due from other governments.

C. Interfund Balances and Transfers

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

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 131,819
General	Nonmajor proprietary	1,588
Capital projects	General	205
Internal service	General	771,597
ESSER III	General	3,238,662
Nonmajor proprietary	General	95,408
Nonmajor governmental	General	<u>1,719,883</u>
		<u>\$ 5,959,162</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. All amounts due are scheduled to be repaid within one year.

Interfund transfers for the year ended June 30, 2024 consisted of the following individual fund amounts:

<u>Transfer In</u>	<u>Transfer Out</u>	<u>Amount</u>
Nonmajor proprietary	General	\$ 245,699
Internal service	General	528,403
Nonmajor proprietary	Nonmajor proprietary	<u>137,486</u>
		<u>\$ 911,588</u>

The transfers were made during the current year to fund overages of expenditures over revenues in other funds.

D. Capital Assets

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

	Beginning Balance 07/01/23	Increases	Decreases	Ending Balance 06/30/24
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 700,990	\$ 1,665,561	\$ -	\$ 2,366,551
Construction in progress	<u>705,795</u>	<u>16,345,464</u>	<u>(6,217)</u>	<u>17,045,042</u>
Total capital assets, not being depreciated	<u>1,406,785</u>	<u>18,011,025</u>	<u>(6,217)</u>	<u>19,411,593</u>
Capital assets, being depreciated:				
Buildings and improvements	131,701,994	321,250	-	132,023,244
Furniture and equipment	<u>8,369,192</u>	<u>1,096,372</u>	<u>(1,169,318)</u>	<u>8,296,246</u>
Total capital assets, being depreciated	<u>140,071,186</u>	<u>1,417,622</u>	<u>(1,169,318)</u>	<u>140,319,490</u>
Less accumulated depreciation for:				
Buildings and improvements	(67,206,208)	(5,114,947)	-	(72,321,155)
Furniture and equipment	<u>(6,676,624)</u>	<u>(666,335)</u>	<u>1,118,496</u>	<u>(6,224,463)</u>
Total accumulated depreciation	<u>(73,882,832)</u>	<u>(5,781,282)</u>	<u>1,118,496</u>	<u>(78,545,618)</u>
Total capital assets, being depreciated, net	<u>66,188,354</u>	<u>(4,363,660)</u>	<u>(50,822)</u>	<u>61,773,872</u>
Governmental activities capital assets, net	<u>\$ 67,595,139</u>	<u>\$ 13,647,365</u>	<u>\$ (57,039)</u>	<u>\$ 81,185,465</u>

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

Instruction	\$ 3,479,158
Instructional Resources and Media Services	60,750
Curriculum and Staff Development	77,055
Instructional Leadership	55,869
School Leadership	337,537
Guidance, Counseling, & Evaluation Services	131,000
Social Work Services	28,658
Health Services	67,784
Student Transportation	357,687
Extracurricular Activities	164,299
General Administration	286,482
Plant Maintenance and Operations	564,616
Security and Monitoring Services	51,844
Data Processing Services	115,747
Community Services	<u>2,796</u>
Total depreciation expense - governmental activities	<u>\$ 5,781,282</u>

E. Long-term Liabilities

The following is a summary of changes in long-term liabilities:

	Balance 07/01/23	Additions	Retirements/ Adjustments	Balance 6/30/2024	Amounts Due in One Year
Bonds payable	\$ 120,804,922	\$ -	\$ 4,745,000	\$ 116,059,922	\$ 2,738,816
Maintenance tax notes	1,775,000	-	335,000	1,440,000	345,000
Premium on CABs	5,557,642	-	-	5,557,642	-
Accreted interest on CABs	139,411	61,704	-	201,115	-
Financing arrangements	51,006	-	51,006	-	-
Arbitrage liability	-	1,312,534	-	1,312,534	-
Bond premium	8,138,920	-	346,006	7,792,914	-
Total long-term debt	<u>136,466,901</u>	<u>1,374,238</u>	<u>5,477,012</u>	<u>132,364,127</u>	<u>3,083,816</u>
Net pension liability	19,457,259	5,768,362	-	25,225,621	-
Net OPEB liability	10,606,466	-	117,759	10,488,707	-
Total long-term liabilities	<u>\$ 166,530,626</u>	<u>\$ 7,142,600</u>	<u>\$ 5,594,771</u>	<u>\$ 168,078,455</u>	<u>\$ 3,083,816</u>

The District's net pension and OPEB liabilities are typically liquidated by the General Fund.

Bonds Payable

A summary of general obligation bonds payable for the year ended June 30, 2024 is as follows:

Description	Interest Rate Payable (%)	Amounts Original Issue	Balance 07/01/23	Additions	Retirements/ Adjustments	Balance 06/30/24	Amount Due in One Year
Refunding Building Bonds, Series 2007	3.92	\$ 8,834,988	\$ 4,405,000	\$ -	\$ 815,000	\$ 3,590,000	\$ 850,000
Building Bonds, Series 2014	3.00	58,500,000	1,525,000	-	1,525,000	-	-
Refunding Building Bonds, Series 2020	3.5-5.0	52,999,961	45,069,922	-	655,000	44,414,922	478,816
Unlimited Tax School Building Bonds, Series 2023	4-5.0	69,805,000	69,805,000	-	1,750,000	68,055,000	1,410,000
			<u>\$ 120,804,922</u>	<u>\$ -</u>	<u>\$ 4,745,000</u>	<u>\$ 116,059,922</u>	<u>\$ 2,738,816</u>

The following is a summary of the District's future annual debt service requirements to maturity for general obligation bonds:

Year Ending June 30,	Principal	Interest	Total Requirements
2025	\$ 2,738,816	\$ 6,036,015	\$ 8,774,831
2026	4,366,290	6,045,134	10,411,424
2027	2,264,856	6,013,636	8,278,492
2028	4,435,000	3,792,735	8,227,735
2029	3,640,000	3,619,313	7,259,313
2030-2034	20,290,000	16,062,490	36,352,490
2035-2039	23,530,000	12,769,691	36,299,691
2040-2044	27,400,000	8,829,739	36,229,739
2045-2049	15,855,000	5,120,647	20,975,647
2050-2054	17,400,000	1,852,331	19,252,331
Total	<u>\$ 121,919,962</u>	<u>\$ 70,141,731</u>	<u>\$ 192,061,693</u>
Less:			
Premium on CABs	(5,557,642)		
Current accreted interest on CABs	(201,115)		
Future accreted interest on CABs	(101,283)		
Total bonds payable	<u>\$ 116,059,922</u>		

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2024.

Maintenance Tax Notes

In December 2017, the District issued Maintenance Tax Notes, Series 2017 in the amount of \$3,670,000. The notes have an interest rate of 2.14% annually and mature in August 2028.

Annual debt service requirements to maturity for the tax notes are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2025	\$ 345,000	\$ 27,125	\$ 372,125
2026	355,000	19,635	374,635
2027	365,000	11,931	376,931
2028	375,000	4,011	379,011
Total	<u>\$ 1,440,000</u>	<u>\$ 62,702</u>	<u>\$ 1,502,702</u>

Financing Arrangements

In May 2021 and July 2022, the District entered into financing arrangements with Toshiba Corporation for the acquisition of multiple copy machines for use throughout the District. The arrangements have a maximum interest rate of 5.2%, with payments due monthly until June 2024.

The arrangements have been paid in full as of June 30, 2024.

Arbitrage

The Tax Reform act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations and the District has reported an arbitrage liability at year end in the amount of \$1,312,534.

The District's outstanding bonds payable contain a provision that in an event of default, the outstanding amounts will be paid from the corpus of the Texas Permanent School Fund. The District's outstanding maintenance tax notes contain a provision that in an event of default, outstanding amounts become immediately due.

F. Defined Benefit Pension Plan

Plan Description. Lockhart 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 workload and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

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

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

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

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

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

	Contribution Rates	
	2023	2024
Active Employee	8.00%	8.25%
Non-Employer Contributing Entity (State)	8.00%	8.25%
Employers	8.00%	8.25%
Current fiscal year employer contributions		\$ 2,047,402
Current fiscal year member contributions		3,632,572
2023 measurement year NECE on-behalf contributions		2,176,602

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

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

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

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

- All public schools, charter schools, and regional educational service centers must contribute 1.8 percent of the member's salary beginning in fiscal year 2022, gradually increasing to 2 percent in fiscal year 2025.
- 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, 2022 actuarial valuation was rolled forward to August 31, 2023 and was determined using the following actuarial assumptions:

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	4.13%
Inflation	2.30%
Salary Increases Including Inflation	2.95% to 8.95% including inflation
Payroll Growth Rate	3.0%
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% 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% of payroll in fiscal year 2024 increasing to 9.56% of payroll in fiscal year 2025 and thereafter. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all 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 System's target asset allocation as of August 31, 2023 are summarized below:

Asset Class ¹	Target Allocation ²	Long-Term Expected Geometric Real Rate of Return ³	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	4.00%	1.00%
Non-U.S. Developed	13.00%	4.50%	0.90%
Emerging Markets	9.00%	4.80%	0.70%
Private Equity	14.00%	7.00%	1.50%
Stable Value			
Government Bonds	16.00%	2.50%	0.50%
Absolute Return	0.00%	3.60%	0.00%
Stable Value Hedge Funds	5.00%	4.10%	0.20%
Real Return			
Real Estate	15.00%	4.90%	1.10%
Energy, Natural Resources and Infrastructure	6.00%	4.80%	0.40%
Commodities	0.00%	4.40%	0.00%
Risk Parity			
Risk Parity	8.00%	4.50%	0.40%
Leverage			
Cash	2.00%	3.70%	0.00%
Asset Allocation Leverage	-6.00%	4.40%	-0.10%
Inflation Expectation			2.30%
Volatility Drag ⁴			-0.90%
Expected Return	100.00%		8.00%

¹ Absolute Return includes Credit Sensitive Investments.

² Target allocations are based on the FY2023 policy model.

³ Capital Market Assumptions come from Aon Hewitt (as of 6/30/2023).

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

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability of the plan using the discount rate of 7.00 percent, and what the net position liability would be if it were calculated using a discount rate 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%)
Proportionate share of the net pension liability:	\$ 37,713,701	\$ 25,225,621	\$ 14,841,776

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2024 the District reported a liability of \$25,225,621 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 25,225,621
State's proportionate share that is associated with the District	<u>29,086,497</u>
Total	<u>\$ 54,312,118</u>

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

At August 31, 2023 the employer's proportion of the collective net pension liability was 0.0367236750%, which was an increase of 0.0039493758% from its proportion measured as of August 31, 2022.

For the year ended June 30, 2024, the District recognized pension expense of \$8,857,548 and revenue of \$4,391,809 for support provided by the State.

At June 30, 2024, the District's reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 898,797	\$ 305,455
Changes in actuarial assumptions	2,385,850	583,872
Difference between projected and actual investment earnings	3,670,940	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,051,816	136,777
Contributions paid to TRS subsequent to the measurement date	<u>1,734,518</u>	<u>-</u>
Total as of fiscal year-end	<u>\$ 10,741,921</u>	<u>\$ 1,026,104</u>

\$1,734,518 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending June 30, 2025. Other amounts reported as deferred outflows and inflows of resources will be recognized in pension expense as follows:

Fiscal year ended June 30,	Pension Expense Amount
2025	\$ 1,747,016
2026	1,144,445
2027	3,475,814
2028	1,307,601
2029	306,423

Change of Assumptions Since the Prior Measurement Date. The actuarial assumptions and methods are the same as used in the determination of the prior year's Net Pension Liability.

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

G. Defined Other Post-Employment Benefit Plans

Plan Description. Lockhart Independent School District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined other post-employment benefit (OPEB) plan that has a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Issuance 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. Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.trs.state.tx.us; 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 Premium Rates			
	Medicare		Non-Medicare
	\$		\$
Retiree*	135		200
Retiree and Spouse	529		689
Retiree* and Children	468		408
Retiree and Family	1,020		999
* or surviving spouse			

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

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

	Contribution Rates	
	2023	2024
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 414,083
Current fiscal year member contributions		287,676
2023 measurement year NECE on-behalf contributions		495,926

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 employees hire a TRS retiree, they are required to pay TRS Care, a monthly surcharge of \$535 per retiree.

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

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

The actuarial valuation 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:

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	4.13%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	3.00%
Projected Salary Increases	2.95% to 8.95%, including inflation
Healthcare Trend Rates	4.25% to 8.50%
Election Rates	Normal Retirement: 65% participation prior to age 65 and 40% participation after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

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

Discount Rate. A single discount rate of 4.13 percent 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%)	Discount Rate (4.13%)	1% Increase in Discount Rate (5.13%)
Proportionate share of net OPEB liability	\$ 12,353,513	\$ 10,488,707	\$ 8,966,981

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2024, the District reported a liability of \$10,488,707 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 10,488,707
State's proportionate share that is associated with the District	12,656,237
Total	<u>\$ 23,144,944</u>

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

At the August 31, 2023 measurement date, the District's proportion of the collective net OPEB liability was 0.0473780940%, which was an increase of 0.0030811361% from its proportion measured as of August 31, 2022.

Healthcare Cost Trend Rates Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed rate used.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 8,636,925	\$ 10,488,707	\$ 12,871,030

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

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

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

For the year ended June 30, 2024, the District recognized OPEB expense of \$(4,115,424) and revenue of \$(2,705,636) 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 OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 474,534	\$ 8,824,260
Changes in actuarial assumptions	1,431,632	6,422,514
Differences between projected and actual investment earnings	4,532	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	4,163,803	164,347
Contributions paid to OPEB subsequent to the measurement date	350,854	-
Total as of fiscal year-end	<u>\$ 6,425,355</u>	<u>\$ 15,411,121</u>

\$350,854 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending June 30, 2025. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended June 30,	OPEB Expense
2025	\$ (2,215,730)
2026	(1,734,662)
2027	(1,083,375)
2028	(1,545,750)
2029	(1,225,414)
Thereafter	(1,531,689)

H. Active Employee Health Care Coverage

The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. The plan is authorized by the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and by the Texas Administrative Code, Title 34, Part 3, Chapter 41. The District contributed approximately \$330 per month per participant to the plan, and employees, at their option, authorized payroll withholdings to pay employee contributions and additional premiums for dependents. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS Active Care. That report may be obtained by visiting the TRS Website at www.trs.state.tx.us, by writing to the Communications Department of the Texas Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling (800) 223-8778.

I. Medicare Part D – On-behalf Payments

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the 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 of \$167,528 \$233,264, and \$235,659 were recognized for the years ended June 30, 2022, 2023, and 2024, respectively, as equal revenues and expenditures.0

J. Commitments and Contingencies

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2024 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

K. Risk Management

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

L. Shared Services Arrangements

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in a special revenue fund and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Lockhart ISD	\$ 1,248,688
Prairie Lea ISD	62,268
Total SSA expenditures	<u>\$ 1,310,956</u>

M. New Accounting Standards

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the District include the following:

Statement No. 101, Compensated Absences - The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. This Statement will become effective for reporting periods beginning after December 15, 2023, and the impact has not yet been determined.

GASB Statement No. 102, Certain Risk Disclosures – The objective of this Statement is to provide users of government financial statements with information about risks related to a government's vulnerabilities due to certain concentrations or constraints that is essential to their analyses for making decisions or assessing accountability. This Statement will become effective for reporting periods beginning after June 15, 2024, and the impact has not yet been determined.

GASB Statement No. 103, Financial Reporting Model Improvements – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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LOCKHART INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND**

FOR THE YEAR ENDED JUNE 30, 2024

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 28,407,550	\$ 23,213,942	\$ 23,377,592	\$ 163,650
5800	State program revenues	32,609,370	43,757,181	44,344,560	587,379
5900	Federal program revenues	691,000	571,000	612,104	41,104
5020	Total revenues	61,707,920	67,542,123	68,334,256	792,133
EXPENDITURES					
Current:					
0011	Instruction	35,457,873	37,008,505	36,939,526	68,979
0012	Instructional resources and media sources	696,230	725,485	639,448	86,037
0013	Curriculum and instructional staff development	1,064,593	1,085,923	811,062	274,861
0021	Instructional leadership	877,737	697,645	594,504	103,141
0023	School leadership	3,601,720	3,752,964	3,552,830	200,134
0031	Guidance, counseling, and evaluation services	1,453,307	1,533,544	1,378,874	154,670
0032	Social work services	205,093	308,897	301,649	7,248
0033	Health services	699,771	746,189	713,480	32,709
0034	Student (pupil) transportation	3,629,375	3,829,375	3,764,926	64,449
0036	Extracurricular activities	1,725,288	1,829,917	1,729,372	100,545
0041	General administration	2,917,344	3,127,787	3,015,440	112,347
0051	Facilities maintenance and operations	5,786,289	6,160,173	5,943,004	217,169
0052	Security and monitoring services	442,551	1,069,145	545,699	523,446
0053	Data processing services	1,134,784	1,331,025	1,218,325	112,700
0061	Community services	10,933	57,605	29,436	28,169
Debt Service:					
0071	Principal on long-term debt	407,444	407,444	387,961	19,483
0072	Interest on long-term debt	48,285	48,285	44,550	3,735
Capital Outlay:					
0081	Facilities acquisition and construction	16,000	381,516	309,721	71,795
Intergovernmental:					
0093	Payments to shared service arrangements	1,443,652	1,443,652	1,248,688	194,964
0099	Other intergovernmental	650,000	800,000	796,107	3,893
6030	Total expenditures	62,268,269	66,345,076	63,964,602	2,380,474
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(560,349)	1,197,047	4,369,654	3,172,607
OTHER FINANCING SOURCES (USES)					
7913	Issuance of financing arrangements	-	-	5,505	5,505
8911	Transfers out	-	(1,075,000)	(774,102)	300,898
7080	Total other financing sources (uses)	-	(1,075,000)	(768,597)	306,403
1200	NET CHANGE IN FUND BALANCES	(560,349)	122,047	3,601,057	3,479,010
0100	FUND BALANCE, BEGINNING	23,953,526	23,953,526	23,953,526	-
3000	FUND BALANCE, ENDING	\$ 23,393,177	\$ 24,075,573	\$ 27,554,583	\$ 3,479,010

LOCKHART INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM****FOR THE YEAR ENDED JUNE 30, 2024**

Plan Year Ended August 31,	<u>2023</u>	<u>2022</u>	<u>2021</u>
District's proportion of the net pension liability (asset)	0.0367237%	0.0327743%	0.0311585%
District's proportionate share of the net pension liability (asset)	\$ 25,225,621	\$ 19,457,259	\$ 7,934,963
State's proportionate share of the net pension liability (asset) associated with the District	<u>29,086,497</u>	<u>26,493,926</u>	<u>11,473,864</u>
Total	<u>\$ 54,312,118</u>	<u>\$ 45,951,185</u>	<u>\$ 19,408,827</u>
District's covered payroll	\$ 42,781,562	\$ 39,909,108	\$ 36,790,770
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	58.96%	48.75%	21.57%
Plan fiduciary net position as a percentage of the total pension liability	73.15%	75.62%	88.79%

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
0.0311202%	0.0319815%	0.0319815%	0.0292449%	0.0287948%	0.0292538%	0.0197780%
\$ 16,667,345	\$ 16,624,983	\$ 17,538,416	\$ 9,350,942	\$ 10,881,118	\$ 10,340,829	\$ 5,282,977
<u>23,504,344</u>	<u>21,206,089</u>	<u>23,582,936</u>	<u>14,653,093</u>	<u>16,826,316</u>	<u>16,271,958</u>	<u>13,744,870</u>
<u>\$40,171,689</u>	<u>\$37,831,072</u>	<u>\$ 41,121,352</u>	<u>\$ 24,004,035</u>	<u>\$ 27,707,434</u>	<u>\$ 26,612,787</u>	<u>\$ 19,027,847</u>
\$35,521,492	\$32,358,591	\$ 31,692,894	\$ 29,968,151	\$ 28,764,071	\$ 27,754,797	\$ 26,227,055
46.92%	51.38%	55.34%	31.20%	37.83%	37.26%	20.14%
75.54%	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

LOCKHART INDEPENDENT SCHOOL DISTRICT

**SCHEDULE OF DISTRICT'S PENSION CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM**

FOR THE YEAR ENDED JUNE 30, 2024

Fiscal Year Ended June 30,	<u>2024</u>	<u>2023</u>	<u>2022</u>
Contractually required contribution	\$ 2,047,402	\$ 1,785,430	\$ 1,485,693
Contributions in relation to the contractually required contribution	<u>(2,047,402)</u>	<u>(1,785,430)</u>	<u>(1,485,693)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 44,031,180	\$ 42,627,537	\$ 39,223,830
Contribution as a percentage of covered payroll	4.65%	4.19%	3.79%

EXHIBIT G-3

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
\$ 1,342,220	\$ 1,250,665	\$ 1,116,036	\$ 1,043,672	\$ 927,988	\$ 903,438	\$ 810,976
<u>(1,342,220)</u>	<u>(1,250,665)</u>	<u>(1,116,036)</u>	<u>(1,043,672)</u>	<u>(927,988)</u>	<u>(903,438)</u>	<u>(810,976)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 36,570,653	\$ 35,049,035	\$ 32,154,893	\$ 31,186,506	\$ 29,668,119	\$ 28,456,580	\$ 27,582,011
3.67%	3.57%	3.47%	3.35%	3.13%	3.17%	2.94%

LOCKHART INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM****FOR THE YEAR ENDED JUNE 30, 2024**

Plan Year Ended August 31,	<u>2023</u>	<u>2022</u>	<u>2021</u>
District's proportion of the net OPEB liability (asset)	0.0473781%	0.0442970%	0.0422828%
District's proportionate share of the net OPEB liability (asset)	\$ 10,488,707	\$ 10,606,466	\$ 16,310,380
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>12,656,237</u>	<u>12,938,222</u>	<u>21,852,275</u>
Total	<u>\$ 23,144,944</u>	<u>\$ 23,544,688</u>	<u>\$ 38,162,655</u>
District's covered payroll	\$ 43,008,026	\$ 39,665,371	\$ 37,714,914
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	24.39%	26.74%	43.25%
Plan fiduciary net position as a percentage of the total OPEB liability	14.94%	11.52%	6.18%

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
0.0413786%	0.0399940%	0.0405306%	0.0365625%
\$ 15,729,861	\$ 18,887,885	\$ 20,237,284	\$ 15,899,673
<u>21,137,162</u>	<u>25,097,775</u>	<u>26,359,820</u>	<u>22,917,035</u>
<u>\$ 36,867,023</u>	<u>\$ 43,985,660</u>	<u>\$ 46,597,104</u>	<u>\$ 38,816,708</u>
\$ 35,546,545	\$ 32,358,651	\$ 31,692,894	\$ 29,968,151
44.25%	58.37%	63.85%	53.06%
4.99%	2.66%	1.57%	0.91%

LOCKHART INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DISTRICT'S OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM****FOR THE YEAR ENDED JUNE 30, 2024**

Fiscal year Ended June 30,	<u>2024</u>	<u>2023</u>	<u>2022</u>
Contractually required contribution	\$ 414,083	\$ 406,329	\$ 356,059
Contributions in relation to the contractually required contribution	<u>(414,083)</u>	<u>(406,329)</u>	<u>(356,059)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 44,257,865	\$ 42,515,926	\$ 39,091,897
Contribution as a percentage of covered payroll	0.94%	0.96%	0.91%

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
\$ 310,521	\$ 269,292	\$ 246,418	\$ 239,614
<u>(310,521)</u>	<u>(269,292)</u>	<u>(246,418)</u>	<u>(239,614)</u>
\$ -	\$ -	\$ -	\$ -
\$ 36,595,692	\$ 35,049,487	\$ 32,148,410	\$ 31,192,689
0.85%	0.77%	0.77%	0.77%

LOCKHART INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2024

Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the National Lunch and Breakfast Program Fund (which is included as a Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The ESSER III Grant Fund does not have a legally adopted budget. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other two reports are presented in Exhibits J-2 and J-3.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.
4. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after the fiscal year end. The budget was amended as necessary during the year.
5. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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August ___, 2025

**LOCKHART INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025
DATED AS OF AUGUST 7, 2025
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$90,820,000**

AS BOND COUNSEL FOR THE LOCKHART INDEPENDENT SCHOOL DISTRICT (the *District*) in connection with the issuance 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 until maturity or prior redemption at the rates and are payable on the dates as stated in the text 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 general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) one of the executed Bonds (*Bond No. T-1*), and (iii) the District's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, 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 alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (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 District and covenants set forth in the Order adopted by the District to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the certificate with respects 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 District 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.

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, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning 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.

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 District as the taxpayer. We observe that the District 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 District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and general 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 District, 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 District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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The information below concerning the Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation of, the District, the Financial Advisor or the Underwriters.

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

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

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

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

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

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

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

While the School District Bond Guarantee Program and the Charter District Bond Guarantee Program relate to different types of bonds issued for different types of Texas public schools, and have different program regulations and requirements, a bond guaranteed under either part of the Guarantee Program has the same effect with respect to the guarantee obligation of the Fund thereto, and all guaranteed bonds are aggregated for purposes of determining the capacity of the Guarantee Program (see “Capacity Limits for the Guarantee Program”). The Charter District Bond Guarantee Program as enacted by State law has not been reviewed

by any court, nor has the Texas Attorney General (the “Attorney General”) been requested to issue an opinion, with respect to its constitutional validity.

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

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

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

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

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

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

The Total Return Constitutional Amendment shifted administrative costs of the Fund from the ASF to the PSF, providing that expenses of managing the PSF are to be paid “by appropriation” from the PSF. In January 2005, the Attorney General issued a legal opinion, Op. Tex. Att’y Gen. No. GA-0293 (2005), stating that the Total Return Constitutional Amendment does not require

the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

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

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

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

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

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

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

ANNUAL DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND⁽¹⁾

Fiscal Year Ending	2015	2016	2017	2018	2019	2020	2021	2022	2023⁽²⁾	2024
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156
PSF(SBOE) Distribution	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-
PSF(SLB) Distribution	-	-	-	-	300	600	600 ⁽³⁾	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	332	440	430

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

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

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

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

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

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

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

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

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

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

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

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

COMPARATIVE INVESTMENT SCHEDULE – PSF(CORP)

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

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

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

Investment Schedule – PSF(SLB)⁽¹⁾

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

- (1) Unaudited figures from Table 5 in the FY 2024 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.
- (2) Historical Cost of investments at August 31, 2024 was: Sovereign Lands \$838,730.24; Discretionary Internal Investments \$318,902,420.97; Other Lands \$37,290,818.76; and Minerals \$13,437,063.73.
- (3) Includes an estimated 1,000,000.00 acres in freshwater rivers.
- (4) Includes an estimated 1,747,600.00 in excess acreage.
- (5) Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the State of Texas.
- (6) Future Net Revenues discounted at 10% and then adjusted for risk factors. A mineral reserve report is prepared annually by external third-party petroleum engineers.

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

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

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

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district's default. The School District Bond Guarantee Program

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

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

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

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

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

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

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

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

In the event of default, holders of guaranteed charter district bonds will receive all payments as and when they become due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Education Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district’s paying agent an amount necessary to pay the maturing or matured principal or interest, as applicable. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Education

Commissioner is required to instruct the Comptroller to transfer from the PSF to the district's paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest, as applicable. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

The 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 SDBG 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 SDBG Rules provide that the Education Commissioner will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the "AAA" credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the

Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

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

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

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

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

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

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

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

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

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.86% in February 2025. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

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

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

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

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

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

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

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM . . . Moody's Investors Service, Inc., S&P Global Ratings, and Fitch Ratings, Inc. rate bonds guaranteed by the PSF "Aaa," "AAA" and "AAA," respectively. Not all districts apply for

multiple ratings on their bonds, however. See the applicable rating section within the offering document to which this is attached for information regarding a district's underlying rating and the enhanced rating applied to a given series of bonds.

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations

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

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

Permanent School Fund Guaranteed Bonds

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

- (1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.
- (2) At January 31, 2025 (based on unaudited data, which is subject to adjustment), there were \$129,723,799,121 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,437 school district issues, aggregating \$124,794,149,121 in principal amount and 109 charter district issues, aggregating \$4,929,650,000 in principal amount. At January 31, 2025 the projected guarantee capacity available was \$39,780,221,830 (based on unaudited data, which is subject to adjustment).

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

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

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

PSF Returns Fiscal Year Ended 8-31-2024⁽¹⁾

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . Except as stated below, during the last five years, the TEA and the PSF Corporation have not failed to substantially comply with their previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022, TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents. On March 31, 2025, the TEA and the PSF Corporation became aware that the 2022 operating data was not timely filed with EMMA due to an administrative oversight. TEA and PSF Corporation took corrective action and filed a notice of late filing with EMMA on April 4, 2025. The annual operating data was previously posted to EMMA on March 31, 2023.

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

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