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**PRELIMINARY OFFICIAL STATEMENT**

**Dated January 7, 2025**

**Ratings:**

Moody's: "Aaa" (PSF Guarantee)  
"A1" (Underlying)

(See "OTHER INFORMATION – Ratings" & "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

**NEW ISSUE - Book-Entry-Only**

In the opinion of Cantu Harden Montoya, LLP, as Co-Bound Counsel (defined below), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Order (defined below) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. See "TAX MATTERS" herein.

THE BONDS **WILL BE** DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



**\$7,000,000\***  
**MILES INDEPENDENT SCHOOL DISTRICT**  
**(Runnels and Tom Green Counties, Texas)**  
**UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025**

**Dated: January 1, 2025**

(Interest accrues from Delivery Date)

**Due: As shown on Page 2**

**PAYMENT TERMS** . . . Interest on the \$7,000,000\* Miles Independent School District Unlimited Tax School Building Bonds, Series 2025 (the "Bonds") will accrue from the date of their delivery to the "Underwriter" identified below (the "Delivery Date"), will be payable initially on February 15, 2026 and each August 15 and February 15 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 issued as fully registered obligations in the denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are being issued by the Miles Independent School District (the "District") pursuant to the Constitution and general laws of the State of Texas (the "State" or "Texas"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on November 5, 2024, and an order to be passed by the Board of Trustees of the District on January 13, 2025 (the "Order") authorizing the issuance of the Bonds. The Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the Order (see "THE BONDS - Authority for Issuance"). **The District has applied for and received conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).**

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**MATURITY SCHEDULE**

See page 2

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**PURPOSE** . . . Proceeds from the sale of the Bonds will be used for (i) design, construction, rehabilitation, renovation, expansion, improvement, acquisition, and equipment of school facilities; and (ii) paying the costs associated with the issuance of the Bonds.

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the underwriter named below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of matters by Walsh Gallegos Kyle Robinson & Roalson, P.C. and Cantu Harden Montoya LLP, San Antonio, Texas, Co-Bond Counsel. See "OTHER INFORMATION – Legal Matters" herein for a discussion of Co-Bond Counsels' opinions. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, Austin, Texas.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on or about February 19, 2025 (the "Delivery Date").

**FROST BANK**

\* Preliminary, subject to change.

**MATURITY SCHEDULE\***

**CUSIP<sup>(1)</sup> Prefix: 599332**

<u>Principal Amount</u>	<u>Maturity (2/15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP<sup>(1)</sup></u>	<u>Principal Amount</u>	<u>Maturity (2/15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP<sup>(1)</sup></u>
\$ 95,000	2027				\$ 190,000	2039			
105,000	2028				200,000	2040			
115,000	2029				210,000	2041			
125,000	2030				220,000	2042			
130,000	2031				225,000	2043			
140,000	2032				240,000	2044			
145,000	2033				245,000	2045			
150,000	2034				690,000	2046			
160,000	2035				720,000	2047			
170,000	2036				755,000	2048			
170,000	2037				790,000	2049			
185,000	2038				825,000	2050			

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

**OPTIONAL REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20\_\_, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20\_\_ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Redemption").

**MANDATORY SINKING FUND REDEMPTION . . .** If two or more serial bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the Order, which provisions will be included in the final Official Statement (see "THE BONDS – Redemption").

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\* Preliminary, subject to change.

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

*This document, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "final official statement" of the District with respect to the Bonds, as such term is defined in the Rule.*

*No dealer, broker, salesman or other person has been authorized by the District or the Underwriter to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriter. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.*

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

*The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.*

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

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

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

*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 JURISDICTIONS IN WHICH THE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.*

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

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

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

## 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.

<b>THE DISTRICT</b> .....	The District is a political subdivision located in Runnels and Tom Green Counties in Texas. The District is approximately 141.27 square miles in area (see "INTRODUCTION - Description of the District").
<b>THE BONDS</b> .....	The \$7,000,000* Unlimited Tax School Building Bonds, Series 2025 (the "Bonds") are issued as serial bonds maturing on February 15 in the years 2026 through 2050, inclusive, unless the Underwriter designates one or more maturities as one or more Term Bonds (defined below) (see "THE BONDS - Description of the Bonds").
<b>PAYMENT OF INTEREST</b> .....	Interest on the Bonds accrues from the Delivery Date and is payable initially on February 15, 2026 and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS – Redemption").
<b>AUTHORITY FOR ISSUANCE</b> .....	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State" or "Texas"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the District on November 5, 2024, and an order to be passed by the Board of Trustees of the District on January 13, 2025 (the "Order") authorizing the issuance of the Bonds. See "THE BONDS - Authority for Issuance".
<b>SECURITY FOR THE BONDS</b> .....	The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District. Additionally, the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "THE BONDS - Security and Source of Payment").
<b>PERMANENT SCHOOL FUND GUARANTEE</b> .....	The District has made application to the Texas Education Agency and has received conditional approval for payment of the Bonds to be guaranteed by the Permanent School Fund (see "The Permanent School Fund Guarantee Program").
<b>REDEMPTION PROVISIONS</b> .....	The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If two or more serial bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the Order, which provisions will be included in the final Official Statement. (see "THE BONDS - Redemption").
<b>TAX EXEMPTION</b> .....	In the opinion of Cantu Harden Montoya, LLP, as Co-Bond Counsel (defined below), the 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 certain corporations. The opinion of Walsh Gallegos Kyle Robinson & Roalson, P.C. as Co-Bond Counsel, will not address tax matters.
<b>QUALIFIED TAX-EXEMPT OBLIGATIONS</b> .....	The Bonds will be designated as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS - Qualified Tax-Exempt Obligations").
<b>USE OF PROCEEDS</b> .....	Proceeds from the sale of the Bonds will be used for (i) design, construction, rehabilitation, renovation, expansion, improvement, acquisition, and equipment of school facilities; and (ii) paying the costs associated with the issuance of the Bonds.
<b>RATING</b> .....	The Bonds have been rated "Aaa" by Moody's Investors Service, Inc. ("Moody's"), by virtue of the guarantee of the Bonds by the Texas Permanent School Fund, as Moody's generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa". See "APPENDIX – D THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The District has also made application to Moody's for a rating on the Bonds without regard to credit enhancement and the Bonds have been assigned an underlying rating of "A1" by Moody's (see "OTHER INFORMATION - Ratings" and "APPENDIX C -THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

\* Preliminary, subject to change.

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

**PAYMENT RECORD .....** The District has not defaulted in payment of its tax supported debt.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 8/31	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)(5)</sup>	Per Capita Taxable Assessed Valuation	Tax Debt Outstanding at Fiscal Year End	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2021	1,869	\$ 109,885,594	\$ 58,794	\$ 6,845,000	\$ 3,662	6.23%	100.01%
2022	1,809	116,162,251	64,214	6,615,000	3,657	5.69%	99.82%
2023	1,893	129,619,392	68,473	6,375,000	3,368	4.92%	100.56%
2024	1,846	137,684,572	74,585	6,095,000	3,302	4.43%	99.58%
2025	1,888	160,684,590	85,108	9,100,000 <sup>(3)</sup>	4,820 <sup>(3)</sup>	5.66% <sup>(3)</sup>	NA

- (1) Source: Population estimates calculated from information provided by the Municipal Advisory Council.
- (2) As reported by the Appraisal District (as defined herein) on the District's annual State Property Tax Reports and such values are subject to change during the ensuing year.
- (3) Projected, includes the Bonds. Preliminary, subject to change.

For additional information regarding the District, please contact:

Mr. Ty Stevens Superintendent Miles ISD 1001 Robinson Miles, Texas 76861 (325) 468-2861	or	Mr. Erick M. Macha Managing Director Hilltop Securities Inc. 717 North Harwood, Suite 3400 Dallas, Texas 75201 (214) 953-4033
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**DISTRICT OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Roger Kalina President	3 Years	November 2025	Vice President, Citizen State Bank
Danelle Schwertnr Vice President	8 Years	November 2025	Owner, Hardware Store
Carol Granzin Secretary	7 Years	November 2026	Retired Teacher
Bill Book Boardmember	4 Years	November 2026	Self-employed/Farmer
Misti Dunlap Boardmember	1 Year	November 2026	Not Employed
Melissa Hohensee Boardmember	Newly Elected	November 2027	Nurse Practitioner
Deen Burrus Boardmember	Newly Elected	November 2027	Business Excellence Professional Coaching

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service in Current Position</u>	<u>Total School District Service</u>
Mr. Ty Stevens	Superintendent	2 Years	23 Years

**CONSULTANTS AND ADVISORS**

Independent Auditors.....Eckert & Company  
 Certified Public Accountants  
 San Angelo, Texas

Co-Bond Counsels.....Walsh Gallegos Kyle Robinson & Roalson P.C.  
 ..... Cantu Harden Montoya LLP  
 San Antonio, Texas

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

**PRELIMINARY OFFICIAL STATEMENT  
RELATING TO  
  
\$7,000,000\*  
MILES 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 \$7,000,000\* Miles Independent School District Unlimited Tax School Building Bonds, Series 2025 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order (hereinafter defined) authorizing the issuance and sale of the Bonds, except as otherwise indicated herein.

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

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

**DESCRIPTION OF THE DISTRICT** . . . The District is a political subdivision located in Runnels and Tom Green Counties, Texas. The District is governed by a seven-member Board of Trustees (the "Board"), the members of which serve staggered three-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 141.27 square miles encompassing the City of Miles.

**THE BONDS**

**DESCRIPTION OF THE BONDS** . . . The Bonds will be dated January 1, 2025. The Bonds will accrue interest from the date of their initial delivery (the "Delivery Date") to the initial purchaser thereof shown on the cover page hereof (the "Underwriter"), and such interest is payable initially on February 15, 2026 and on each August 15 and February 15 thereafter, until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. Interest on the Bonds is payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar, initially BOKF, NA, Dallas, Texas, on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or upon prior redemption, upon their presentation and surrender to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "THE BONDS - Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will be issued only in fully registered form and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral thereof within a stated maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** The principal of 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.

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used for (i) design, construction, rehabilitation, renovation, expansion, improvement, acquisition, and equipment of school facilities; and (ii) paying the costs associated with the issuance of the Bonds.

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\* Preliminary, subject to change.



**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 Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, an election held on November 5, 2024 (the "Election"), and an order to be passed by the Board on January 13, 2025 authorizing the issuance of the Bonds (the "Order"). The Bonds represent the first and final issuance of bonds approved at the Election. After the issuance of the Bonds, the District will have no voter authorized but unissued unlimited ad valorem tax bonds remaining from the Election. See "TABLE 10 – Authorized But Unissued Unlimited Tax Bonds."

**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. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein.

**REDEMPTION . . .** The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20\_\_ , in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20\_\_ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

If two or more serial bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the Order and such information will be included in the final official statement.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE FUNDS NECESSARY TO REDEEM SUCH BONDS HAVING BEEN PROVIDED, 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 moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received or such prerequisites are not satisfied, such notice shall be of no force and effect, the District shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

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

**DEFEASANCE . . .** The Order provides that the Bonds may be defeased, refunded or discharged in any manner permitted by applicable law. Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

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

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

**BOOK-ENTRY-ONLY SYSTEM** . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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 and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

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

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

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

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

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

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

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

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

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

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

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

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

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity or redemption, upon

their presentation and surrender to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. So long as Cede & Co. is the registered owner of the Bonds, payments of the principal and interest on the Bonds will be made as described in "THE BONDS – Book-Entry-Only System."

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Bond certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

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

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

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

**BONDHOLDERS' REMEDIES . . .** The Order specifies events of default as the failure of the District to make payment of the principal of or interest on any of the Bonds when the same becomes due and payable or default in the performance or observance of any other covenant, agreement or obligation of the District, which failure materially, adversely affects the rights of the registered owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any registered owner to the District. Upon an event of default, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order covenants and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. 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 creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Co-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, by general principles of equity which permit the exercise of judicial discretion and by governmental immunity.

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

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

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

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

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

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

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

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

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

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

## **CURRENT PUBLIC SCHOOL FINANCE SYSTEM**

### **OVERVIEW**

The following language constitutes only a summary of the public school finance system as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended.

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

### **2025 LEGISLATIVE SESSIONS**

The 89th Texas legislative session will commence on January 14, 2025 and continue to June 2, 2025. During this time, the Texas Legislature may enact laws that materially effect the District and its finances. The District can make no representations or predictions regarding the scope of legislation that may be considered or the potential impact of such legislation at this time but intends to monitor applicable legislation related thereto.

### **2023 REGULAR AND SPECIAL LEGISLATIVE SESSIONS**

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

During the second called special session, legislation was passed 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 to hold districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibits school districts, cities and counties from repealing or reducing an optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. 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.

During any additional called special session, the Legislature may enact laws that materially change current law as it relates to the funding of public schools, including the District. The District can make no representations or predictions regarding the scope of additional legislation that may be considered during any additional called special sessions or the potential impact of such legislation at this time.

#### **LOCAL FUNDING FOR SCHOOL DISTRICTS**

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

State Compression Percentage. The "State Compression Percentage" or "SCP" is the lesser of three alternative calculations: (i) 93% or a lower percentage set by appropriation for a school year; (ii) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (iii) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2024, the SCP is set at 68.80%.

Maximum Compressed Tax Rate. The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of three alternative calculations: (1) the school district's prior year MCR; (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5%; or (3) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is set to 90% of the other school district's MCR until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. The MCR for the 2024-2025 school year is \$0.6855 and the floor is \$0.6169.

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate." However, to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR for 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 " – 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 amended (see " – Local Revenue Level In Excess of Entitlement")), and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

*Tier One.* Tier One funding is the basic level of programmatic funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics, the demographics of students in ADA, and the educational programs the students are being served in, to make up most of a school district's Tier One entitlement under the Foundation School Program.

The Basic Allotment for a school district with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 (or a greater amount as may be provided by appropriation) for each student in ADA and is revised downward for a school district with a Tier One Tax Rate lower than the school district's MCR. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment, (iii) a college, career and military readiness allotment to further 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.

For the 2023-2024 school year, the fast growth allotment weight is 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$315 million for the 2023-2024 school year and \$320 million for the 2024-2025 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, Instruction Facilities Allotment, and New Instructional Facilities Allotment.* The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since the program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Education Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled



to continue receiving State assistance for such bonds without reapplying to the Education Commissioner. 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, which will be phased out in 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. This grant is phased out through the 2023-2024 school year as follows: (1) 20% reduction for the 2020-2021 school year, (2) 40% reduction for the 2021-2022 school year, (3) 60% reduction for the 2022-2023 school year, and (4) 80% reduction for the 2023-2024 school year. Additionally, school districts (through the fiscal year ending in 2025) and open-enrollment charter schools (through the fiscal year ending in 2024) are entitled to receive an allotment in the form of a formula transition grant meant to ensure a smooth transition into the funding formulas enacted by the 86th State Legislature. The total amount of allotments to which school districts and open enrollment charter schools are entitled for a year school under the formula transition grant exceeds \$400 million, the Commissioner shall proportionately reduce each district's or school's allotment. The reduction in the amount to which a district or school is entitled may not result in an amount that is less than zero.

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

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

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

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

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

The District's wealth per student for the 2024-25 school year is less than the equalized wealth value. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options.

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

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

#### **AD VALOREM PROPERTY TAXATION**

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

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

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

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

On July 13, 2023, during the Second Special Session, the Texas Legislature passed Senate Bill 2, which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "Maximum Property Value") to an amount not to exceed the lesser of: (1) the market value of the subjected property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the subjected property for the preceding tax year; (b) the appraised value of the subjected property for the preceding tax year; and (c) the market value of all new improvements to the subjected property (collectively, the "Appraisal Cap"). After the 2024 tax year, through December 31, 2026, the Appraisal Cap may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the Maximum Property Value. The Appraisal Cap took effect on January 1, 2024.

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

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

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

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

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

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

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

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

**TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . .** The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. The Texas Legislature amended Section 11.35, Property Tax Code, to clarify that "damage" for purposes of such statute is limited to "physical damage." For more information on the exemption, reference is made to Section 11.35 of the 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) previously allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. During the ten-year term of a tax limitation agreement, a school district can only levy and collect M&O taxes on the agreed to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts").

During the Regular Session of the 88th Texas Legislature, House Bill 5 ("HB 5") was enacted into law. HB 5 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 HB 5, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for a ten (10) year period for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. HB 5 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under HB 5. Eligible projects must relate to manufacturing, provision of utility services, dispatchable electric generation (such as nonrenewable energy), development of natural resources, critical infrastructure, or research and development for high-tech equipment or technology, and projects must create and maintain jobs and meet certain minimum investment requirements. The District is still in the process of reviewing HB 5 and cannot make any representations as to what impact, if any, HB 5 will have on its finances or operations.

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$59,562,332 for the 2024 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

**LEVY AND COLLECTION OF TAXES . . .** The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM PROPERTY TAXATION – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

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

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

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

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

## 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 23, 1958, in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes, as amended.

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

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

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, "exempt bonds"), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the "50-cent Test"). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district's local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district's I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued as new debt pursuant to Chapter 45, Texas Education Code and are subject to the 50-cent Test under Section 45.0031, Texas Education Code. The District has not used projected future taxable values or state financial assistance to satisfy the 50-cent Test, and the District will not use projected future taxable values, but may use State financial assistance in connection with the its issuance of the Bonds. The extent to State financial assistance, if any, will be determined when pricing the Bonds.

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

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

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

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

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

**DISTRICT APPLICATION OF TAX CODE . . .** The District grants the State-mandated exemptions of \$100,000 for general homestead and an additional \$10,000 for persons 65 years of age and older and the disabled. However, the District does not grant any part of the local-option additional exemption of up to 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 tax nonbusiness personal property; and the respective county appraiser or county tax assessor-collector, as applicable for each of Gaines, Yoakum, and Terry Counties, collects taxes for the District.

The District does permit split payments of taxes, and discounts for early payment of taxes are allowed.

The District does not tax freeport property.

The District has taken action to tax goods-in-transit.

The District does not participate in any TIFs.

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

The District has not adopted a tax abatement policy. The District has not granted any tax abatements under HB 5.

**TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT**

2024/25 Market Valuation Established by the Runnels County Appraisal District and Tom Green County Appraisal District (Excluding Totally Exempt Property)		\$ 405,287,469
Less Exemptions/Reductions at 100% Market Value:		
State Mandated General Homestead Exemptions	\$ 43,290,205	
State Mandated Over 65 Homestead Exemptions	1,036,485	
State Mandated Disabled Persons Exemptions	50,000	
Veteran Exemptions	2,176,832	
Pollution Control	309,081	
Productivity Loss	189,940,650	
Capped Value Loss	7,784,716	
Other	<u>14,910</u>	<u>244,602,879</u>
2024/25 Certified Taxable Assessed Valuation		<u><u>\$ 160,684,590</u></u>
Debt Payable from Ad Valorem Taxes (as of 12/1/2025)		
Outstanding Debt	\$ 4,585,000	
The Bonds	<u>7,000,000</u> <sup>(1)</sup>	
Total Debt Payable from Ad Valorem Taxes		<u><u>\$ 11,585,000</u></u> <sup>(1)</sup>
General Obligation Interest and Sinking Fund (as of 12/1/2025)		\$ 570,708
Ratio General Obligation Tax Debt 2024/25 to Taxable Assessed Valuation		7.21%
2025 Estimated District Population - 1,888		
District Enrollment 2024/25- 492		
Area (Square Miles) - 141.27		
Per Capita Taxable Assessed Valuation \$85,108		
Per Capita Debt Payable from Ad Valorem Taxes - \$6,136		

<sup>(1)</sup> Preliminary, subject to change.

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**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY<sup>(1)</sup>**

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2025		2024		2023	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	59,365,629	14.65%	\$ 61,124,920	14.99%	\$ 54,129,154	16.52%
Real, Residential, Multi-Family	211,830	0.05%	189,980	0.05%	182,650	0.06%
Real, Vacant Lots/Tracts	1,577,450	0.39%	1,401,250	0.34%	1,310,860	0.40%
Real, Acreage (Land Only)	212,518,010	52.44%	228,806,910	56.11%	180,985,435	55.22%
Real, Farm and Ranch Improvements	65,784,510	16.23%	59,833,249	14.67%	52,229,550	15.94%
Real, Commercial & Industrial	10,938,080	2.70%	5,369,260	1.32%	5,253,019	1.60%
Real, Oil, Gas and Other Mineral Reserves	-	0.00%	9,760	0.00%	9,760	0.00%
Real and Tangible Personal, Utilities	43,276,860	10.68%	37,951,920	9.31%	22,519,580	6.87%
Tangible Personal, Commercial	7,876,680	1.94%	9,764,310	2.39%	5,080,090	1.55%
Tangible Personal, Industrial	-	0.00%	-	0.00%	3,670,010	1.12%
Mobile Homes	3,738,420	0.92%	3,329,940	0.82%	2,379,090	0.73%
Total Appraised Value Before Exemptions:	\$ 405,287,469	100.00%	\$ 407,781,499	100.00%	\$ 327,749,198	100.00%
Less: Total Exemptions/Reductions:	(244,602,879)		(260,860,067)		(189,663,849)	
Adjustment	-		(9,236,860)		(8,465,957)	
Taxable Assessed Value:	<u>\$ 160,684,590</u>		<u>\$ 137,684,572</u>		<u>\$ 129,619,392</u>	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2022		2021	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 46,177,700	16.90%	\$ 44,171,910	16.63%
Real, Residential, Multi-Family	-	0.00%	-	0.00%
Real, Vacant Lots/Tracts	1,237,530	0.45%	1,129,060	0.43%
Real, Acreage (Land Only)	152,653,750	55.87%	151,585,730	57.07%
Real, Farm and Ranch Improvements	40,336,030	14.76%	36,866,130	13.88%
Real, Commercial & Industrial	5,005,900	1.83%	4,639,340	1.75%
Real, Oil, Gas and Other Mineral Reserves	9,400	0.00%	11,920	0.00%
Real and Tangible Personal, Utilities	17,800,620	6.52%	19,005,380	7.16%
Tangible Personal, Commercial	4,344,870	1.59%	3,383,530	1.27%
Tangible Personal, Industrial	3,660,440	1.34%	3,458,240	1.30%
Mobile Homes	1,991,260	0.73%	1,347,730	0.51%
Total Appraised Value Before Exemptions:	\$ 273,217,500	100.00%	\$ 265,598,970	100.00%
Less: Total Exemptions/Reductions:	(148,818,794)		(147,456,212)	
Adjustment	(8,236,455)		(8,257,164)	
Taxable Assessed Value:	<u>\$ 116,162,251</u>		<u>\$ 109,885,594</u>	

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

**TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY**

Fiscal Year Ended 8/31	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Debt Outstanding at End of Year	Ratio to Debt	
					Debt to Taxable Assessed Valuation	Debt Per Capita
2021	1,869	\$ 109,885,594	\$ 58,794	\$ 6,845,000	6.23%	\$ 3,662
2022	1,809	116,162,251	64,214	6,615,000	5.69%	3,657
2023	1,893	129,619,392	68,473	6,375,000	4.92%	3,368
2024	1,846	137,684,572	74,585	6,095,000	4.43%	3,302
2025	1,888	160,684,590	85,108	9,100,000 <sup>(3)</sup>	5.66% <sup>(3)</sup>	4,820 <sup>(3)</sup>

(1) Source: Population estimates calculated from information provided by the Municipal Advisory Council.

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

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

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

Fiscal Year Ended	Total Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2021	\$ 1.3464	\$ 1.0464	\$ 0.3000	\$ 1,479,499	98.75%	100.01%
2022	1.2949	0.9949	0.3000	1,504,185	98.63%	99.82%
2023	1.2429	0.9429	0.3000	1,609,509	98.74%	100.56%
2024	1.0575	0.7575	0.3000	1,456,014	98.52%	99.58%
2025	1.0552	0.7552	0.3000	1,695,544	In Process of Collection	

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**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2024/25	% of Total
		Taxable Assessed Valuation	Taxable Assessed Valuation
Exxon Mobile Pipeline	Pipeline	\$ 14,338,970	8.92%
Atmos Energy Mid-Tex Pipeline	Utility	10,340,140	6.44%
AEP Texas, Inc.	Utility	8,475,900	5.27%
Whitethorn Pipeline LLC	Pipeline	4,176,540	2.60%
Tapia Adolfo Dairy LLC	Agricultural	2,621,065	1.63%
Cuate Trucking	Commercial	2,485,310	1.55%
Bobkat Holdings	Agricultural	1,810,920	1.13%
Lonestar Farmers Cooperative	Cotton Gin/Co-Op	1,405,990	0.87%
Seminole Pipeline Co.	Pipeline	1,388,890	0.86%
Smithwick, William Kyle	Agricultural	1,352,270	0.84%
		<u>\$ 48,395,995</u>	<u>30.12%</u> <sup>(1)</sup>

(1) As shown in the table above, the top ten taxpayers in the District account for in excess of 30% of the District's tax base, with the largest taxpayer representing nearly 9% of the tax base alone. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the District, result in less local tax revenue. If any major taxpayer, or a combination of taxpayers, were to default in the payment of taxes, the ability of the District to make timely payments of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may occur annually. See "THE BONDS - Bondholders' Remedies" and "AD VALOREM PROPERTY TAXATION - District's Rights in the Event of Tax Delinquencies" herein.

**TABLE 6 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2024/25	2024/25	Total	Estimated	District's
	Taxable Assessed Value		Tax Rate		Tax Supported Debt As Of 10/31/2024
Miles ISD	\$ 160,684,590	\$ 1.0552	\$ 11,585,000 <sup>(1)</sup>	100.00%	\$ 11,585,000 <sup>(1)</sup>
Runnels County	1,091,994,752	0.5798	-	8.42%	-
Tom Green County	10,668,884,204	0.4729	51,935,000	0.48%	<u>249,288</u>
Total Direct and Overlapping Tax Supported Debt					\$ 11,834,288
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					7.36%
Per Capita Direct and Overlapping Tax Supported Debt					\$ 6,268

(1) Includes the Bonds. Preliminary, subject to change.

**DEBT INFORMATION**

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

Year Ending 8/31	Outstanding Debt			The Bonds <sup>(1)(2)</sup>			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2025	\$ 215,000	\$ 228,953	\$ 443,953	\$ -	\$ -	\$ -	\$ 443,953	
2026	200,000	220,750	420,750	-	465,623	465,623	886,373	
2027	205,000	214,169	419,169	95,000	306,605	401,605	820,774	
2028	215,000	207,344	422,344	105,000	302,195	407,195	829,539	
2029	220,000	200,275	420,275	115,000	297,344	412,344	832,619	20.39%
2030	230,000	192,675	422,675	125,000	292,052	417,052	839,727	
2031	240,000	184,450	424,450	130,000	286,430	416,430	840,880	
2032	250,000	175,875	425,875	140,000	280,476	420,476	846,351	
2033	260,000	166,950	426,950	145,000	274,192	419,192	846,142	
2034	270,000	157,000	427,000	150,000	267,687	417,687	844,687	25.28%
2035	280,000	146,000	426,000	160,000	260,852	420,852	846,852	
2036	290,000	134,600	424,600	170,000	253,575	423,575	848,175	
2037	305,000	122,700	427,700	170,000	246,078	416,078	843,778	
2038	315,000	110,300	425,300	185,000	238,250	423,250	848,550	
2039	330,000	97,400	427,400	190,000	229,982	419,982	847,382	43.57%
2040	340,000	84,000	424,000	200,000	221,382	421,382	845,382	
2041	355,000	70,100	425,100	210,000	212,342	422,342	847,442	
2042	370,000	55,600	425,600	220,000	202,860	422,860	848,460	
2043	385,000	40,500	425,500	225,000	193,048	418,048	843,548	
2044	400,000	24,800	424,800	240,000	182,795	422,795	847,595	66.06%
2045	420,000	8,400	428,400	245,000	172,100	417,100	845,500	
2046	-	-	-	690,000	151,484	841,484	841,484	
2047	-	-	-	720,000	120,393	840,393	840,393	
2048	-	-	-	755,000	87,869	842,869	842,869	
2049	-	-	-	790,000	53,802	843,802	843,802	93.70%
2050	-	-	-	825,000	18,191	843,191	843,191	100.00%
	<u>\$ 6,095,000</u>	<u>\$ 2,842,840</u>	<u>\$ 8,937,840</u>	<u>\$ 7,000,000</u>	<u>\$ 5,617,605</u>	<u>\$ 12,617,605</u>	<u>\$ 21,555,445</u>	

(1) Preliminary, subject to change.

(2) Average life of the issue is 18.198 years. True Interest Cost is calculated at a rate of 4.22% for the purpose of illustration only. Preliminary, subject to change.

**TABLE 8 - AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS**

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued	Unissued Balance
School Building	11/5/2024	\$ 7,000,000	\$ -	\$ 7,000,000 <sup>(1)</sup>	\$ -

(1) The amount of voted authorization for the Bonds represents the principal amount plus any premium that may be deposited to the construction fund. Preliminary, subject to change.

**ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . .** The District does not anticipate the issuance of additional unlimited tax bonds in the next 12 months.

**TABLE 9 - OTHER OBLIGATIONS**

The District, as a lessee, has entered into lease agreements for printing and imaging equipment and a telephone system. The total of the District's lease assets is recorded at a cost of \$171,655, less accumulated amortization of \$86,820. The lease agreements do not include variable payments or residual value guarantees. There were no impairments of the leased assets associated with the lease liabilities and no assets were pledged as collateral for these leases.

The annual debt service requirements for the right-to-use lease payments are payable from the General Fund as follows:

Year Ending	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>August 31,</u>			
2025	\$ 36,521	\$ 2,396	\$ 38,917
2026	31,113	1,277	32,390
2027	15,623	449	16,072
2028	3,250	173	3,423
2029	1,687	25	1,712
Total	<u>\$ 88,194</u>	<u>\$ 4,320</u>	<u>\$ 92,514</u>

**PENSION FUND . . .** Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 8.0%, and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the District's Annual Financial Report".

**RETIREE HEALTH CARE . . .** In addition to its participation in the System, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see Appendix B, "Excerpts from the District's Annual Financial Report".

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

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**FINANCIAL INFORMATION**

**TABLE 10 - CHANGES IN NET POSITION**

	Fiscal Year Ended August 31,				
	2024	2023	2022	2021	2020
<u>Program Revenues:</u>					
Charges for Services	\$ 254,866	\$ 233,883	\$ 120,925	\$ 246,506	\$ 125,473
Operating Grants and Contributions	1,017,862	1,107,063	1,052,292	801,366	1,018,895
<u>General Revenues:</u>					
Property Taxes Levied for General Purposes	1,040,641	1,225,683	1,154,144	1,148,603	1,113,309
Property Taxes Levied for Debt Service	412,052	389,499	348,050	329,435	334,174
Grants and Contributions Not Restricted	5,800,443	5,383,119	5,096,137	5,047,032	4,627,778
Investment Earnings	270,378	71,724	13,245	7,151	12,414
Miscellaneous	14,496	24,259	38,282	20,180	37,022
Total Revenues:	<u>\$ 8,810,738</u>	<u>\$ 8,435,230</u>	<u>\$ 7,823,075</u>	<u>\$ 7,600,273</u>	<u>\$ 7,269,065</u>
<u>Expenditures:</u>					
Instruction	\$ 3,981,494	\$ 3,837,916	\$ 3,565,165	\$ 3,491,593	\$ 3,609,034
Instructional Resource and Media Services	86,946	86,145	83,395	81,474	107,225
Curriculum & Staff Development	15,014	5,741	22,244	18,636	17,217
Instructional Leadership	36,426	38,695	73,237	113,502	115,814
School Leadership	349,796	333,526	236,302	242,917	239,045
Guidance, Counseling and Evaluation Services	191,574	164,193	226,384	291,074	301,437
Health Services	38,070	53,076	66,380	55,771	62,282
Student Transportation	188,465	189,188	124,502	130,077	122,052
Food Services	417,988	367,943	330,257	306,986	296,990
Curricular/Extracurricular Activities	510,825	474,888	492,163	426,733	414,409
General Administration	362,512	358,532	319,160	372,470	307,153
Plant Maintenance and Operations	764,189	661,656	562,789	559,047	593,065
Security and Monitoring Services	93,873	49,844	27,139	19,734	12,597
Data Processing Services	319,267	282,155	250,933	265,618	237,219
Community Services	-	-	-	-	13,264
Interest on Long-Term Debt	235,717	247,738	257,212	264,639	274,463
Bond Issuance Costs and Fees	4,200	4,200	4,190	4,150	4,150
Payments Related to SSA	136,276	92,340	25,857	23,806	23,124
Other Intergovernmental Charges	38,650	40,170	34,159	35,726	34,015
Total Expenditures:	<u>\$ 7,771,282</u>	<u>\$ 7,287,946</u>	<u>\$ 6,701,468</u>	<u>\$ 6,703,953</u>	<u>\$ 6,784,555</u>
Change in Net Position	1,039,456	1,147,284	1,121,607	896,320	484,510
Beginning Net Position	4,608,114	3,460,830	2,137,426	1,474,230	974,839
Prior Period Adjustments	(142,846)	-	201,797	(233,124)	14,881
Ending Net Position	<u>\$ 5,504,724</u>	<u>\$ 4,608,114</u>	<u>\$ 3,460,830</u>	<u>\$ 2,137,426</u>	<u>\$ 1,474,230</u>

**TABLE 10A - SCHEDULE OF GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Year Ended August 31,				
	2024	2023	2022	2021	2020
<b>Revenues:</b>					
Local and Intermediate Sources	\$ 1,381,163	\$ 1,352,660	\$ 1,227,366	\$ 1,285,246	\$ 1,215,234
State Program Revenues	6,007,460	5,512,710	5,194,668	5,108,726	4,713,606
Federal Program Revenues	191	198,297	544	58,502	33,086
Total Revenues:	<u>\$ 7,388,814</u>	<u>\$ 7,063,667</u>	<u>\$ 6,422,578</u>	<u>\$ 6,452,474</u>	<u>\$ 5,961,926</u>
<b>Expenditures:</b>					
Instruction	\$ 3,352,216	\$ 3,148,527	\$ 2,950,730	\$ 2,820,712	\$ 2,873,710
Instructional Resources & Media Services	66,744	63,170	60,197	57,343	89,636
Curriculum & Instructional Staff Development	15,014	5,321	17,049	13,642	13,083
Instructional Leadership	32,582	23,099	36,875	92,317	82,041
School Leadership	304,703	273,472	226,539	201,404	199,940
Guidance, Counseling & Evaluation Services	140,872	106,304	120,141	139,964	160,197
Health Services	34,427	45,363	43,749	47,718	53,015
Student (Pupil) Transportation	303,200	277,313	337,157	115,970	157,457
Food Services	15,870	13,020	10,134	14,139	12,218
Curricular/Extracurricular Activities	464,951	443,575	467,787	391,986	389,093
General Administration	337,634	331,351	302,699	337,319	265,418
Plant Maintenance and Operations	791,445	747,932	850,865	579,181	561,844
Security and Monitoring Services	50,647	30,360	27,066	19,147	12,446
Data Processing Services	294,643	252,656	235,923	233,528	205,173
Community Services	-	-	-	-	12,240
Debt Service	37,203	35,494	20,178	-	-
Capital Outlay	41,500	84,724	-	126,728	141,904
Payment of Fiscal Agent/Member Districts of SSA	136,276	-	-	23,806	23,124
Intergovernmental Charges	38,650	132,510	60,016	35,726	34,015
Total Expenditures:	<u>\$ 6,458,577</u>	<u>\$ 6,014,191</u>	<u>\$ 5,767,105</u>	<u>\$ 5,250,630</u>	<u>\$ 5,286,554</u>
Excess (Deficiency) of Revenues Over Expenditures:	930,237	1,049,476	655,473	1,201,844	675,372
Other Resources and (Uses):	15,117	-	117,066	(69,700)	(63,319)
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses:	<u>945,354</u>	<u>1,049,476</u>	<u>772,539</u>	<u>1,132,144</u>	<u>612,053</u>
Beginning Fund Balance:	5,011,288	3,961,812	3,001,606	2,098,780	1,477,522
Prior Period Adjustments:	(142,846)	-	187,667	(229,318)	9,205
Ending Fund Balance:	<u>\$ 5,813,796</u>	<u>\$ 5,011,288</u>	<u>\$ 3,961,812</u>	<u>\$ 3,001,606</u>	<u>\$ 2,098,780</u>

**FINANCIAL POLICIES**

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

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

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

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

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

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

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

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

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

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

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

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

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

Such amendments are before the fact and are reflected in the official minutes of the Board.

## **INVESTMENTS**

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

**LEGAL INVESTMENTS** . . . Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas 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 unconditionally guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "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 investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (9) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended)(the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office 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) 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 of Texas 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 of Texas that is selected by the District; (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) 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; (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the United States Securities and Exchange Commission that comply with federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.) and that provide the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934; (15) no-load mutual funds registered with the United States Securities and Exchange Commission that have an average weighted maturity of less than two years, and either: (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f) and (g) of Section 2256.011 of the PFIA. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or with a third party selected and approved by the District.

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

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

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

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

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

**TABLE 11 - CURRENT INVESTMENTS <sup>(1)</sup>**

As of December 1, 2025, the District's investable funds were invested in the following categories:

<u>Description of Investment</u>	<u>Percent</u>	<u>Market Value</u>
Cash	44.36%	\$ 2,895,397
Certificates of Deposit	55.64%	3,631,807
Total	<u>100.00%</u>	<u>\$ 6,527,204</u>

(1) 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.

## TAX MATTERS

**OPINION . . .** The delivery of the Bonds is subject to the opinion of Cantu Harden Montoya LLP, San Antonio, Texas, Co-Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The statute, regulations, rulings, and court decisions on which such opinions are based are subject to change. A form of Cantu Harden Montoya LLP's legal opinion appears in APPENDIX C hereto.

d court decisions on which such opinions are based are subject to change. A form of Cantu Harden Montoya LLP's legal opinion appears in APPENDIX C hereto.

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

Except as described above, Cantu Harden Montoya LLP as Co-Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Co-Bond Counsels' opinion are not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Cantu Harden Montoya LLP and Cantu Harden Montoya LLP's legal opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Issuer may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

**ANCILLARY TAX CONSEQUENCES . . .** Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see "Qualified Tax-Exempt Obligations for Financial Institutions" herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a financial asset securitization investment trust ("FASIT"), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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

**TAX ACCOUNTING TREATMENT OF DISCOUNT BONDS . . .** The initial public offering price to be paid for certain bonds may be less than the amount payable on such bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the

constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "Qualified Tax-Exempt Obligations for Financial Institutions" herein), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

**TAX ACCOUNTING TREATMENT OF PREMIUM BONDS . . .** The initial public offering price to be paid for certain bonds may be greater than the stated redemption price on such bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

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

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

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

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

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Bonds" to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the

stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

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

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

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . .** Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District will designate the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations."

## **CONTINUING DISCLOSURE INFORMATION**

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

**ANNUAL REPORTS . . .** The District will provide certain updated financial information and operating data annually to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in Tables 1 through 5 and 7 through 11 and in Appendix B, which is the District's annual audited financial report. The District will update and provide the annual financial information appearing in the numbered tables described in the preceding sentence within six months after the end of each fiscal year ending in and after 2024. The District will additionally provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year ending in or after 2024. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

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

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

**NOTICE OF CERTAIN EVENTS . . .** The District shall provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District (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 any such 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 any such financial obligation of the District, any of which reflect financial difficulties.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District. Additionally, the District intends the words used in clauses (15) and (16) of the preceding paragraph and the definition of "financial obligation" in these clauses to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018. "Financial Obligation" is defined in the Order as a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. Neither the Bonds nor the Order make any provision for debt service reserves, liquidity enhancement or credit enhancement (except with respect to the Permanent School Fund Guarantee). In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

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

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

The District may amend its continuing disclosure agreement 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 the 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 holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, 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.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** During the last five (5) years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

## **OTHER INFORMATION**

### **RATING**

The Bonds have been rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The Bonds and the currently outstanding debt of the District are rated "A1" by Moody's without regard to credit enhancement. The District also has two issues outstanding which are rated "Aaa" by Moody's by virtue of the guarantee of the Permanent School Fund of the State of Texas. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

### **LITIGATION**

The District is not a party to any litigation or other proceeding pending or, to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District. At the time of the initial delivery of the Bonds, the District will provide the Underwriter with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

### **CYBERSECURITY RISK MANAGEMENT**

The District's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the District continually assesses and monitors its cybersecurity risks, the District has been (and may be in the future) subject to cyber-attacks from time to time. In response to such assessments and monitoring, the District takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, and taking other similar measures. To date, the District has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the District will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the District's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the District's operations and/or financial condition.

### **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 other 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 Underwriter 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 Underwriter's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

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

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION -- Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

## **LEGAL MATTERS**

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Co-Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District. Co-Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Co-Bond Counsel, such firm has reviewed the information under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System," "DTC Notices," "Bondholders' Remedies," and "Sources and Uses of Proceeds"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS – M&O TAX RATE LIMITATIONS (first paragraph only)," "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaptions "Availability of Information" and "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" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal fee to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Co-Bond Counsels' legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriter by their counsel, Norton Rose Fulbright US LLP, Austin, Texas, whose legal fees are contingent upon the sale and delivery of the Bonds.

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

## **FINANCIAL ADVISOR**

Hilltop Securities Inc. ("HilltopSecurities") 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. HilltopSecurities, 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 Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of \$ \_\_\_\_\_. The Underwriter 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 Underwriter 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 Underwriter.

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

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for its own account and for the accounts of its customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the District.

The Underwriter and its affiliates also may communicate independent investment recommendations, market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial 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 orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such statutes, documents and orders for further information. Reference is made to original documents in all respects.

In the Order, the Board will (i) approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) authorize its use in the reoffering of the Bonds by the Underwriter.

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President, Board of Trustees  
Miles Independent School District

ATTEST:

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Secretary, Board of Trustees  
Miles Independent School District

**APPENDIX A**

GENERAL INFORMATION REGARDING THE DISTRICT

**THE DISTRICT**

The Miles Independent School District is located in Runnels and Tom Green Counties and covers an area of approximately of 141.27 square miles. The District includes the City of Miles, a retail center located approximately 15 miles northeast of San Angelo. The region's economy is based on agriculture, manufacturing and mineral production.

**HISTORICAL DISTRICT ENROLLMENT**

<u>FYE</u> <u>8/31</u>	<u>Total</u> <u>Enrollment</u>	<u>Average Daily</u> <u>Attendance</u>
2021	469	459
2022	487	482
2023	517	502
2024	497	473
2025	492	465

Source: The District.

**CAMPUS INFORMATION**

<u>Campus</u>	<u>Number</u> <u>of Schools</u>	<u>Capacity</u>	<u>Number of</u> <u>Portables</u>
Elementary	1	268	0
Junior High Schools	1	75	0
High Schools	1	141	0
Totals	<u>3</u>	<u>484</u>	<u>0</u>

Source: The District.

**SCHOOL AND EMPLOYEE INFORMATION**

<u>Miles Independent School District</u>	
Number of teachers holding masters degrees	9
Number of teachers holding bachelors degrees	36
Employee Information	
Number of Employees	80
Number of Teachers	45
Pupil/Teacher ratios:	11.3/1

Source: The District.

**HISTORICAL EMPLOYMENT DATA (ANNUAL AVERAGE DATA)**

	Annual Averages				
	2024 <sup>(1)</sup>	2023	2022	2021	2020
<b>Runnels County</b>					
Civilian Labor Force	4,718	4,677	4,680	4,674	4,519
Total Employment	4,548	4,494	4,523	4,481	4,296
Unemployment	170	183	157	193	223
Percent Unemployment	3.6%	3.9%	3.4%	4.1%	4.9%
<b>Tom Green County</b>					
Civilian Labor Force	57,883	56,492	55,626	54,828	53,580
Total Employment	55,855	54,515	53,694	52,169	50,179
Unemployment	2,028	1,977	1,932	2,659	3,401
Percent Unemployment	3.5%	3.5%	3.5%	4.8%	6.3%
<b>State of Texas</b>					
Civilian Labor Force	15,449,889	15,067,153	14,672,312	14,292,315	13,941,490
Total Employment	14,819,754	14,472,524	14,093,906	13,486,624	12,872,070
Unemployment	630,135	594,629	578,406	805,691	1,069,420
Percent Unemployment	4.1%	3.9%	3.9%	5.6%	7.7%

(1) Source: Texas Workforce Commission, as of September 2024.

**APPENDIX B**

EXCERPTS FROM THE  
MILES INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2024

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



A Limited Liability Partnership

Michael E. Oliphant, CPA  
Wayne Barr, CPA  
Cathryn A. Pitcock, CPA  
Megan Solsbery, CPA

(325) 944-3571  
FAX: (325) 942-1093  
www.eckertcpa.com

Members of  
American Institute of CPAs  
Texas Society of CPAs

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Miles Independent School District  
P.O. Box 308  
Miles, TX 76861-0308

### Report on the Audit of the Financial Statements

#### *Opinions*

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

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

#### *Basis for Opinions*

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Miles 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.

#### *Emphasis of Matter*

The District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections—an amendment of GASB Statement No. 62*, described in Note I., M. to the financial statements. Our opinion is not modified with respect to this matter.

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America 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 auditing standards generally accepted in the United States of America 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 Miles Independent School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Miles Independent School District's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension liability and contributions information and net OPEB liability and contributions information for the Teacher Retirement System of Texas be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Miles Independent School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

***Eckert & Company, LLP***

November 18, 2024





# Miles I. S. D.

P. O. Box 308 Miles, Texas 76861 325-468-2861 Fax 325-468-2179

**Ty Stevens**  
Superintendent

**Wayland  
Cooksey**  
JH/HS Principal

**Curt  
McKneely**  
Elem Principal

**Jayson  
Wilhelm**  
Athletic Director

## Board Members

**Roger Kalina**  
Board President

**Danelle  
Schwertner**  
Vice President

**Carol Granzin**  
Secretary

**Bill Book**

**Misti Dunlap**

**Mark  
Sklendarik**

**Micah  
Tuxhorn**

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Miles Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2024. It should be read in conjunction with the District's basic financial statements and independent auditor's report.

### Financial Highlights

The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of the current year by \$5,504,724 (net position). Of this amount, \$2,811,346 (unrestricted) may be used to meet the District's ongoing obligations.

The District's total net position increased by \$896,610 or 19%. This amount consists of a \$1,039,456 increase attributable to current year operations and a \$142,846 decrease attributable to prior period adjustments described in Note IV., K. to the financial statements. The District's statement of activities shows total revenues of \$8,810,738 and total expenses of \$7,771,282.

The total fund balance of the General Fund is \$5,813,796 which is an increase of \$802,508 or 16% compared to the prior year.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-Wide Financial Statements** - The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the District's assets/deferred outflows of resources and liabilities/deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Overview of the Financial Statements - Continued

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District.

The District has no component units.

**Fund Financial Statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

**Governmental Funds** - Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the current year.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Child Nutrition Fund, both of which are considered to be major funds. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund, Child Nutrition Program, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

**Fiduciary Funds** - Fiduciary Funds account for assets held by the District in a trustee capacity or resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those Funds are not available to support the District's own programs.

**Notes to the Financial Statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued**

**Government-Wide Financial Analysis**

**Net Position** - A summary of the District’s net position is presented below:

NET POSITION

	Governmental Activities	
	August 31,	
	2024	2023
Current and Other Assets	\$ 6,765,909	\$ 5,932,506
Capital Assets	8,513,493	8,721,241
Total Assets	\$ 15,279,402	\$ 14,653,747
Deferred Outflows of Resources	\$ 1,634,414	\$ 1,901,162
Long-Term Liabilities Outstanding	\$ 9,013,333	\$ 9,350,913
Other Liabilities	352,993	337,571
Total Liabilities	\$ 9,366,326	\$ 9,688,484
Deferred Inflows of Resources	\$ 2,042,766	\$ 2,258,311
Net Position		
Net Investment in Capital Assets	\$ 2,153,878	\$ 2,055,680
Restricted	539,500	522,531
Unrestricted	2,811,346	2,029,903
Total Net Position	\$ 5,504,724	\$ 4,608,114

A large portion of the District's net position (\$2,153,878) reflects the District's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District’s net position (\$539,500) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$2,811,346) may be used to meet the District’s ongoing obligations.

**MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued**

**Government-Wide Financial Analysis - Continued**

**Governmental Activities** - Governmental activities increased the District's net position by \$1,039,456 and \$1,147,284 for the fiscal years ended August 31, 2024 and 2023, respectively. Key elements of these increases are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended August 31,	
	2024	2023
Revenues		
Program Revenues		
Charges for Services	\$ 254,866	\$ 233,883
Operating Grants and Contributions	1,017,862	1,107,063
General Revenues		
Maintenance and Operations Taxes	1,040,641	1,225,683
Debt Service Taxes	412,052	389,499
State Aid - Formula Grants	5,800,443	5,383,119
Investment Earnings	270,378	71,724
Other	14,496	24,259
Total Revenues	\$ 8,810,738	\$ 8,435,230
Expenses		
Instruction and Instructional-Related Services	\$ 4,083,454	\$ 3,929,802
Instructional and School Leadership	386,222	372,221
Support Services - Student (Pupil)	1,346,922	1,249,288
Administrative Support Services	362,512	358,532
Support Services - Nonstudent Based	1,177,329	993,655
Debt Service	239,917	251,938
Intergovernmental Charges	174,926	132,510
Total Expenses	\$ 7,771,282	\$ 7,287,946
Change in Net Position	\$ 1,039,456	\$ 1,147,284
Net Position - Beginning	4,608,114	3,460,830
Prior Period Adjustments	(142,846)	0
Net Position - Ending	\$ 5,504,724	\$ 4,608,114

## MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

### Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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

The District's governmental funds reported combined ending fund balances of \$6,395,212, an increase of \$814,757 or 15% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$5,813,796. Of this balance \$216,270 is committed for future equipment purchases.

Special Revenue Funds \$39,495. This balance is committed for use by the Campus Activity Fund.

Child Nutrition \$88,081. This balance is restricted for use in the Food Service Fund.

Debt Service Fund \$453,840. This balance is restricted for payment of long-term debt principal and interest.

### General Fund Budget

The original budget for the General Fund was \$6,902,701, and the final amended budget was \$6,899,201 which represents a \$3,500 decrease in appropriations. Variances between the original budget and the final amended budget are reflected in Exhibit E-1 in the required supplementary information section of the audit report.

The District has adopted a budget for the General Fund in the amount of \$7,069,371 for the fiscal year 2025, which is an increase of \$170,170 from the fiscal year 2024.

### Capital Assets and Debt

**Capital Assets** - Financial statement footnote III., C. discloses the District's capital asset activity for the year ended August 31, 2024.

**Long-Term Debt** - Financial statement footnote III., F. discloses the District's debt activity for the year ended August 31, 2024.

### Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Ty Stevens, Superintendent, Miles Independent School District, P.O. Box 308, Miles, TX 76861-0308.

Basic Financial Statements

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 6,636,085
1220 Property Taxes - Delinquent	33,889
1230 Allowance for Uncollectible Taxes	(6,620)
1240 Due from Other Governments	82,939
1250 Accrued Interest	19,616
Capital Assets:	
1510 Land	42,340
1520 Buildings, Net	7,718,951
1530 Furniture and Equipment, Net	667,367
1550 Right-to-Use Leased Assets, Net	84,835
1000 Total Assets	15,279,402
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1701 Deferred Loss on Refunding	769
1705 Deferred Outflow Related to TRS Pension	857,774
1706 Deferred Outflow Related to TRS OPEB	775,871
1700 Total Deferred Outflows of Resources	1,634,414
<b>LIABILITIES</b>	
2110 Accounts Payable	25,349
2140 Interest Payable	9,565
2160 Accrued Wages Payable	229,290
2200 Accrued Expenses	16,627
2300 Unearned Revenue	72,162
Noncurrent Liabilities:	
2501 Due Within One Year: Bonds and Leases	251,521
Due in More than One Year:	
2502 Bonds and Leases	6,108,863
2540 Net Pension Liability (District's Share)	1,786,302
2545 Net OPEB Liability (District's Share)	866,647
2000 Total Liabilities	9,366,326
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS Pension	210,546
2606 Deferred Inflow Related to TRS OPEB	1,832,220
2600 Total Deferred Inflows of Resources	2,042,766
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	2,153,878
Restricted:	
3820 Restricted for Federal and State Programs	88,081
3850 Restricted for Debt Service	451,419
3900 Unrestricted	2,811,346
3000 Total Net Position	\$ 5,504,724

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

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

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Position
			Contributions	Primary Gov.
				Governmental
				Activities
<b>Primary Government:</b>				
GOVERNMENTAL ACTIVITIES:				
11	\$ 3,981,494	\$ 86,648	\$ 414,153	\$ (3,480,693)
12	86,946	-	3,321	(83,625)
13	15,014	-	-	(15,014)
21	36,426	-	598	(35,828)
23	349,796	-	16,354	(333,442)
31	191,574	-	39,684	(151,890)
33	38,070	-	1,982	(36,088)
34	188,465	-	5,379	(183,086)
35	417,988	135,396	340,192	57,600
36	510,825	27,322	10,795	(472,708)
41	362,512	-	8,365	(354,147)
51	764,189	5,500	10,851	(747,838)
52	93,873	-	42,891	(50,982)
53	319,267	-	11,499	(307,768)
72	235,717	-	-	(235,717)
73	4,200	-	-	(4,200)
81	-	-	111,798	111,798
93	136,276	-	-	(136,276)
99	38,650	-	-	(38,650)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 7,771,282	\$ 254,866	\$ 1,017,862	(6,498,554)
Data				
Control	General Revenues:			
Codes	Taxes:			
MT	Property Taxes, Levied for General Purposes			1,040,641
DT	Property Taxes, Levied for Debt Service			412,052
SF	State Aid - Formula Grants			5,800,443
IE	Investment Earnings			270,378
MI	Miscellaneous Local and Intermediate Revenue			14,496
TR	Total General Revenues			7,538,010
CN	Change in Net Position			1,039,456
NB	Net Position - Beginning			4,608,114
PA	Prior Period Adjustments			(142,846)
NE	Net Position - Ending			\$ 5,504,724

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



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

Data Control Codes	10 General Fund	20 Child Nutrition	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 6,054,191	\$ 109,928	\$ 471,966	\$ 6,636,085
1220 Property Taxes - Delinquent	25,011	-	8,878	33,889
1230 Allowance for Uncollectible Taxes	(4,886)	-	(1,734)	(6,620)
1240 Due from Other Governments	129	18,807	64,003	82,939
1250 Accrued Interest	19,616	-	-	19,616
1000 Total Assets	<u>\$ 6,094,061</u>	<u>\$ 128,735</u>	<u>\$ 543,113</u>	<u>\$ 6,765,909</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 20,349	\$ 4,636	\$ 364	\$ 25,349
2160 Accrued Wages Payable	204,711	11,371	13,208	229,290
2200 Accrued Expenditures	14,834	249	1,544	16,627
2300 Unearned Revenue	20,246	24,398	27,518	72,162
2000 Total Liabilities	<u>260,140</u>	<u>40,654</u>	<u>42,634</u>	<u>343,428</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	20,125	-	7,144	27,269
2600 Total Deferred Inflows of Resources	<u>20,125</u>	<u>-</u>	<u>7,144</u>	<u>27,269</u>
<b>FUND BALANCES</b>				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	88,081	-	88,081
3480 Retirement of Long-Term Debt	-	-	453,840	453,840
Committed Fund Balance:				
3530 Capital Expenditures for Equipment	216,270	-	-	216,270
3545 Other Committed Fund Balance	-	-	39,495	39,495
3600 Unassigned Fund Balance	5,597,526	-	-	5,597,526
3000 Total Fund Balances	<u>5,813,796</u>	<u>88,081</u>	<u>493,335</u>	<u>6,395,212</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 6,094,061</u>	<u>\$ 128,735</u>	<u>\$ 543,113</u>	<u>\$ 6,765,909</u>

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

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

EXHIBIT C-2

<b>Total Fund Balances - Governmental Funds</b>	\$	6,395,212
1 Capital assets net of accumulated depreciation and amortization used in governmental activities are not reported in governmental funds.		8,513,493
2 Deferred loss on refunding is not reported in governmental funds.		769
3 Deferred outflows of resources related to pensions are not reported in governmental funds.		857,774
4 Deferred outflows of resources related to other postemployment benefits are not reported in governmental funds.		775,871
5 Accrued interest payable on long-term debt is not reported in governmental funds.		(9,565)
6 Long-term debt, including unamortized premiums, is not reported in governmental funds.		(6,360,384)
7 Recognition of the District's proportionate share of the net pension liability is not reported in governmental funds.		(1,786,302)
8 Recognition of the District's proportionate share of the net other postemployment benefit liability is not reported in governmental funds.		(866,647)
9 Deferred inflows of resources related to pensions are not reported in governmental funds.		(210,546)
10 Deferred inflows of resources related to other postemployment benefits are not reported in governmental funds.		(1,832,220)
11 Property taxes unavailable to pay for current period expenditures are deferred in governmental funds.		27,269
<b>29 Net Position of Governmental Activities</b>	<b>\$</b>	<b>5,504,724</b>

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

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

Data Control Codes	10 General Fund	20 Child Nutrition	Prior Year Debt Service Fund
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 1,381,163	\$ 135,396	\$ -
5800 State Program Revenues	6,007,460	1,501	-
5900 Federal Program Revenues	191	331,848	-
5020 Total Revenues	<u>7,388,814</u>	<u>468,745</u>	<u>-</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	3,352,216	-	-
0012 Instructional Resources and Media Services	66,744	-	-
0013 Curriculum and Instructional Staff Development	15,014	-	-
0021 Instructional Leadership	32,582	-	-
0023 School Leadership	304,703	-	-
0031 Guidance, Counseling, and Evaluation Services	140,872	-	-
0033 Health Services	34,427	-	-
0034 Student (Pupil) Transportation	303,200	-	-
0035 Food Services	15,870	476,531	-
0036 Extracurricular Activities	464,951	-	-
0041 General Administration	337,634	-	-
0051 Facilities Maintenance and Operations	791,445	-	-
0052 Security and Monitoring Services	50,647	-	-
0053 Data Processing Services	294,643	-	-
Debt Service:			
0071 Principal on Long-Term Liabilities	34,075	-	-
0072 Interest on Long-Term Liabilities	3,128	-	-
0073 Bond Issuance Cost and Fees	-	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	41,500	-	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	136,276	-	-
0099 Other Intergovernmental Charges	38,650	-	-
6030 Total Expenditures	<u>6,458,577</u>	<u>476,531</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	930,237	(7,786)	-
<b>OTHER FINANCING SOURCES (USES):</b>			
7913 Right-to-Use Lease Proceeds	15,117	-	-
1200 Net Change in Fund Balances	945,354	(7,786)	-
0100 Fund Balance - September 1 (Beginning)	5,011,288	-	430,989
1300 Adjustments to Beginning Fund Balance	(142,846)	95,867	(430,989)
3000 Fund Balance - August 31 (Ending)	<u>\$ 5,813,796</u>	<u>\$ 88,081</u>	<u>\$ -</u>

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

	Other Funds	Total Governmental Funds
\$	473,101	\$ 1,989,660
	368,775	6,377,736
	195,062	527,101
	1,036,938	8,894,497
	260,218	3,612,434
	13,563	80,307
	-	15,014
	-	32,582
	9,432	314,135
	32,237	173,109
	-	34,427
	278	303,478
	-	492,401
	22,550	487,501
	-	337,634
	-	791,445
	42,599	93,246
	-	294,643
	280,000	314,075
	240,028	243,156
	4,200	4,200
	111,798	153,298
	-	136,276
	-	38,650
	1,016,903	7,952,011
	20,035	942,486
	-	15,117
	20,035	957,603
	138,178	5,580,455
	335,122	(142,846)
\$	493,335	\$ 6,395,212

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

EXHIBIT C-4

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	957,603
Capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements.		435,814
Depreciation and amortization are not recognized as expenses in governmental funds since they do not require the use of current financial resources.		(643,562)
Right-to-use lease proceeds are shown as other resources in governmental funds but are shown as an increase in long-term debt in the government-wide financial statements.		(15,117)
Long-term debt principal payments are expenditures in governmental funds but are shown as reductions in long-term debt in the government-wide financial statements.		314,075
Interest is accrued on outstanding long-term debt in the government-wide financial statements but is reported as an expenditure in governmental funds when due.		451
Deferral on refunding associated with bonds payable is reported net of amortization in the government-wide financial statements.		(1,673)
Amortization of bond premium is not recorded in the governmental funds but is shown as a reduction in long-term debt in the government-wide financial statements.		8,661
Changes in the net pension liability and related deferred outflows and inflows are recognized in the government-wide financial statements but are not reported in governmental funds.		(227,518)
Changes in the net other postemployment benefit liability and related deferred outflows and inflows are recognized in the government-wide financial statements but are not reported in governmental funds.		207,949
Revenues from property taxes are deferred in governmental funds until they are considered available to finance current expenditures. In the government-wide financial statements, revenues are recognized when assessed, net of an allowance for uncollectible taxes.		2,773
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>1,039,456</b>

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

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

	Custodial Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 60,288
Total Assets	<u>60,288</u>
LIABILITIES	
Accounts Payable	<u>628</u>
Total Liabilities	<u>628</u>
NET POSITION	
Restricted for Student Organizations	<u>59,660</u>
Total Net Position	<u><u>\$ 59,660</u></u>

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

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

	Custodial Fund
<b>ADDITIONS:</b>	
Revenue - Student Organizations	\$ 71,964
Earnings from Temporary Deposits	1,537
Total Additions	73,501
<b>DEDUCTIONS:</b>	
Student Organizations	68,228
Total Deductions	68,228
Change in Fiduciary Net Position	5,273
Total Net Position - September 1 (Beginning)	54,387
Total Net Position - August 31 (Ending)	\$ 59,660

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

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements  
August 31, 2024

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Miles Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District complies with the requirements of the Texas Education Agency's *Financial Accountability System Resource Guide* (the *Resource Guide*) and the requirements of contracts and grants of agencies from which it receives funds.

**A. Reporting Entity**

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Miles Independent School District (the primary government). There are no component units included within the reporting entity.

**B. Government-Wide and Fund Financial Statements**

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions - payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net position.

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

**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, as are the fiduciary fund financial statements. Revenues are recognized when they are earned and become measurable, and expenses are recognized when they become measurable and a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected



MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as unearned revenue until related and authorized expenditures have been made.

The government reports the following major governmental fund:

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

The Child Nutrition Program accounts for the revenues, including federal, state, and local, and expenditures of the Food Service Fund.

Additionally, the government reports the following fund types:

Debt Service Fund - This Fund accounts for the resources accumulated and payments made for principal and interest on long-term debt of governmental funds.

Special Revenue Funds - These Funds account for resources restricted to, or committed 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.

Fiduciary Funds account for assets held by the District in a trustee capacity or resources held for the benefit of parties outside the government. Fiduciary Funds are not reflected in the government-wide financial statements because the resources of those Funds are not available to support the District's own programs.

The District has the following Fiduciary Funds:

Custodial Fund - This Fund reports resources that are held by the District for other parties. This Fund is used to account for the District's student activity funds.

**D. Interfund Receivables and Payables**

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

**E. Receivables and Payables**

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**E. Receivables and Payables - Continued**

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year.

**F. Capital Assets**

Capital assets are reported in the government-wide 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Capital assets are depreciated or amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-40
Vehicles	5-10
Furniture and Equipment	5-10
Right-to-Use Equipment	3-5

**G. Long-Term Obligations**

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

In the fund financial statements, 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.

**H. Pensions**

In accordance with accounting guidance prescribed by GASB Statement No. 68, 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.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**I. Other Postemployment Benefits (OPEB)**

In accordance with accounting guidance prescribed by GASB Statement No. 75, 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 postemployment 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.

**J. Compensated Absences**

The District's policy does not permit employees to accumulate unused vacation and sick leave to be paid to the employees upon separation from service.

**K. Net Position on the Statement of Net Position**

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, which is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Federal and State Programs - This component of net position represents the balance of the Child Nutrition Program.

Restricted for Debt Service - This component of net position represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Unrestricted - This is the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources that is not reported as Net Investment in Capital Assets, Restricted for Federal and State Programs, or Restricted for Debt Service.

**L. Fund Balances/Equity**

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**L. Fund Balances/Equity - Continued**

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

Restricted net position for Fiduciary Funds represents custodial funds held by the District in a custodial capacity for student organizations.

**M. Implementation of New Accounting Standard**

The District implemented the provisions of GASB Statement No. 100, *Accounting Changes and Error Corrections-an amendment of GASB Statement No. 62*. This Statement establishes accounting and financial reporting requirements for (a) accounting changes and (b) the correction of an error in previously issued financial statements (error correction).

**N. Property Tax Revenues**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles are based upon historical experience. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**O. Interfund Transfers**

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

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

**A. Budget**

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

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

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - Continued**

**A. Budget - Continued**

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

**III. DETAIL NOTES ON ALL ACTIVITIES AND 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. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market saving accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

**Custodial Credit Risk - Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

**Concentration of Credit Risk:** The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. The District is not exposed to this risk as described in the preceding paragraph.

**Credit Risk:** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At August 31, 2024, the District was not significantly exposed to credit risk.

**Interest Rate Risk:** Not applicable

**Foreign Currency Risk:** Not applicable

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**B. Due from Other Governments**

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

	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
General Fund	\$ 0	\$ 0	\$ 129	\$ 129
Special Revenue Funds	8,581	74,153	0	82,734
Debt Service Fund	<u>0</u>	<u>0</u>	<u>76</u>	<u>76</u>
Totals	<u>\$ 8,581</u>	<u>\$ 74,153</u>	<u>\$ 205</u>	<u>\$ 82,939</u>

**C. Capital Assets**

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
<b>Capital Assets</b>					
Land	\$ 42,340	\$ 0	\$ 0	\$ 0	\$ 42,340
Buildings and Improvements	15,238,764	153,298	0	0	15,392,062
Furniture and Equipment	<u>1,572,555</u>	<u>267,399</u>	<u>111,591</u>	<u>0</u>	<u>1,728,363</u>
Total Capital Assets	<u>\$ 16,853,659</u>	<u>\$ 420,697</u>	<u>\$ 111,591</u>	<u>\$ 0</u>	<u>\$ 17,162,765</u>
<b>Less Accumulated Depreciation</b>					
Buildings and Improvements	\$ (7,162,364)	\$ (510,747)	\$ 0	\$ 0	\$ (7,673,111)
Furniture and Equipment	<u>(1,072,843)</u>	<u>(99,744)</u>	<u>(111,591)</u>	<u>0</u>	<u>(1,060,996)</u>
Total Accumulated Depreciation	<u>\$ (8,235,207)</u>	<u>\$ (610,491)</u>	<u>\$ (111,591)</u>	<u>\$ 0</u>	<u>\$ (8,734,107)</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 8,618,452</u>	<u>\$ (189,794)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,428,658</u>
<b>Lease Assets</b>					
Furniture and Equipment	\$ 156,538	\$ 15,117	\$ 0	\$ 0	\$ 171,655
<b>Less Accumulated Amortization</b>					
Furniture and Equipment	<u>(53,749)</u>	<u>(33,071)</u>	<u>0</u>	<u>0</u>	<u>(86,820)</u>
Total Lease Assets Being Amortized, Net	<u>\$ 102,789</u>	<u>\$ (17,954)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 84,835</u>
Governmental Activities Capital Assets, Net	<u>\$ 8,721,241</u>	<u>\$ (207,748)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 8,513,493</u>

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**C. Capital Assets - Continued**

Depreciation expense was charged to governmental activities functions as follows:

Instruction	\$ 402,293
Instructional Resources and Media Services	7,705
Instructional Leadership	4,041
School Leadership	36,926
Guidance, Counseling, and Evaluation Services	20,427
Health Services	4,176
Student (Pupil) Transportation	11,548
Food Services	18,721
Extracurricular Activities	26,423
General Administration	25,276
Facilities Maintenance and Operations	25,756
Security and Monitoring Services	718
Data Processing Services	<u>26,481</u>
Total	<u>\$ 610,491</u>

Amortization expense was charged to governmental activities functions as follows:

Instruction	\$ 26,102
School Leadership	2,396
Food Services	1,215
General Administration	1,640
Data Processing Services	<u>1,718</u>
Total	<u>\$ 33,071</u>

**D. Deferred Outflows and Inflows of Resources**

A deferred outflow of resources is a consumption of a government's net position (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.

A deferred inflow of resources is an acquisition of a government's net position (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.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**D. Deferred Outflows and Inflows of Resources - Continued**

Deferred outflows and inflows of resources are reported as described below:

Deferred Outflows (Statement of Net Position)

Deferred loss on bond refunding, which is amortized over the life of the refunding bonds.

District's proportionate share of Teacher Retirement System of Texas (TRS) pension plan deferred outflows as detailed in financial statement footnote IV., A.

District's proportionate share of Teacher Retirement System of Texas (TRS) OPEB plan deferred outflows as detailed in financial statement footnote IV., B.

Deferred Inflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) pension plan deferred inflows as detailed in financial statement footnote IV., A.

District's proportionate share of Teacher Retirement System of Texas (TRS) OPEB plan deferred inflows as detailed in financial statement footnote IV., B.

Deferred Inflows (Balance Sheet - Governmental Funds)

Unavailable revenue - property taxes.

**E. Unearned Revenue**

Unearned revenue at year end consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
State Entitlements	\$ 20,246	\$ 7,721	\$ 19,797	\$ 47,764
Federal Grants	0	24,398	0	24,398
Totals	\$ 20,246	\$ 32,119	\$ 19,797	\$ 72,162



MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**F. Long-Term Debt**

The District's long-term liabilities consist of bonded indebtedness, bond premium, right-to-use leases, net pension liability, and net other postemployment benefits liability. The current requirements for general obligation bonds principal and interest are accounted for in the Debt Service Fund. The current requirements for right-to-use leases principal and interest are accounted for in the General Fund. The current requirements for the net pension liability and net other postemployment benefits liability are accounted for in the General and Special Revenue Funds.

The following is a summary of changes in long-term debt for the year ended August 31, 2024:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<u>Governmental Activities</u>					
General Obligation Bonds - Series 2010	\$ 200,000	\$ 0	\$ 135,000	\$ 65,000	\$ 65,000
General Obligation Bonds - Series 2015	6,175,000	0	145,000	6,030,000	150,000
Bond Premium	185,851	0	8,661	177,190	-
Right-to-Use Leases	107,152	15,117	34,075	88,194	36,521
Subtotals	\$ 6,668,003	\$ 15,117	\$ 322,736	\$ 6,360,384	\$ 251,521
Net Pension Liability	1,671,645	353,561	238,904	1,786,302	-
Net OPEB Liability	1,011,265	72,978	217,596	866,647	-
Totals	<u>\$ 9,350,913</u>	<u>\$ 441,656</u>	<u>\$ 779,236</u>	<u>\$ 9,013,333</u>	<u>\$ 251,521</u>

The District's outstanding bond issues, which are payable from the Debt Service Fund, are as follows:

Series	General Obligation Bonds Description	Interest Rate	Maturity Date	Original Amount Issued	Amount Outstanding August 31, 2024
2010	Unlimited Tax School Refunding Bonds	1.45%-3.7%	2025	\$ 1,135,000	\$ 65,000
2015	Unlimited Tax School Building Bonds	3.25%-5.0%	2045	7,000,000	6,030,000
Total Bonds Payable				<u>\$ 8,135,000</u>	<u>\$ 6,095,000</u>

During each year while bonds are outstanding, the District is required to levy and collect sufficient ad valorem taxes to provide for the payment of principal and interest as it becomes due. In the event of default by the District in the payment of the bonds, registered owners will receive all payments due on the bonds from the corpus of the Permanent School Fund.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

F. Long-Term Debt - Continued

The combined annual debt service requirements are as follows:

Year Ending August 31,	General Obligation Bonds		Total
	Principal	Interest	
2025	\$ 215,000	\$ 229,600	\$ 444,600
2026	200,000	220,750	420,750
2027	205,000	214,169	419,169
2028	215,000	207,344	422,344
2029	220,000	200,275	420,275
2030-2034	1,250,000	876,950	2,126,950
2035-2039	1,520,000	611,000	2,131,000
2040-2044	1,850,000	275,000	2,125,000
2045	420,000	8,400	428,400
Totals	<u>\$ 6,095,000</u>	<u>\$ 2,843,488</u>	<u>\$ 8,938,488</u>

The District, as a lessee, has entered into lease agreements for printing and imaging equipment and a telephone system. The total of the District's lease assets is recorded at a cost of \$171,655, less accumulated amortization of \$86,820. The lease agreements do not include variable payments or residual value guarantees. There were no impairments of the leased assets associated with the lease liabilities and no assets were pledged as collateral for these leases.

Right-to-Use Leases Description	Interest Rate	Begin Date	Maturity Date	Original Liability	Amount Outstanding August 31, 2024
Printing and Imaging Equipment	3%	2021	2026	\$ 44,472	\$ 15,502
Printing and Imaging Equipment	3%	2022	2026	28,426	13,762
Printing and Imaging Equipment	5%	2024	2029	15,117	13,769
Telephone System	3%	2022	2027	83,640	45,161
Total Right-to-Use Leases Payable				<u>\$ 171,655</u>	<u>\$ 88,194</u>

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued**

**F. Long-Term Debt - Continued**

The annual debt service requirements for the right-to-use lease payments are payable from the General Fund as follows:

Year Ending August 31,	Right-to-Use Leases		
	Principal	Interest	Total
2025	\$ 36,521	\$ 2,396	\$ 38,917
2026	31,113	1,277	32,390
2027	15,623	449	16,072
2028	3,250	173	3,423
2029	1,687	25	1,712
Totals	<u>\$ 88,194</u>	<u>\$ 4,320</u>	<u>\$ 92,514</u>

**G. Outstanding Encumbrances**

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

**H. Revenues from Local and Intermediate Sources**

Local and intermediate source revenues consists of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	\$ 1,049,862	\$ 0	\$ 414,554	\$ 1,464,416
Other Local Sources	262,632	39,934	18,613	321,179
Cocurricular, Enterprising Services, or Activities	27,322	135,396	0	162,718
Intermediate Sources	41,347	0	0	41,347
Totals	<u>\$ 1,381,163</u>	<u>\$ 175,330</u>	<u>\$ 433,167</u>	<u>\$ 1,989,660</u>

**I. General Fund Federal Source Revenues**

<u>Program or Source</u>	<u>Federal Assistance Listing Number</u>	<u>Amount</u>
School Health and Related Services (SHARS)	--	<u>\$ 191</u>

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

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

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

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

**Pension Plan Fiduciary Net Position** - Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [http://www.trs.texas.gov/pages/about\\_publication.aspx](http://www.trs.texas.gov/pages/about_publication.aspx); by writing to TRS at 1000 Red River Street, Austin, Texas 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% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered under a previous rule. There are no automatic postemployment benefit changes; including automatic COLAs. Ad hoc postemployment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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

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

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

Employee contribution rates are set in state statute, Texas Government Code Section 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.

The following table shows contribution rates by type of contributor for the fiscal years 2023 and 2024:

Contribution Rates		
	<u>2023</u>	<u>2024</u>
Member	8.00%	8.25%
Non-Employer Contributing Entity (State)	8.00%	8.25%
Employers	8.00%	8.25%
District's 2024 Employer Contributions		\$ 124,713
District's 2024 Member Contributions		326,496
District's 2023 NECE On-Behalf Contributions		226,964

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

As the non-employer contributing entity for public education, 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 schools, junior colleges, other entities, or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

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

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

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Actuarial Assumptions -**

The total pension liability in the August 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2022 Rolled Forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-Term Expected Rate	7.00%
Municipal Bond Rate as of August 2023	4.13% The source for the rate is the Fixed Income Market Data/ Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Last Year Ending August 31 in Projection Period (100 Years)	2122
Inflation	2.30%
Salary Increases	2.95% to 8.95% Including Inflation
Ad hoc Postemployment Benefit Changes	None

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

**Discount Rate** - A single discount rate of 7% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on pension plan investments of 7%. 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% 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.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

The long-term expected rate of return on pension plan investments is 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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 presented in the following Asset Allocations table:

<u>Asset Class<sup>1</sup></u>	<u>Target Allocation<sup>2</sup> %</u>	<u>Long-Term Expected Geometric Real Rate of Return<sup>3</sup></u>	<u>Expected Contribution to Long-Term Portfolio Returns</u>
Global Equity			
USA	18.0%	4.0%	1.0%
Non-U.S. Developed	13.0%	4.5%	0.9%
Emerging Markets	9.0%	4.8%	0.7%
Private Equity	14.0%	7.0%	1.5%
Stable Value			
Government Bonds	16.0%	2.5%	0.5%
Absolute Return	0.0%	3.6%	0.0%
Stable Value Hedge Funds	5.0%	4.1%	0.2%
Real Return			
Real Estate	15.0%	4.9%	1.1%
Energy, Natural Resources, and Infrastructure	6.0%	4.8%	0.4%
Commodities	0.0%	4.4%	0.0%
Risk Parity	8.0%	4.5%	0.4%
Asset Allocation Leverage			
Cash	2.0%	3.7%	0.0%
Asset Allocation Leverage	-6.0%	4.4%	-0.1%
Inflation Expectation			2.3%
Volatility Drag <sup>4</sup>			-0.9%
Expected Return	100.0%		8.0%

<sup>1</sup> Absolute Return includes Credit Sensitive Investments.

<sup>2</sup> Target Allocation are based on the FY 2023 policy model.

<sup>3</sup> Capital Market Assumptions come from Aon Hewitt (as of June 30, 2023).

<sup>4</sup> The volatility drag results from the conversion between arithmetic and geometric mean returns.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

**Discount Rate Sensitivity Analysis** - The following table presents the District's net pension liability of the plan using the discount rate of 7%, and what the net pension liability would be if it were calculated using a discount rate that is 1% lower (6%) or 1% higher (8%) than the current rate:

	1% Decrease in Discount Rate (6%)	Discount Rate (7%)	1% Increase in Discount Rate (8%)
District's Proportionate Share of the Net Pension Liability	\$ 2,670,621	\$ 1,786,302	\$ 1,050,991

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - At August 31, 2024, the Miles Independent School District reported a net pension liability of \$1,786,302 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	\$ 1,786,302
State's Proportionate Share that is Associated with the District	3,032,982
Total	\$ 4,819,284

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

At August 31, 2023, the employer's proportion of the collective net pension liability was 0.0026005143% which was a decrease of 0.0002152477% from its proportion measured as of August 31, 2022.

**Changes of Actuarial Assumptions Since the Prior Actuarial Valuation** - The actuarial assumptions and methods are the same as used in the determination of the prior year's net pension liability.

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

For the year ended August 31, 2024, the Miles Independent School District recognized pension expense of \$457,954 and revenue of \$457,954 for support provided by the State in the government-wide statement of activities.



MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**A. Defined Benefit Pension Plan - Continued**

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actual Actuarial Experience	\$ 63,647	\$ 21,630
Changes in Actuarial Assumptions	168,949	41,346
Net Difference Between Projected and Actual Investment Earnings	259,950	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	240,515	147,570
Contributions Paid to TRS Subsequent to the Measurement Date	<u>124,713</u>	<u>-</u>
Totals	<u>\$ 857,774</u>	<u>\$ 210,546</u>

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

<u>Year Ending August 31,</u>	<u>Pension Expense Amount</u>
2025	\$ 131,251
2026	97,363
2027	230,698
2028	68,210
2029	(5,007)
Thereafter	0

**B. Defined Other Postemployment Benefit Plans**

**Summary of Significant Accounting Policies** - The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other postemployment 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.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

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

The TRS Board of Trustees administers the TRS-Care program and the related fund in accordance with Texas Insurance Code Chapter 1575. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend 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 [http://www.trs.texas.gov/pages/about\\_publication.aspx](http://www.trs.texas.gov/pages/about_publication.aspx); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

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

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in 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 postemployment benefit changes, including automatic COLAs.

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

TRS-Care Monthly Premium Rates

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

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

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

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

Contribution Rates		
	<u>2023</u>	<u>2024</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
District's 2024 Employer Contributions		\$ 35,041
District's 2024 Member Contributions		25,724
District's 2023 NECE On-Behalf Contributions		40,977

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

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

**Actuarial Assumptions** - The actuarial valuation was performed as of August 31, 2022. Update procedures were used to rolled forward the total OPEB liability to August 31, 2023. The actuarial valuation was determined using the following actuarial assumptions.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographics assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2021. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2022 TRS pension actuarial valuation that was rolled forward to August 31, 2023:

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

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

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

The following table discloses the actuarial methods and assumptions that were applied to this measurement period:

Valuation Date	August 31, 2022 Rolled Forward to August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	4.13% as of August 31, 2023
Aging Factors	Based on Plan Specific Experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	2.95% to 8.95% Including Inflation
Ad hoc Postemployment Benefit Changes	None

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

**Discount Rate** - A single discount rate of 4.13% was used to measure the total OPEB liability. This was an increase of 0.22% 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.

**Sensitivity of the Net OPEB Liability**

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

	<u>1% Decrease in Discount Rate (3.13%)</u>	<u>Discount Rate (4.13%)</u>	<u>1% Increase in Discount Rate (5.13%)</u>
District's Proportionate Share of the Net OPEB Liability	<u>\$ 1,020,730</u>	<u>\$ 866,647</u>	<u>\$ 740,912</u>

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

IV. OTHER INFORMATION - Continued

B. Defined Other Postemployment Benefit Plans - Continued

**Healthcare Cost Trend Rates Sensitivity Analysis** - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% lower or 1% higher than the assumed healthcare cost trend rate:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate</u>	<u>1% Increase</u>
District's Proportionate Share of the Net OPEB Liability	<u>\$ 713,641</u>	<u>\$ 866,647</u>	<u>\$ 1,063,491</u>

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs** - At August 31, 2024, the Miles Independent School District reported a liability of \$866,647 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	\$ 866,647
State's Proportionate Share that is Associated with the District	<u>1,045,743</u>
Total	<u>\$ 1,912,390</u>

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

At August 31, 2023, the employer's proportion of the collective net OPEB liability was 0.0039146961% which was a decrease of 0.0003087637% from its proportion measured as of August 31, 2022.

**Changes of Actuarial Assumptions Since the Prior Actuarial Valuation** - The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability (TOL) since the prior measurement period:

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

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

For the year ended August 31, 2024, the Miles Independent School District recognized OPEB expense of \$(223,558) and revenue of \$(223,558) for support provided by the State.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**B. Defined Other Postemployment Benefit Plans - Continued**

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Actuarial Experience	\$ 39,209	\$ 729,120
Changes in Actuarial Assumptions	118,291	530,671
Net Difference Between Projected and Actual Investment Earnings	375	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	582,955	572,429
Contributions Paid to TRS Subsequent to the Measurement Date	35,041	-
Totals	\$ 775,871	\$ 1,832,220

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

Year Ending August 31,	OPEB Expense Amount
2025	\$ (245,043)
2026	(205,294)
2027	(151,481)
2028	(126,393)
2029	(109,187)
Thereafter	(253,992)

**C. Medicare Part D**

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2024, August 31, 2023, and August 31, 2022, the subsidy payments received by TRS-Care on behalf of the District were \$19,822, \$19,540, and \$14,838, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements.

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**D. Health Care Coverage**

The District participates in an employee benefits and risk management cooperative offered by Education Service Center Region XIV. The Plan provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and accidental death and dismemberment insurance are also provided to active members and retirees. Authority for the Plan is granted under Sections 791.029 of the Local Government Code, V.T.C.A., as amended. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

**E. 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, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

**F. Property and Liability Programs**

During the year ended August 31, 2024, the District participated in the TASB Risk Management Fund's (the Fund's) Property and Liability Programs.

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property and Liability Programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended, August 31, 2024, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

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

**G. Unemployment Compensation Coverage**

During the year ended August 31, 2024, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2024, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

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

MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**H. Workers' Compensation Insurance**

During the year ended August 31, 2024, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504 of the Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop-loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2023, the Fund carries a discounted reserve of \$48,919,036 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2024, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

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

**I. 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, refunds of any money received may be required, and the collectibility of any related receivable 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.

**J. Shared Services Arrangements**

The District participates in a shared services arrangement for alternative education with eleven other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has joint ownership interest in any fixed assets purchased by the fiscal agent nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The Wall Independent School District is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement.

The District participates in a shared services arrangement for special education with three other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has joint ownership interest in any fixed assets purchased by the fiscal agent nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The Ballinger Independent School District is the fiscal agent manager and is responsible for all financial activities of the shared services arrangement.

The District participates in several shared services arrangements for various federal programs with the Education Service Center Region XV. The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The Education Service Center Region XV is the fiscal agent manager and is responsible for all financial activities of these shared services arrangements.



MILES INDEPENDENT SCHOOL DISTRICT  
Notes to the Financial Statements - Continued  
August 31, 2024

**IV. OTHER INFORMATION - Continued**

**K. Changes within the Financial Reporting Entity and Adjustments to Net Position/Fund Balance**

The financial statements reflect changes within the financial reporting entity described below, which resulted in adjustments to beginning fund balance and net position as follows:

	August 31, 2023 as Previously Reported	Changes Within Financial Reporting Entity	August 31, 2023 as Restated Exhibit C-3	Adjustments to Net Position Exhibit B-1
Governmental Funds				
Major Funds				
General Fund	\$ 5,011,288	\$ (142,846) <sup>1</sup>	\$ 4,868,442	\$ (142,846) <sup>1</sup>
Debt Service Fund	430,989	(430,989) <sup>2</sup>	0	0
Child Nutrition Fund	0	95,867 <sup>3</sup>	95,867	0
Total Major Funds	<u>\$ 5,442,277</u>	<u>\$ (477,968)</u>	<u>\$ 4,964,309</u>	<u>\$ (142,846)</u>
Nonmajor Funds				
Debt Service Fund	\$ 0	\$ 430,989 <sup>2</sup>	\$ 430,989	\$ 0
Child Nutrition Fund	95,867	(95,867) <sup>3</sup>	0	0
Campus Activity Fund	42,311	0	42,311	0
Total Nonmajor Funds	<u>\$ 138,178</u>	<u>\$ 335,122</u>	<u>\$ 473,300</u>	<u>\$ 0</u>
Total Governmental Funds	<u><u>\$ 5,580,455</u></u>	<u><u>\$ (142,846)</u></u>	<u><u>\$ 5,437,609</u></u>	<u><u>\$ (142,846)</u></u>

<sup>1</sup> The fund balance of the General Fund and net position in the government-wide statements was decreased by \$142,846 to record additional health insurance premiums paid for the prior year.

<sup>2</sup> During fiscal year 2023, the Debt Service Fund was presented as a major fund; in the current year, the Fund became a nonmajor fund which resulted in a change within the financial reporting entity.

<sup>3</sup> During fiscal year 2023, the Child Nutrition Fund was presented as a nonmajor fund; in the current year, the Fund became a major fund which resulted in a change within the financial reporting entity.

**L. Subsequent Events**

The District's management has evaluated subsequent events through November 18, 2024, the date which the financial statements were available for issue.

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**APPENDIX C**

FORM OF CO-BOND COUNSEL'S OPINIONS



WALSH GALLEGOS  
KYLE ROBINSON & ROALSON P.C.

\_\_\_\_\_, 2025

IN REGARD to the authorization and issuance of the “Miles Independent School District Unlimited Tax School Building Bonds, Series 2025” (the *Bonds*), dated January 1, 2025, in the aggregate principal amount of \$\_\_\_\_\_, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Miles Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in the years 20\_\_ through 20\_\_, inclusive, and February 15, 20\_\_, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

WE HAVE SERVED AS CO-BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Bonds under the laws of the State of Texas and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, including the Order; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general

**Legal Opinion of Walsh Gallegos Kyle Robinson & Roalson, P.C., San Antonio, Texas, in connection with the authorization and issuance of MILES INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025**

principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Walsh Gallegos Kyle Robinson & Roalson, P.C.

**APPENDIX D**

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

## THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

*The information below concerning the Texas 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 by the District or the Underwriter.*

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.

During the 87th Regular Session of the Texas Legislature (the "87th Regular Session"), which concluded on May 31, 2021, Senate Bill 1232 ("SB 1232") was enacted and became effective on September 1, 2021. SB 1232 provided for a variety of changes to the operations and management of the Fund, including the creation of the Permanent School Fund Corporation (the "PSF Corporation"), and the delegation of responsibility to manage the portion of the Fund previously under the management supervision of the State Board of Education (the "SBOE") to the PSF Corporation. SB 1232 also required changes with respect to the management of certain investments previously made at the discretion of the Texas School Land Board (the "SLB"), including limiting the types of investments that may be made by the SLB and mandating the transfer of cash and certain other investment properties from the SLB to the PSF Corporation.

The regular session of the 88th Texas Legislature (the "Legislature") was held from January 10, 2023, to May 29, 2023. As of the date of this disclosure, there have been four special sessions held, with the fourth special session ending December 5, 2023. The Texas Governor may call one or more additional special sessions. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the SBOE, the Act, the PSF Corporation, 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"). Due to the establishment of the PSF Corporation, the most recent financial statements include several restatements related thereto. The SLB's 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 of 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, 2023, 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, 2023, 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, 2023, and for a description of the financial results of the PSF for the year ended August 31, 2023, the most recent year for which audited financial information regarding the Fund is available. The 2023 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2023 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/bond-guarantee-program/> and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (*e.g.*, NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, are available from the SEC at [www.sec.gov/edgar](http://www.sec.gov/edgar). A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation's web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

#### **MANAGEMENT AND ADMINISTRATION OF THE FUND**

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

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

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



PSFC's roles and responsibilities in managing and administering the fund, see the IPS (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 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.

With respect to the 2024-2025 State biennium, and for subsequent biennia, 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 2024 and 2025. 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" that provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with the rate adopted by: (a) a vote of two-thirds of the total membership of the SBOE, taken before the Regular Session of the Legislature convenes or (b) the Legislature by general law or appropriation, if the SBOE does not adopt a rate as provided by clause (a); and (2) over the ten-year period consisting of the current State fiscal year and the nine preceding State fiscal years may not exceed the total return on all investment assets of the Fund over the same ten-year period (the "Ten Year Total Return"). In April 2009, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen. No. GA-0707 (2009) ("GA-0707"), with regard to certain matters pertaining to the Distribution Rate and the determination of the Ten Year Total Return. In GA-0707 the Attorney General opined, among other advice, that (i) the Ten Year Total Return should be calculated on an annual basis, (ii) a contingency plan adopted by the SBOE, to permit monthly transfers equal in aggregate to the annual Distribution Rate to be halted and subsequently made up if such transfers temporarily exceed the Ten Year Total Return, is not prohibited by State law, provided that such contingency plan applies only within a fiscal year time basis, not on a biennium basis, and (iii) the amount distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

In determining the Distribution Rate, the SBOE has adopted the goal of maximizing the amount distributed from the Fund in a manner designed to preserve "intergenerational equity." The definition of intergenerational equity that the SBOE has generally followed is the maintenance of purchasing power to ensure that endowment spending keeps pace with inflation, with the ultimate

goal being to ensure that current and future generations are given equal levels of purchasing power in real terms. In making this determination, the SBOE takes into account various considerations, and relies upon PSF Corporation and TEA staff and external investment consultants, which undertake analysis for long-term projection periods that includes certain assumptions. Among the assumptions used in the analysis are a projected rate of growth of student enrollment State-wide, the projected contributions and expenses of the Fund, projected returns in the capital markets and a projected inflation rate.

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

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

#### ANNUAL DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND<sup>1</sup>

<u>Fiscal Year Ending</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023<sup>2</sup></u>
PSF(CORP) Distribution \$	-	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,076
PSF(SBOE) Distribution	839	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-
PSF(SLB) Distribution	0	0	0	0	0	300	600	600 <sup>3</sup>	415	115
Per Student Distribution	175	173	215	212	247	306	347	341	432	440

<sup>1</sup> In millions of dollars. Source: Annual Report for year ended August 31, 2023.

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

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

In November 2022, the SBOE approved a \$3.1 billion distribution to the ASF for State fiscal biennium 2024-2025. In making its determination of the 2024-2025 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB 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>2008-09</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>
SBOE Distribution Rate <sup>1</sup>	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32% <sup>2</sup>

<sup>1</sup> Includes only distributions made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the SLB approved transfers of \$600 million per year directly to the ASF for fiscal biennium 2024-25.

<sup>2</sup> The distribution rate approved by the SBOE for fiscal biennium 2024-25 was based on a number of assumptions, including a mid-to long-term expected return rate for the Fund of 6.35% and a rate of inflation measured by the consumer price index of 2.70% according to the policy adopted by the SBOE in June 2022.

#### PSF CORPORATION STRATEGIC ASSET ALLOCATION

The PSFC Board sets the asset allocation policy for the Fund, including determining the available asset classes for investment and approving target percentages and ranges for allocation to each asset class, with the goal of delivering a long-term risk adjusted return through all economic and market environments. Effective January 1, 2023, 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 asset allocation of the Fund that was adopted February 2024 (which is subject to change from time to time):

Asset Class	Strategic Asset Allocation	Range	
		Min	Max
Cash	2.0%	0.0%	7.0%
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%

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The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2022 and 2023, as set forth in the Annual Report for the 2023 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, 2023 and 2022				
ASSET CLASS	August 31, 2023	August 31, 2022	Amount of Increase (Decrease)	Percent Change
<b>EQUITY</b>				
Domestic Small Cap	\$ 2,975.1	\$ 2,858.4	\$ 116.7	4.1%
Domestic Large Cap	<u>7,896.5</u>	<u>6,402.1</u>	<u>1,494.4</u>	<u>23.3%</u>
Total Domestic Equity	10,871.6	9,260.5	1,611.1	17.4%
International Equity	<u>7,945.5</u>	<u>7,197.9</u>	<u>747.6</u>	<u>10.4%</u>
<b>TOTAL EQUITY</b>	<b>18,817.1</b>	<b>16,458.4</b>	<b>2,358.7</b>	<b>14.3%</b>
<b>FIXED INCOME</b>				
Domestic Fixed Income	5,563.7	5,867.5	(303.8)	-5.2%
U.S. Treasuries	937.5	1,140.2	(202.7)	-17.8%
High Yield Bonds	1,231.6	1,142.5	<u>89.1</u>	<u>7.8%</u>
Emerging Market Debt	<u>869.7</u>	<u>1,190.9</u>	<u>(321.2)</u>	<u>-27.0%</u>
<b>TOTAL FIXED INCOME</b>	<b>8,602.5</b>	<b>9,341.1</b>	<b>(738.6)</b>	<b>-7.9%</b>
<b>ALTERNATIVE INVESTMENTS</b>				
Absolute Return	3,175.8	2,932.3	243.5	8.3%
Real Estate	6,525.2	6,286.9	238.3	3.8%
Private Equity	8,400.7	7,933.1	467.6	5.9%
Emerging Manager Program	134.5	29.9	104.6	349.8%
Real Return	1,663.7	1,620.3	43.4	2.7%
Real Assets	<u>4,712.1</u>	<u>4,341.3</u>	<u>370.8</u>	<u>8.5%</u>
<b>TOT ALT INVESTMENTS</b>	<b>24,612.0</b>	<b>23,143.8</b>	<b>1,468.2</b>	<b>6.3%</b>
<b>UNALLOCATED CASH</b>	<b><u>348.2</u></b>	<b><u>231.7</u></b>	<b><u>116.5</u></b>	<b><u>50.3%</u></b>
<b>TOTAL PSF(CORP) INVESTMENTS</b>	<b>\$ 52,379.8</b>	<b>\$ 49,175.0</b>	<b>\$ 3,204.8</b>	<b>6.5%</b>

Source: Annual Report for year ended August 31, 2023.

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The table below sets forth the investments of the PSF(SLB) for the year ended August 31, 2023.

**INVESTMENT SCHEDULE - PSF(SLB)1**

	<u>Fair Value (in millions) August 31, 2023</u>
	<u>As of</u> <u>8-31-23</u>
Investment Type Investments in	
Real Assets	
Sovereign Lands	\$ 276.14
Discretionary Internal Investments	264.32
Other Lands	167.97
Minerals <sup>(2), (3)</sup>	<u>5,435.62<sup>(6)</sup></u>
Total Investments <sup>(4)</sup>	6,144.05
Cash in State Treasury <sup>(5)</sup>	508.38
Total Investments & Cash in State Treasury	\$ 6,652.44

<sup>1</sup> Unaudited figures from Table 5 in the FY 2023 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

<sup>2</sup> Historical Cost of investments at August 31, 2023 was: Sovereign Lands \$838,776.71; Discretionary Internal Investments \$129,728,504.04; Other Lands \$38,241,863.70; and Minerals \$13,437,063.73.

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

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

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

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

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

**THE SCHOOL DISTRICT BOND GUARANTEE PROGRAM**

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

In the event of default, holders of guaranteed school district bonds will receive all payments 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. 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. As noted, above, in connection with the Regulatory Recodification, the SDBGP Rules are now 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"). As noted, above, in connection with the Regulatory Recodification, the CDBGP Rules are now 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 2024 fiscal year, the ratio is 7.69%. At February 26, 2024, there were 186 active open-enrollment charter schools in the State and there were 1,128 charter school campuses authorized under such charters, though as of such date, 212 of such campuses are not currently serving students for various reasons; therefore, there are 916 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 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. 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. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding "intercept" feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

## CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

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

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 ("SB 389") was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit to an amount equal to three times the cost value of the PSF.

Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See "Valuation of the PSF and Guaranteed Bonds" below.

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

### Changes in SBOE-determined multiplier for State Capacity Limit

<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 December 31, 2023 the cost value of the Guarantee Program was \$44,034,322,531 (unaudited), thereby producing an IRS Limit of \$220,171,612,655 in principal amount of guaranteed bonds outstanding.

As of December 31, 2023, the estimated State Capacity Limit is \$154,120,128,859, 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 7.69% in February 2024. 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, 2024, the Charter District Reserve Fund contained \$97,636,048, which represented approximately 2.32% 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.

#### **INFECTIOUS DISEASE OUTBREAK**

Since the onset of the COVID-19 pandemic in March 2020, TEA and TEA investment management for the PSF have continued to operate and function pursuant to the TEA continuity of operations plan developed as mandated in accordance with Texas Labor Code Section 412.054. That plan was designed to ensure performance of the Agency's essential missions and functions under such threats and conditions in the event of, among other emergencies, a pandemic event.

Circumstances regarding the COVID-19 pandemic continue to evolve; for additional information on these events in the State, reference is made to the website of the Governor, <https://gov.texas.gov/>, and, with respect to public school events, the website of TEA, <https://tea.texas.gov/texas-schools/safe-and-healthy-schools/coronavirus-covid-19-support-and-guidance>.

TEA cannot predict whether any school or charter district may experience short- or longer-term cash flow emergencies as a direct or indirect effect of COVID-19 that would require a payment from the PSF to be made to a paying agent for a guaranteed bond. However, through the end of January 2024, no school district or charter district had failed to perform with respect to making required payments on their guaranteed bonds. Information regarding the respective financial operations of the issuer of bonds guaranteed, or to be guaranteed, by the PSF is provided by such issuers in their respective bond offering documents and the TEA takes no responsibility for the respective information, as it is provided by the respective issuers.

#### **RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM**

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

**VALUATION OF THE PSF AND GUARANTEED BONDS**

**Permanent School Fund Valuations**

Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
2019	\$35,288,344,219	\$46,464,447,981
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 <sup>(2)</sup>	43,915,792,841	59,020,536,667

<sup>(1)</sup> SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF Corporation by the SLB. The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.

<sup>(2)</sup> At August 31, 2023, mineral assets, sovereign and other lands and discretionary internal investments, and cash managed by the SLB had book values of approximately \$13.4 million, \$168.8 million, and \$708.4 million, respectively, and market values of approximately \$5,435.6 million, \$678.4 million, and \$508.4 million, respectively.

**Permanent School Fund Guaranteed Bonds**

At 8/31	Principal Amount <sup>(1)</sup>
2019	\$84,397,900,203
2020	90,336,680,245
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682 <sup>(2)</sup>

<sup>(1)</sup> Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.

<sup>(2)</sup> At August 31, 2023 (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 \$178,520,723,868, of which \$62,789,897,186 represents interest to be paid. As shown in the table above, at August 31, 2023, there were \$115,730,826,682 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$154,120,128,859 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2023, 7.36% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2023, the amount of outstanding bond guarantees represented 76.36% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2023 values are based on unaudited data, which is subject to adjustment.

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**Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup>**

Fiscal Year Ended	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	No. of <u>8/31</u> <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>
2019	3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
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 <sup>(2)</sup>	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682

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

<sup>(2)</sup> At December 31, 2023 (based on unaudited data, which is subject to adjustment), there were \$117,374,697,034 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,369 school district issues, aggregating \$113,174,765,034 in principal amount and 105 charter district issues, aggregating \$4,199,932,000 in principal amount. At December 31, 2023 the projected guarantee capacity available was \$26,935,589,587(based on unaudited data, which is subject to adjustment).

**DISCUSSION AND ANALYSIS PERTAINING TO FISCAL YEAR ENDED AUGUST 31, 2023**

The following discussion is derived from the Annual Report for the year ended August 31, 2023, 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 PSFC Board 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 2023, the PSF(CORP) net position was \$52.3 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 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, 2023, net of fees, were 6.14%, 6.19%, and 6.78%, 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, 2023.

Beginning January 1, 2023, Texas PSF transitioned into the PSF Corporation combining all PSF financial investment assets under the singular management of the PSF Corporation. The new structure of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include absolute return, private equity, real estate, natural resources, infrastructure, and real return (TIPS and commodities). The inauguration of the PSF Corporation as a discretely presented component unit of the State of Texas for fiscal year 2023 required a change in the basis of accounting to full accrual. For a description of the full accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2023 Annual Report which is included by reference herein.

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**PSF Returns Fiscal Year Ended 8-31-2023<sup>1</sup>**

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return<sup>2</sup></u>
Total PSF(CORP) Portfolio	6.14	4.38
Domestic Large Cap Equities	16.09	15.94
Domestic Small/Mid Cap Equities	9.31	9.14
International Equities	12.38	11.89
Emerging Market Equity	2.48	1.25
Fixed Income	(1.30)	(1.19)
U.S. Treasuries	(9.21)	(9.69)
Absolute Return	7.59	3.58
Real Estate	(1.96)	(3.13)
Private Equity	4.55	0.20
Real Return	(5.51)	(5.88)
Emerging Market Debt	12.68	11.34
High Yield	7.80	7.19
Emerging Manager Program	33.35	0.97
Natural Resources	5.70	3.67
Infrastructure	14.22	3.67

<sup>1</sup> Time weighted rates of return adjusted for cash flows for the PSF(CORP) investment assets. Does not include SLB managed real estate or real assets. Returns are net of fees. Source: Annual Report for year ended August 31, 2023.

<sup>2</sup> Benchmarks are as set forth in the Annual Report for year ended August 31, 2023.

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, interest in real estate, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2023 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 2023, \$2.1 billion was distributed to the ASF, \$345 million of which was distributed by the PSF(CORP) on behalf of the SLB.

**OTHER EVENTS AND DISCLOSURES**

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

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

As of August 31, 2023, 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

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

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

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

## ANNUAL REPORTS

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

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

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

The PSF Corporation classified as a proprietary endowment fund and reported by the State of Texas as a discretely presented component unit and accounted for on an economic resources measurement focus and the full accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the full 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 will notify the MSRB of the change.

## EVENT NOTICES

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

## AVAILABILITY OF INFORMATION

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

## LIMITATIONS AND AMENDMENTS

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

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

This continuing disclosure agreement may be amended by the TEA or the PSF Corporation from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA or the PSF Corporation, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and

(2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA or the PSF Corporation (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA or the PSF Corporation may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

#### **COMPLIANCE WITH PRIOR UNDERTAKINGS**

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

#### **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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