

PRELIMINARY OFFICIAL STATEMENT
Dated July 30, 2025

NEW ISSUE – BOOK-ENTRY-ONLY

Enhanced/Unenhanced Ratings:

S&P: “AAA” / “A+”

PSF: “Applied For”

(See “OTHER PERTINENT INFORMATION – Municipal Bond Rating” herein and “APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” attached hereto.)

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.

\$41,395,000*

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
(a political subdivision of the State of Texas located in Burleson County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025

Dated Date: August 15, 2025

Due: as shown on page ii hereto

Interest to Accrue from Date of Delivery (as defined herein)

AUTHORITY FOR ISSUANCE ... The Somerville Independent School District Unlimited Tax School Building Bonds, Series 2025 (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 Somerville Independent School District (the “District”) on May 3, 2025 (the “Election”), and a bond order (the “Bond Order”) to be adopted by the Board of Trustees of the District (the “Board”) on August 6, 2025. The Bonds are direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. See “THE BONDS - Authority for Issuance” herein.

PAYMENT TERMS ... Interest on the Bonds will accrue from the date of initial delivery to the Underwriters (detailed below), will be payable on August 29, 2025 (a special interest payment date), and each February 15 and August 15 thereafter, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully-registered obligations in principal denominations of \$5,000 or any integral multiple thereof. The definitive Bonds will be registered and delivered to Cede & Co., as the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. DTC will act as the initial securities depository (the “Securities Depository”) for the Bonds. Book-entry interests in the Bonds will be made available for purchase in multiples of \$5,000 of the principal amount. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds (as applicable) will be payable by the Paying Agent/Registrar, initially Amegy Bank, Houston, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

PURPOSE ... Proceeds from the sale of the Bonds will be used (i) for the design, construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings, and (ii) to pay for the costs of issuance of the Bonds. See “PLAN OF FINANCING – Sources and Uses of Funds” herein.

The District has applied for and expects to receive conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds. See “APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” attached hereto.

**For Maturity Schedule, Principal Amounts, Interest Rates, Initial Yields, CUSIP Numbers,
and Redemption Provisions for the Bonds, see the inside cover page hereto.**

The Bonds are offered for delivery when, as, and if issued and received by the underwriters named below (the “Underwriters”) and are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel. See “APPENDIX C – FORM OF BOND COUNSEL’S OPINION” attached hereto. Certain matters will be passed upon for the Underwriters by their counsel, Holland & Knight LLP, Houston, Texas. It is expected that the Bonds will be available for delivery through DTC on or about August 28, 2025 (the “Date of Delivery”).

PIPER SANDLER & Co.

OPPENHEIMER & Co.

FHN FINANCIAL CAPITAL MARKETS

* Preliminary, subject to change.

**STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND
REDEMPTION PROVISIONS**

\$41,395,000*

**SOMERVILLE INDEPENDENT SCHOOL DISTRICT
(a political subdivision of the State of Texas located in Burleson County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025**

CUSIP No. Prefix 835325 ⁽¹⁾

\$14,365,000 Serial Bonds*

Maturity Date (2/15)	Principal* (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. ⁽¹⁾ Suffix
2029	70,000			
2030	135,000			
2031	205,000			
2032	270,000			
2033	345,000			
2034	415,000			
2035	500,000			
2036	585,000			
2037	675,000			
2038	770,000			
2039	875,000			
2040	985,000			
2041	1,105,000			
2042	1,715,000			
2043	1,805,000			
2044	1,905,000			
2045	2,005,000			

\$27,030,000 Term Bonds*

**\$11,755,000* ____% Term Bonds Due
February 15, 2050 to yield ____% CUSIP No.⁽¹⁾ Suffix ____**

**\$15,275,000* ____% Term Bonds Due
February 15, 2055 to yield ____% CUSIP No.⁽¹⁾ Suffix ____**

(Interest to accrue from Date of Delivery)

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, before their respective scheduled maturity dates, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__, or on any date thereafter, at a redemption price equal to the principal amount 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 Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the Bond Order. See "THE BONDS – Redemption Provisions of the Bonds" herein.

* Preliminary, subject to change.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
625 8th Street
Somerville, TX 77879

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Keith Howe	President	May 2026	Senior Landman
Melissa Tharp	Vice President	May 2027	Business Owner
Linda Pinkerton	Secretary	May 2026	Retired Teacher
Kim Casanova	Trustee	May 2028	Probation Officer
David Idlebird	Trustee	May 2027	Quality Manager
Kyle Maldonado	Trustee	May 2028	Higher Education, Budget Director
Michael Moses	Trustee	May 2027	Seafood Manager

ADMINISTRATION – FINANCE RELATED

<u>Name</u>	<u>Position</u>
Eric Holton	Superintendent
Amanda Flencher	Business Manager

CONSULTANTS AND ADVISORS

Auditors	Axley & Rode CPA, Lufkin, Texas
Bond Counsel	Orrick, Herrington & Sutcliffe LLP, Austin, Texas
Municipal Advisor	Live Oak Public Finance, LLC, Austin, Texas

For Additional Information Contact:

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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 ("Rule 15c2-12"), this document constitutes an "official statement" of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources that 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 Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" attached hereto, and "CONTINUING DISCLOSURE" herein for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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

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

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

None of the District, the Municipal Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its Book-Entry-Only System described under the caption "BOOK-ENTRY-ONLY SYSTEM" herein or the affairs of TEA described in "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto as such information has been provided by DTC and TEA, respectively.

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

NEITHER THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES, AND OTHER FACTORS WHICH MAY CAUSE THE

ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT THAN THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE "OTHER PERTINENT INFORMATION - FORWARD LOOKING STATEMENTS" HEREIN.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or hyperlinks contained therein are not incorporated into, and are not part of, this final official statement for any purposes.

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

THE DISTRICT The District is a political subdivision of the State located in Burleson County. The District is approximately 107.37 square miles in area. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. See "INTRODUCTION – Description of the District" herein.

AUTHORITY FOR ISSUANCE The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held on May 3, 2025 (the "Election"), and a bond order to be adopted by the Board on August 6, 2025 (the "Bond Order"). See "THE BONDS - Authority for Issuance" herein.

THE BONDS The Bonds shall mature on the dates and in the amounts set forth on page ii of this Official Statement. See "THE BONDS – Description of the Bonds" herein.

DATED DATE August 15, 2025.

PAYMENT OF INTEREST Interest on the Bonds will accrue from the Date of Delivery, will be payable commencing August 29 (a special interest payment date) and each February 15 and August 15 thereafter until stated maturity, or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. See "THE BONDS – Description of the Bonds" 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 two or more serial bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the Bond Order. See "THE BONDS – Redemption Provisions of the Bonds" herein.

SECURITY FOR THE BONDS The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.

TAX MATTERS In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

PERMANENT SCHOOL FUND GUARANTEE The District has applied for and expects to receive conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds. See "THE BONDS" – Permanent School Fund Guarantee" herein and "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.

PAYING AGENT/REGISTRAR The initial Paying Agent/Registrar is Amegy Bank, Houston, Texas.

MUNICIPAL BOND RATING The presently outstanding unlimited tax-supported debt of the District, including the Bonds, is rated "A+" by S&P Global Ratings, Inc. ("S&P") without regard to credit enhancement, and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State. See "OTHER PERTINENT INFORMATION – Municipal Bond Rating" herein and "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used: (i) for the design, construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings, and (ii) to pay for the costs of issuance of the Bonds. See "PLAN OF FINANCING – Purpose" and "– Sources and Uses of Funds" herein.

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

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

DELIVERY When issued, anticipated to occur on or about August 28, 2025.*

* Preliminary, subject to change.

LEGALITYThe Bonds are subject to the receipt of an approving opinion from the Attorney General of the State of Texas and an opinion from Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Bond Counsel. See "APPENDIX C – FORM OF BOND COUNSEL'S OPINION" attached hereto.

PRELIMINARY OFFICIAL STATEMENT

Relating to

\$41,395,000*

**SOMERVILLE INDEPENDENT SCHOOL DISTRICT
(a political subdivision of the State of Texas located in Burleson County)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2025**

INTRODUCTION

This Official Statement, which includes the appendices attached hereto, and incorporated herein, provides certain information regarding the issuance of the \$41,395,000* Somerville Independent School District Unlimited Tax School Building Bonds, Series 2025 (the "Bonds"). The Bonds are being issued pursuant to the Constitution and the general laws of the State of Texas (the "State" or "Texas"), particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, an election held in the Somerville Independent School District (the "District") on May 3, 2025 (the "Election"), and that certain bond order (the "Bond Order") to be adopted by the District's Board of Trustees (the "Board") on August 6, 2025. The Bonds are direct and voted obligations of the District, payable from a continuing, direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS – Authority for Issuance" herein.

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

Included in this Official Statement are descriptions of the Bonds, the Bond Order, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Somerville Independent School District, 625 8th Street, Somerville, Texas 77879 Attention: Superintendent of Schools and, during the offering period, from the District's Municipal Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, Attention: Joey Dawson, upon payment of reasonable copying, mailing and handling charges.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the Official Statement will be deposited with the Municipal Securities Rulemaking Board and will be available through its Electronic Municipal Market Access ("EMMA") System. See "CONTINUING DISCLOSURE" herein 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 of the State located in Burleson County. The District is governed by a seven-member Board of Trustees who serve staggered three-year terms with elections being held in May of odd-numbered years. 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 is an oil and gas producing and ranching area with boundaries that are coterminous with Burleson County. The City of Somerville, located in Burleson County, Texas, lies along Texas State Highway 36 near the southern edge of the county. It is approximately 17 miles northwest of Caldwell, the county seat, and 15 miles southeast of Brenham. The city's 2020 census population was 1,312, representing a 4.7% decrease from the 2010 population of 1,376.

* Preliminary, subject to change.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used (i) for the design, construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings, and (ii) to pay for the costs of issuance of the Bonds. See "Sources and Uses of Funds" herein.

Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$
[Net] Reoffering Premium on the Bonds	
TOTAL SOURCES	\$
<u>Uses of Funds:</u>	
Deposit into Construction Fund	\$
Costs of Issuance & Rounding Amount	
Underwriters' Discount	
TOTAL USES	\$

THE BONDS

Description of the Bonds

The Bonds will be dated August 15, 2025 (the "Dated Date") and mature on February in each of the years and in the amounts shown on the page ii of this Official Statement. Interest on the Bonds will accrue from the date of initial delivery to the Underwriters (as defined herein), will be payable on August 29, 2025 (a special interest payment date) and each February 15 and August 15 thereafter until stated maturity, or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued only in fully-registered form in denominations of \$5,000 of the principal amount or any integral multiple thereof within a stated maturity.

Interest on the Bonds is payable by check on the Interest Payment Date and mailed by the Paying Agent/Registrar (as defined herein) on or before each Interest Payment Date to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar of record as of the Record Date to the address of such registered owner as shown on the register (the "Bond Register"). Any accrued interest payable at maturity or redemption on a Bond shall be paid upon presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar. The principal of the Bonds is payable at stated maturity or prior redemption upon presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully-registered form in any integral multiple of \$5,000 of the principal amount for any one maturity.

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

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, the Election, and the Bond Order.

Authorized But Unissued Bonds

Following the issuance of the Bonds, the District is expected to have \$0^{*} in authorized but unissued bonds remaining, as further described below. See "Table 14 – Authorized but Unissued Bonds" in APPENDIX A attached hereto.

^{*} Preliminary, subject to change.

Security and Source of Payment

The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located within the District, without legal limitation as to rate or amount. See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.

Permanent School Fund Guarantee

The District has applied for and expects to receive conditional approval from the Commissioner of Education (the "Commissioner") for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program pursuant to Chapter 45, Subchapter C of the Texas Education Code. Subject to certain conditions discussed under "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto, 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, Beneficial Owners will receive all payments due on the Bonds from the corpus of the Permanent School Fund.

Redemption Provisions of the Bonds

Optional Redemption

The District reserves the right, at its option, to redeem prior to maturity the Bonds maturing 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, or portions thereof, within such maturity to be redeemed.

Mandatory Redemption

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

Selection of Bonds for Redemption

Bonds may be redeemed only in integral multiples of \$5,000 of principal amount. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. In selecting portions of Bonds for redemption, the Registrar shall treat each Bond as representing that number of Bonds of \$5,000 denomination which is obtained by dividing the principal amount of such Bond by \$5,000. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with the Bond Order, shall authenticate and deliver in exchange therefor a Bond or Bonds of like type, maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of Redemption

No fewer than thirty (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, in the name of the District, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

The Paying Agent/Registrar and the District, so long as the Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Bond Order, or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Bonds

from the Beneficial Owners. Any such selection of Bonds to be so redeemed will not be governed by the Bond 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 "BOOK-ENTRY-ONLY SYSTEM" herein.

Defeasance

The Bond Order provides that the District may defease the provisions of the Bond Order and discharge its obligations to the registered owners of any or all of the Bonds to pay principal of and interest thereon in any manner now or hereafter permitted by law, including (but not limited to) by depositing with the Paying Agent/Registrar, or a trust company, commercial bank or other eligible financial institution, or with the Comptroller of the State of Texas either: (1) money sufficient to make such payment and/or (2) pursuant to an escrow or trust agreement, cash and/or Defeasance Securities, the principal of and interest on which will, when due or redeemable at the option of the holder, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon, provide money in an amount which, together with other moneys, if any, held in such escrow at the same time and available for such purpose, shall be sufficient to provide for the timely payment of the principal of and interest on the Bonds to the date of maturity or earlier redemption, if any; provided, however, that if any of such Bonds are to be redeemed prior to their respective dates of maturity, provision shall have been made for giving notice of redemption as provided in the Bond Order. Any surplus amount not required to accomplish such defeasance shall be returned to the District. The Bond Order provides that "Defeasance Securities" means: (i) direct non-callable obligations of United States of America, including obligations that are unconditionally guaranteed by the United States of America; (ii) non-callable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (iii) non-callable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, which, in the case of (i), (ii) or (iii), may be in book-entry form. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

District officials may further limit the permitted Defeasance Securities in connection with the sale of the Bonds. In the event the District restricts such eligible securities and obligations, the final Official Statement will reflect the new authorized Defeasance Securities. There is no assurance that current State law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded as being outstanding or unpaid. The District has reserved the option, however, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call such Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of such Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

Amendments to Bond Order

In the Bond Order, the District has reserved the right to amend the Bond Order without the consent of or notice to any beneficial owner for the purpose of amending the bond order in any manner not detrimental to the interests of the Beneficial Owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the consent of the holders who own in the aggregate a majority of the principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Bond Order as it relates to the Bonds; provided that, without the consent of all of the Beneficial Owners of the Bonds then outstanding, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, or interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds of such series required to be held by Beneficial Owners of such series for consent to any such amendment, addition, or rescission.

Default and Remedies

The Bond Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Bond Order 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 Bond Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce 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. See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel (defined herein) will note that all opinions relative to the enforceability of the Bond Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the receipt of an approving opinion of the Attorney General of the State of Texas and the opinion of the District's Bond Counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas.

Delivery

When issued; anticipated to occur on or about August 28, 2025.*

Future Issues

Following the issuance of the Bonds, the District is expected to have \$0* in authorized but unissued ad valorem tax bonds remaining. Aside from the Bonds, the District does not anticipate the issuance of additional new money ad valorem tax-supported debt in the next twelve months. In addition, the District may incur other financial obligations payable from its collection of taxes and other sources of revenue, including maintenance tax notes payable from its collection of maintenance and operations taxes, public property finance contractual obligations payable from its collection of debt service taxes, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance and operations taxes.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial "Paying Agent/Registrar" is Amegy Bank, Houston, Texas. The Bond Order provides for the District's 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 legally qualified bank, trust company, financial institution or other agency authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any changes in the Paying Agent/Registrar

* Preliminary, subject to change.

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.

Record Date for Interest Payment

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on any Bond is the close of business on the last business day of the month preceding each interest payment date; provided, however, that the Record Date for the initial interest payment date is the Date of Delivery.

In the event of a non-payment of interest on a scheduled payment date, and for thirty (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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) 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 Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

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 and such interest shall be paid by the Paying Agent/Registrar. 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 are authorized by law 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 "Book-Entry-Only System."

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (i) to make any transfer or exchange during a period beginning at the opening of business forty-five (45) days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (ii) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within forty-five (45) calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

BOOK-ENTRY-ONLY SYSTEM

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

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

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 securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each 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 United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the 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-only system for the Bonds is discontinued.

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

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 the payment 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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. 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, physical bond certificates are required to be printed and delivered.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest

in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

Subject to satisfying certain conditions, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See "Appendix 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.

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

The Property Tax Code provides for county-wide 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 Burleson County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in 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.

Unless extended by the Legislature, through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2024 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5 million dollars (the "Maximum Property Value") to an amount exceeding the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. The Maximum Property Value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the effective Maximum Property Value.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates. See "AD VALOREM TAX PROCEDURES — District and Taxpayer Remedies" herein.

State-Mandated Homestead Exemptions

During the 89th 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. Subject to the Governor's signing of the relevant legislation and contingent on voter approval at a Statewide election to be held on November 4, 2025, legislation passed by both houses of the Legislature would increase: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000.

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

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 taxable value of all residence homesteads (but not less than \$5,000); and (2) an additional exemption of at least \$3,000 of the taxable value of the residence 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 residence homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2) above may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Cities, counties and school districts are prohibited from repealing or reducing a general 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 residence 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 residence homestead qualified for such exemption. This freeze is transferable to a different residence homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of a person 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 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. Subject to voter approval at a Statewide election to be held on November 4, 2025, legislation passed by the Legislature and signed by the Governor during the 89th Regular Session would provide a person to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or fewer 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 retail manufactured housing inventory, or a dealer's motor vehicle, vessel or outboard motor, or heavy equipment inventory.

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

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property. Beginning with the 2026 tax year, all intangible personal property is exempt from State taxation.

Temporary Exemption for Qualified Property Damaged by a Disaster

The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Texas Legislature amended Section 11.35, Property Tax Code, to clarify that "damage" for purposes of such statute is limited to "physical damage." For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, 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" herein.

Tax Limitation Agreements

The Texas Economic Development Act (former Chapter 313, Texas Tax Code), 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. Generally, during the ten-year term of a tax limitation agreement, a school district may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. The 87th Texas Legislature did not vote to extend this program, which expired by its terms on December 31, 2022. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts" herein.

Tax Abatement Agreements

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

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

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

District and Taxpayer Remedies

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year “minimum eligibility amount,” as determined by the State Comptroller of Public Accounts, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 tax year and is adjusted annually by the State Comptroller of Public Accounts 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” herein. The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

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

District’s Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the respective County. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the applicable County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

The District does not tax personal property not used in the production of income, such as personal automobiles.

The District's taxes are collected by Burleson County Tax Office.

The District does not allow split payments of taxes and does not give discounts for early payment of taxes.

The District has established a tax abatement program to encourage economic development. The District has not granted any tax abatements.

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

The District grants a State mandated \$10,000 residence homestead exemption for persons 65 years of age or older or disabled persons.

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

The District does not tax non-business personal property.

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

The District has not taken action to tax freeport property.

The District taxes goods-in-transit.

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

Month	Cumulative Penalty	Cumulative Interest^(a)	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12% ^(a)	6%	18%

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

20% may be added to the total tax penalty and interest charge.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. The information contained under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding based on information available to the District as of the date of this Official Statement. Certain of the information provided below is contingent on voter approval of a constitutional amendment that will be submitted to the voters at an election to be held on November 4, 2025. See “– 2025 Legislative Session,” below. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district’s boundaries. School districts are authorized to levy two types of property taxes: (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 regular session of the 89th Texas Legislature (the “Legislature”) commenced on January 14, 2025 and concluded on June 2, 2025 (the “89th Regular Session”). The Legislature meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called a special session which began on July 21, 2025. The initial agenda, which may be supplemented at any time, for the special session includes the following items: (i) flood warning systems, (ii) flood emergency communications, (iii) relief funding for hill country floods, (iv) natural disaster preparation and recovery, (v) eliminating the STAAR test, (vi) cutting property taxes, (vii) protecting children from THC, (viii) regulating hemp-derived products, (ix) protecting unborn children, (x) banning taxpayer-funded lobbying, (xi) protecting human trafficking victims, (xii) police personnel records, (xiii) protecting women’s spaces, (xiv) attorney general election powers, (xv) redistricting, (xvi) title theft and deed fraud, (xvii) water project incentives, and (xviii) the state judicial department. The Governor has also identified several bills that were vetoed or filed without signature that will be placed on the upcoming special session agenda for further consideration. Additional special sessions may be called by the Texas Governor.

During the 89th 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. Subject to voter approval at a Statewide election to be held on November 4, 2025, legislation passed by both houses of the Legislature would increase: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) the exemption for tangible personal property used in the production of income from the current \$2,500 to \$125,000. Additionally, the Legislature passed legislation that would authorize roughly \$8.5 billion in funding for public schools and would provide districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as provide districts with additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation passed by the Legislature and signed into law by the Governor will create an education savings account program (commonly referred to as vouchers) for students that attend private schools or home school. The legislation becomes effective September 1, 2025, when the state fiscal biennium begins for purposes of this program, and the amount spent for purposes of the program for the 2025-2027 biennium may not exceed \$1 billion. The legislation applies beginning with the 2026-2027 school year. Beginning on September 1, 2027, the legislation requires that the amount appropriated for purposes of the program for a state fiscal biennium must be established by the legislature by appropriation for that biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District’s attendance based funding.

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

Local Funding for School Districts

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

State Compression Percentage. The State Compression Percentage (the “SCP”) is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district’s Maximum Compressed Tax Rate (described below). The 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 of Public Accounts) has increased by at least 2.5% over the prior year; and (iii) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

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

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

If the increase in the residence homestead as proposed by constitutional amendment does not take effect, beginning on September 1, 2025, and up until September 1, 2029, the Commissioner may adjust school districts’ MCRs for the 2025-2026 school year accordingly. Before making an adjustment, the Commissioner shall notify and must receive approval from the Legislative Budget Board and the office of the Governor.

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. Additionally, a school district’s levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two” herein.

State Funding for School Districts

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district’s Tier One Tax Rate. Tier One funding may then be “enriched” with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district’s Enrichment Tax Rate, allowing a school district to increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district’s own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as amended, as discussed herein), 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 2026-2027 State fiscal biennium, the Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

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

The Basic Allotment for school districts with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 plus the guaranteed yield increment adjustment (the "GYIA") for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than the school district's MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation and retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by the district's Basic Allotment is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

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

Tier Two. Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to Basic Allotment (multiplied by 0.02084. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield on each Golden Penny levied of \$129.52 per student in WADA. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment multiplied by 0.008. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield on each Copper Penny levied of \$49.72 per student in WADA.

Existing Debt Allotment, Instructional Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since the program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. A school district may use additional state aid received from an IFA award only to pay the principal of and interest on the bonds for which the district received the aid. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2026-2027 State fiscal biennium, the 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 2026-2027 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2026-2027 State fiscal biennium on new bonds issued by school districts in the 2026-2027 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption. See "State Funding for School Districts – Tax Rate and Funding Equity" below..

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities, or a renovated portion of an instructional facility to be used for the first time to provide high-cost and undersubscribed career and technology education programs, as determined by the Commissioner. In the 2025 Legislative Sessions, the State Legislature appropriated funds in the amount of \$150,000,000 for each fiscal year of the 2026-2027 State fiscal biennium for NIFA allotments.

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

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

Local Revenue Level in Excess of Entitlement

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49, 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 Legislature each fiscal biennium. Therefore, school districts are guaranteed that recapture will not reduce revenue below their statutory entitlement.

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six (6) options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters. A district that enters into an agreement to exercise an option to reduce the district's local revenue level in excess of entitlement under options (3), (4), or (5) for the 2025-2026 school year and that has not previously held

an election to exercise said options may request and may receive approval from the Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district's excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. A district that receives approval of a request to delay the date of an election shall pay for credit purchased in equal monthly payments as determined by the Commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the Commissioner of the district's election to pay through a lump sum not later than March 15, 2026.

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2024-2025 school year, the District was designated as a Chapter 49 school district with "excess local revenue" by TEA. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credit for the 2024-2025 school year, for the purpose of implementing a permitted wealth equalization option.

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy maintenance and operations ("M&O") taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The District is authorized to levy a M&O tax rate pursuant to the approval of the voters of the District at an election held on August 4, 1962, in accordance with the provisions of Article 2784e-1 of the Texas Education Code.

The maximum M&O tax rate per \$100 of taxable assessed value that may be adopted by an independent 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 district and the State, and is subject to recalculation annually. For any year, the highest possible MCR for an independent school district is \$0.93. See "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate" and "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts" herein.

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

I&S Tax Rate Limitations

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Attorney General of the State 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 utilized projected values or State assistance to satisfy the 50-cent. The District will use State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the school district's budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004(e) of the Texas Education Code provides that a person who owns taxable property in a school district is entitled to an injunction restraining the collection of taxes by the school district if the school district has not complied with such notice requirements or the language and format requirements of such notice as set forth in Sections 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 of Public Accounts.

DEBT LIMITATIONS

Under State law, there is no explicit bonded indebtedness limitation, although the tax rate limits described above under "TAX RATE LIMITATIONS" effectively impose a limit on the incurrence of debt. Such tax rate limits require school districts to demonstrate the ability to pay "new debt" from a tax rate of \$0.50. In demonstrating compliance with the requirement, a district may take into account State equalization payments and, if compliance with such requirement is contingent on receiving state assistance, a district may not adopt a tax rate for a year for purposes of paying the principal of and interest on the bonds unless the district credits to the interest and sinking fund for the bonds the amount of State assistance received or to be received in that year. The State Attorney General reviews a district's calculations showing the compliance with such test as a condition to the legal approval of the debt. As stated above, the Bonds are issued as new debt and subject to this limitation.

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "Notes to the Financial Statements – Note 7. Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2024, as set forth in APPENDIX B attached hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to the Financial Statements – Note 8. Defined Other Post-Employment Benefit Plan" in the audited financial statements of the District for the year ended August 31, 2024, as set forth in APPENDIX B attached hereto. On August 31, 2024, the District's proportionate share of its net OPEB liability was \$1,361,565.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. See "CHANGE IN NET ASSETS" in APPENDIX B attached hereto. GASB Statement No. 68 applies only to pension benefits and does not apply to OPEB or TRS-Care related liabilities. At the conclusion of the 2023-2024 fiscal year, the District had a net pension liability of \$2,825,236.

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

INVESTMENT POLICIES

The District invests its funds in investments authorized by State 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

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board.

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

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 ten (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.

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

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

Under State law, the District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the District's investment officers must submit an investment report to the District's Board of Trustees 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 ending market value and the fully accrued interest for the reporting period 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 strategies and (b) State law. No person may invest District funds without express written authority from the District's Board of Trustees.

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

LEGAL MATTERS

Legal Opinions

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver his opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal

limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel"), which will deliver its opinion to the effect that the Bonds are valid and legally binding obligations of the District (the "Bond Opinion"). The form of Bond Counsel's opinion is attached hereto as Appendix C. Though it may represent the Municipal Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished to the Underwriters. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "THE BONDS" (exclusive of the subcaptions "Permanent School Fund Guarantee," "DTC Redemption Provisions," "Default and Remedies," "Payment Record," and "Future Issues," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" (except information appearing under the subcaption "Possible Effects of Changes in Law on District Bonds" as to which no opinion is expressed), "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (excluding the last sentence of the second paragraph under the subcaption "I&S Tax Rate Limitations" and the subcaption "Public Hearing and Voter-Approval Tax Rate" as to which no opinion is expressed), "LEGAL MATTERS - Legal Opinions" (excluding the last two sentences of the first paragraph), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Official Statement, excluding any material that may be treated as included under such captions or subcaptions by cross reference or reference to other documents or sources, and such firm is of the opinion that insofar as such statements expressly summarize certain provisions of the Bonds and the Bond Order or set out the content of the Bond Opinion, such statements are accurate in all material respects. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Holland & Knight LLP, Houston, Texas, whose compensation is contingent on 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 expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

At the time of the initial delivery of the Bonds, one or more officials of the District will provide the Underwriters with a certificate to the effect that, to the best of their knowledge, except as disclosed in this Official Statement, (i) there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative body (either State or federal) wherein an adverse decision would materially adversely affect the financial condition of the District and (ii) 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.

TAX MATTERS

Opinion

In the opinion of Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded

semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, Beneficial Owners would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Payments on the Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate Beneficial Owner of Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a Beneficial

Owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain Beneficial Owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE

In the Bond Order, the District will make the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The District is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available to the public free of charge from the MSRB via the EMMA at www.emma.msrb.org, as further described below under "Availability of Information from 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 to the MSRB annually via EMMA. 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 APPENDIX A under Tables numbered 1 through 6 and 8 through 14, and in APPENDIX B attached hereto. The District will update and provide this information within six months after the end of each fiscal year. Financial information and operating data to be provided hereunder 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, other offering document, or financial report) available to the public on the MSRB's Internet Web site or filed with the SEC in such format and manner as permitted by Rule 15c2-12. The updated information will include audited financial statements if the District commissions an audit and it is completed by the required time. If audited financial statements are not available within twelve (12) months after any such fiscal year end, the District will provide to the MSRB unaudited financial statements within such 12-month period and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation.

The District's current fiscal year end is August 31st. 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 (or unaudited financial statements, if the audit of such financial statements is not yet available) for the preceding fiscal year 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 pursuant to this Section.

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 (not more than ten (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) the 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 Rule 15c2-12, 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.

Neither the Bonds nor the Bond Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. 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." The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) in the first paragraph of this subcaption 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, 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 first paragraph of this subcaption and the definition of "financial obligation" in these clauses to have the same meanings as when they are used in Rule 15c2-12, as evidenced by SEC Release No. 34-83885, dated August 20, 2018. "Financial Obligation" is defined in the Bond 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 Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12. Neither the Bonds nor the Bond Order make any provision for debt service reserves or 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.

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 or beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement 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 (1) the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) 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 beneficial owners of the Bonds. The District may also repeal or amend these provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or any court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the 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 Agreements

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

CYBERSECURITY

The District, like other school districts in the State, utilizes technology in conducting its operations. As a user of technology, the District potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the District may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the District. The District employs a multi-layered approach to combating cybersecurity threats. While the District deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the District's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial and there is no assurance that these costs will be covered by insurance. Further, cybersecurity breaches could expose the District to litigation and other legal risks, which could cause the District to incur other costs related to such legal claims or proceedings.

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Rating

The Bonds are rated "AAA" by S&P Global Ratings, Inc. ("S&P") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The presently outstanding debt of the District, including the Bonds, is rated "A+" by S&P without regard to credit enhancement.

An explanation of the significance of any rating may be obtained from the company furnishing the rating. The rating reflects only the view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

Municipal Advisor

Live Oak Public Finance, LLC (the "Municipal Advisor") is employed as the Municipal Advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Live Oak Public Finance, LLC, in its capacity as Municipal Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

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

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of \$ _____. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

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

In the ordinary course of their various business activities, the Underwriters and their respective 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 their own account and for the accounts of their 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 Underwriters and their respective 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.

Use of Audited Financial Statements

Axley & Rode CPA, Lufkin, Texas ("Axley"), the District's independent auditor, has not been engaged to perform and has not performed, since the date of the report included herein, any procedures on the financial statements addressed in that report. Axley has not performed any procedures relating to this Official Statement.

Weather Events

The District is located in West Central Texas. Land located in this area is susceptible to high winds, tornados, fires and arid conditions. If a future weather event significantly damages all or part of the properties comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenue and/or necessitate an increase in the District's tax rate. Under certain conditions, State law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters, such as a tornado or flooding, upon a request by the Texas Governor for federal disaster assistance in the area in which the District is located. There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will carry flood or the appropriate, applicable other casualty insurance),

that any insurance company will fulfill its obligation to provide insurance proceeds or that insurance proceeds will be used to rebuild or repay any damaged improvements within the District or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected. In such event, the Beneficial Owners may become reliant on the Permanent School Fund Guarantee to receive debt service payments. See "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

Forward-Looking Statements

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

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

Information from External Sources

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

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.

Authorization of the Official Statement

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

This Official Statement will be approved by the Board for distribution in accordance with provisions of the SEC's Rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

The Bond Order will approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the reoffering of the Bonds by the Underwriters.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees

ATTEST:

/s/ _____
Secretary, Board of Trustees

APPENDIX A

SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

Table 1 - Valuations, Exemptions, and Tax-Supported Debt ⁽¹⁾

2025 Total Market Valuation	\$1,485,730,883
2025 Net Taxable Valuation before Freeze	618,231,534
2025 Net Freeze Adjusted Taxable Valuation	\$566,576,199
2025 Exemptions/Deductions/Prorations Detail:	
Totally Exempt Property	85,887,641
Agriculture Use/Productivity	572,300,230
Residential Homestead	130,644,228
Cap Value Loss	34,737,672
Residential Homestead Over-65 and/or Disabled (\$10,000)	10,170,917
Disabled/Deceased Veterans and Survivors (up to \$3,000)	779,282
Pollution Control	1,677,010
Solar/Wind	-
Other/Misc	31,302,369
Total	\$867,499,349

⁽¹⁾ Source: Burleson County Appraisal District. Reflects valuation used for the levy of the District's I&S Tax. All valuation figures throughout Appendix A reflect the District's I&S tax valuation (with \$100,000 Homestead exemption) unless otherwise noted.

Table 2 - Voted General Obligation Debt ⁽¹⁾

Outstanding Unlimited Tax Bonds (as of June 30, 2025) ⁽²⁾	
Current Interest Bonds	\$9,070,000
Capital Appreciation Bonds	-
Plus: The Bonds ⁽³⁾	41,395,000
Total	\$50,465,000
Less:	
Interest & Sinking Fund Balance (as of June 30, 2025)	\$1,159,000
Net General Obligation Debt	\$49,306,000
Ratio Net General Obligation Debt to Net Taxable Valuation Before Freeze	7.98%
2024/25 Population Estimate ⁽²⁾	
Area (Square Miles) ⁽²⁾	113.02
Per Capita Actual Valuation	\$353,241
Per Capita Net Valuation	\$146,988
Per Capita Net General Obligation Debt	\$11,723

⁽¹⁾ Source: Burleson County Appraisal District.

⁽²⁾ Source: The Municipal Advisory Council of Texas.

⁽³⁾ Preliminary, subject to change.

Table 3 - Tax Rate, Levy, and Collection History; Tax Rate Distribution

Fiscal Year	Tax Rate	Local		Tax Levy	Percent Collected ⁽¹⁾	
		Maintenance ⁽²⁾	I&S Fund		Current	Total
2021	\$1.2364	\$0.9664	\$0.2700	\$4,448,734	94.46%	101.25%
2022	1.1551	0.8976	0.2575	4,324,489	94.52%	101.10%
2023	1.0646	0.8546	0.2100	4,869,365	92.49%	94.99%
2024	0.8567	0.6692	0.1875	4,234,350	93.43%	102.75%
2025	0.8244	0.6669	0.1575	4,695,507 ⁽³⁾	94.40% ⁽³⁾	94.40% ⁽³⁾

⁽¹⁾ District's Audited Financial Statements.

⁽²⁾ The decrease in the District's M&O Tax Rate is the result of House Bill 3, passed during the 2019 Texas Legislative Session, which mandated that all independent school districts reduce their M&O tax rate as Prescribed in House Bill 3.

⁽³⁾ District's records as of June 30, 2025.

Tax Rate Distribution (Tax Year) ⁽¹⁾

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Maintenance	\$0.6669	\$0.6692	\$0.8546	\$0.8976	\$0.9664
Debt Service	0.1575	0.1875	0.2100	0.2575	0.2700
Total	\$0.8244	\$0.8567	\$1.0646	\$1.1551	\$1.2364

⁽¹⁾ Source: Burleson County Appraisal District.

TABLE 4 - Ten Largest Taxpayers, 2024 ⁽¹⁾

Taxpayer Name	Type of Property	2024 Net Taxable Assessed Valuation	% of Total 2024 Assessed Valuation
BNSF Railway Company	Railroad	\$ 61,003,200	10.09%
Wildfire Energy Operating LLC	Oil & Gas	30,164,670	4.99%
Koppers Industries Inc	Industrial Manufacturing	8,352,040	1.38%
Citizens State Bank Somerville	Financial/Banking	6,266,496	1.04%
Bluebonnet Electric Co-Op Inc	Electric Utility/Power Plant	5,290,470	0.87%
Entergy Texas Inc	Electric Utility/Power Plant	4,740,800	0.78%
Evers & Sons Inc	Developer	2,989,060	0.49%
Fifth Third Equipment Finance	Residential Leasing	2,924,397	0.48%
Koppers Recovery Resources LLC	Industrial Manufacturing	2,528,900	0.42%
JK Investment Partners LLC	Developer	2,360,265	0.39%
Top 10 Totals:		\$126,620,298	20.94%

⁽¹⁾ Source: Burleson County Appraisal District.

⁽²⁾ The Top 2 Taxpayers account for over 15% of the District's tax base. Adverse economic developments could impact these businesses and the tax values of the properties they own, resulting in less local tax revenue. If a majority taxpayer were to default in the payment of taxes, the ability of the district to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or perhaps, to sell tax anticipation notes until such amounts could be collected, if ever.

Table 5 - Change in Net Assets ⁽¹⁾

For Fiscal Year ended August 31	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Program Revenues					
Charges for Services	\$173,217	\$129,881	\$110,718	\$93,643	\$73,428
Operating Grants	2,636,272	2,595,013	1,798,302	1,775,527	1,670,423
General Revenues					
Property Taxes	4,212,502	4,917,997	4,400,290	4,502,285	4,524,398
Grants and Contributions	4,264,771	2,839,727	3,555,343	3,280,250	3,098,680
Investment Earnings	146,454	56,903	(2,813)	46,385	59,411
Other General Revenues	29,481	11,583	34,010	415,217	(237,247)
Total Revenues	\$11,462,697	\$10,551,104	\$9,895,850	\$10,113,307	\$9,189,093
Program Expenses					
Instructional and Instructional Related	\$5,625,241	\$4,955,971	\$4,450,953	\$4,767,913	\$4,487,815
Instructional Resources & Media Services	86,886	132,616	80,562	56,139	71,760
Curriculum & Instructional Staff Development	178,075	332,387	311,483	65,587	65,549
Instructional Leadership	91,867	137,925	116,157	126,131	51,571
School Leadership	619,659	573,677	521,654	509,802	523,304
Guidance, Counseling, and Evaluation Services	224,215	189,655	227,636	155,873	190,094
Social Work Services	11,570	70,253	-	-	-
Health Services	100,630	100,011	88,188	71,011	69,317
Student Transportation	398,526	355,116	264,183	247,865	213,618
Food Services	599,760	497,278	455,076	435,413	470,994
Co-Curricular/Extracurricular Activities	684,622	550,284	517,361	495,103	450,650
General Administration	722,127	621,363	696,427	512,010	566,504
Plant Maintenance and Operations	1,181,939	1,073,446	1,022,635	1,007,839	844,052
Security & Monitoring Services	138,442	72,738	63,806	57,620	37,662
Data Processing Services	154,198	163,815	187,241	150,503	155,881
Interest on Long-Term Debt	241,432	404,832	329,669	415,745	372,266
Bond Issuance Costs and Fees	-	-	-	-	-
Capital Outlay	126,089	96,115	50,226	398,339	293,354
Payments to Shared Services Arrangements	88,873	72,271	52,717	55,835	48,565
Other Intergovernmental Charges	91,577	96,307	92,795	72,568	107,153
Total Expenses	\$11,365,728	\$10,496,060	\$9,528,769	\$9,601,296	\$9,020,109
Change in Net Assets	\$96,969	\$55,044	\$367,081	\$512,011	\$168,984
Prior Period Adjustments	-	-	4,076	-	-
Net Assets at Beginning of Fiscal Year	3,040,644	2,985,600	2,614,443	2,102,432	1,933,448
Net Assets at End of Fiscal Year	\$3,137,613	\$3,040,644	\$2,985,600	\$2,614,443	\$2,102,432

⁽¹⁾ Source: The District's Audited Financial Statements.

Table 6 - General Fund Revenues and Expenditure History ⁽¹⁾

For Fiscal Year ended August 31	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
REVENUES:					
Total Local and Intermediate Sources	\$3,507,229	\$3,924,893	\$3,485,450	\$3,995,161	\$3,770,020
State Program Revenues	3,931,361	2,438,286	3,179,714	3,051,740	2,912,701
Federal Program Revenues	202,551	357,181	369,729	224,218	179,928
Total Revenues	\$7,641,141	\$6,720,360	\$7,034,893	\$7,271,119	\$6,862,649
EXPENDITURES:					
Current:					
Instruction	\$3,762,026	\$3,460,644	\$3,508,077	\$3,351,463	\$3,120,306
Instructional Resources & Media	56,994	72,211	68,418	37,374	48,527
Curriculum & Instructional Staff Development	3,732	3,050	3,634	5,978	15,104
Instructional Leadership	73,366	117,449	116,369	109,285	457,960
School Leadership	478,259	445,480	368,584	411,946	-
Guidance & Counseling	171,039	140,367	156,519	127,356	149,609
Health Services	97,087	96,968	79,837	67,968	66,274
Student Transportation	253,808	223,212	214,080	249,436	179,916
Co-Curricular/Extracurricular Activities	409,924	360,012	337,814	318,734	302,408
General Administration	614,563	547,895	689,664	457,874	489,381
Plant Maintenance and Operations	993,758	860,992	919,691	838,208	786,837
Security & Monitoring Services	98,709	61,984	63,806	57,620	37,662
Data Processing Services	116,371	122,546	107,009	103,769	202,274
Debt Service	121,888	121,990	162,929	159,321	83,142
Capital Outlay	72,650	68,685	50,226	1,614,719	839,906
Intergovernmental					
Payments to Shared Services Arrangements	76,795	72,271	52,717	55,835	48,565
Other Intergovernmental Charges	91,577	96,307	92,795	72,568	107,153
Total Expenses	\$7,492,546	\$6,872,063	\$6,992,169	\$8,039,454	\$6,935,024
Excess (Deficiency) of Revenues	\$148,595	(\$151,703)	\$42,724	(\$768,335)	(\$72,375)
Other Resources and (Uses)					
Transfers Out	(44,870)	(8,118)	(53,338)	(61,314)	(7,500)
Transfers In	-	-	-	-	-
Proceeds from Sale of Property or Capital Assets	18,412	-	-	-	-
Issuance of Non-Current Debt	-	-	-	-	1,546,000
Total Other Financing Sources and (Uses)	(26,458)	(8,118)	(53,338)	(\$61,314)	\$1,538,500
Net Change in Fund Balances	\$122,137	(\$159,821)	(\$10,614)	(\$829,649)	\$1,466,125
Fund Balances - Beginning	\$2,279,566	\$2,439,387	\$2,450,001	\$3,279,650	\$1,813,525
Prior Period Adjustment	\$0	\$0	\$0	\$0	\$0
Fund Balances – Ending ⁽²⁾	\$2,401,703	\$2,279,566	\$2,439,387	\$2,450,001	\$3,279,650

⁽¹⁾ Source: The District's Audited Financial Statements.⁽²⁾ The District's General Fund Balance is expected to be \$2,200,000 as of August 31, 2025.

TABLE 7 – Estimated Overlapping Debt Statement ⁽¹⁾

<u>Taxing Body</u>	<u>Amount</u>	<u>As Of</u>	<u>% Overlap</u>	<u>\$ Overlap</u>
Burleson County	\$2,295,000	6/30/2025	17.30%	\$397,035
Burleson County MUD #1	634,000	6/30/2025	100.00%	634,000
Somerville, City of	2,875,000	6/30/2025	100.00%	2,875,000
Total Overlapping Debt				\$3,906,035
Somerville ISD ⁽²⁾⁽³⁾				\$50,465,000
Total Direct and Overlapping Debt				\$54,371,035
Direct and Overlapping Debt to Net Taxable Valuation				8.79%
Direct and Overlapping Debt to Actual Taxable Valuation				3.66%
Per Capita Direct and Overlapping Debt				\$12,927

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Includes the Bond and excludes the Maintenance Tax Notes, Series 2020

⁽³⁾ Preliminary, subject to change.

Table 8 - Current Investments ⁽¹⁾

As of June 30, 2025, the District's investable funds amounted to \$1,473,300.

The following summary itemizes the District's investment portfolio by type of security:

	<u>Percent</u>	<u>Book Value</u>	<u>Market Value</u>
TexPool Investment Pool	10.75%	\$158,334	\$158,334
T. Rowe Price Mutual Funds	0.77%	\$11,373	\$11,373
Certificates of Deposit	5.26%	\$77,500	\$77,500
Logic Investment	83.22%	\$1,226,093	\$1,226,093
Total Investments	100.00%	\$1,473,300	\$1,473,300

⁽¹⁾ Source: District's records.

Table 9 - Classification of Assessed Valuation by Use Category ⁽¹⁾

Property Use Category	2025	2024	2023	2022	2021
Single-Family Residential	\$301,366,463	\$310,462,589	\$272,177,994	\$210,461,876	\$169,265,908
Multi-Family Residential	1,655,583	2,122,020	1,209,939	1,445,515	966,344
Vacant Lots/Tracts	57,240,074	56,517,158	49,823,862	38,296,755	28,446,275
Acreage (Land Only)	583,299,880	541,963,759	401,288,222	333,897,583	291,065,487
Farm and Ranch Improvements	210,091,924	235,388,218	180,918,016	148,382,950	110,235,308
Commercial and Industrial	44,909,430	48,367,039	37,192,638	41,404,438	29,143,289
Real Minerals, Oil and Gas	49,984,050	56,616,550	39,296,270	26,183,230	18,708,640
Real and Intangible Personal, Utilities	34,135,676	33,918,343	33,636,751	31,879,694	28,089,206
Tangible Personal, Commercial & Industrial	77,665,696	72,286,140	64,882,159	58,727,735	51,069,939
Tangible Personal, Other	32,729,079	33,468,806	29,360,564	23,051,051	16,112,004
Special/Real Inventory	1,589,824	2,006,348	10,500	8,092	10,335
Totally Exempt Property	91,063,204	126,473,362	77,766,385	48,575,475	35,342,714
Total Market Valuation	\$1,485,730,883	\$1,519,590,332	\$1,187,794,136	\$962,314,394	\$778,455,449
Less: Total Exemptions/Reductions	\$867,499,349	\$914,963,233	\$669,681,665	\$476,518,930	\$374,364,172
Net Taxable Valuation Before Freeze	\$618,231,534	\$604,627,099	\$518,112,471	\$485,795,464	\$404,091,277

⁽¹⁾ Source: Burleson County Appraisal District.

Property Use Category	2025	2024	2023	2022	2021
Single-Family Residential	20.28%	20.43%	22.91%	21.87%	21.74%
Multi-Family Residential	0.11%	0.14%	0.10%	0.15%	0.12%
Vacant Lots/Tracts	3.85%	3.72%	4.19%	3.98%	3.65%
Acreage (Land Only)	39.26%	35.67%	33.78%	34.70%	37.39%
Farm and Ranch Improvements	14.14%	15.49%	15.23%	15.42%	14.16%
Commercial and Industrial	3.02%	3.18%	3.13%	4.30%	3.74%
Real Minerals, Oil and Gas	3.36%	3.73%	3.31%	2.72%	2.40%
Real and Intangible Personal, Utilities	2.30%	2.23%	2.83%	3.31%	3.61%
Tangible Personal, Commercial & Industrial	5.23%	4.76%	5.46%	6.10%	6.56%
Tangible Personal, Other	2.20%	2.20%	2.47%	2.40%	2.07%
Special/Real Inventory	0.11%	0.13%	0.00%	0.00%	0.00%
Totally Exempt Property	6.13%	8.32%	6.55%	5.05%	4.54%
	100.00%	100.00%	100.00%	100.00%	100.00%

⁽¹⁾ Source: Burleson County Appraisal District.

Table 10 - Valuation and Tax Supported Debt History

Fiscal Year	Taxable Assessed Valuation ⁽¹⁾	Estimated Population ⁽²⁾	Taxable Assessed Valuation Per Capita	Tax Supported Outstanding Debt	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2021	\$386,542,078	4,339	\$89,086	\$11,445,000	2.96%	\$2,638
2022	404,091,277	4,375	92,364	10,880,000	2.69%	2,487
2023	485,795,464	4,246	114,412	10,295,000	2.12%	2,425
2024	518,112,471	4,423	117,141	9,690,000	1.87%	2,191
2025	604,627,099	4,206	143,753	50,465,000 ⁽³⁾	8.35%	11,998
2026	618,231,534	4,395	141,667	49,820,000 ⁽³⁾	8.06%	11,336

⁽¹⁾ Source: Burleson County Appraisal District.

⁽²⁾ Source: Municipal Advisory Council of Texas

⁽³⁾ Includes the Bonds. Preliminary, subject to change.

Table 11 - Interest and Sinking Fund Budget Projection

Interest & Sinking Fund Balance, 09/01/2024 (Beginning) ⁽¹⁾		\$933,774
Estimated Tax Supported Debt Service Requirements for FYE 2025 ⁽²⁾	\$919,391	
Projected Interest & Sinking Fund Local Revenue	\$1,159,246	
Instructional Facilities Allotment ⁽³⁾	-	
Additional State Aid for Homestead Exemption (ASAHE) for Facilities	\$140,115	
Transfers In/(Out)	-	
Projected Interest & Sinking Fund Balance, 08/31/2025 (Ending) ⁽⁴⁾		\$1,313,744
Net Increase/(Decrease) in Fund Balance		\$379,970

⁽¹⁾ Calculation based on the 2024 Tax Rate and 2025 Net Taxable Assessed Valuation of \$618,231,534.

⁽²⁾ Includes the Bonds. Preliminary, subject to change.

⁽³⁾ Source: Texas Education Agency 2024-2025 Summary of Finance dated February 10, 2025.

⁽⁴⁾ The Interest & Sinking Fund Balance as of June 30, 2025, was \$1,159,000.

Table 12 - Tax Supported Interest and Sinking Fund Debt Service Requirements

Plus: The Bonds ⁽¹⁾					
<u>Fiscal Year</u> <u>Ending 08/31</u>	<u>Outstanding Debt</u> <u>Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u> <u>Requirements</u>	<u>Total New Debt Service</u> <u>Requirements</u>
2025	\$907,399	\$0	\$11,993	\$11,993	\$919,391
2026	913,463	0	2,074,715	\$2,074,715	\$2,988,177
2027	702,013	0	2,158,663	\$2,158,663	\$2,860,675
2028	703,288	0	2,158,663	\$2,158,663	\$2,861,950
2029	699,188	70,000	2,156,913	\$2,226,913	\$2,926,100
2030	699,713	135,000	2,151,788	\$2,286,788	\$2,986,500
2031	704,713	205,000	2,143,288	\$2,348,288	\$3,053,000
2032	704,188	270,000	2,131,413	\$2,401,413	\$3,105,600
2033	703,213	345,000	2,116,038	\$2,461,038	\$3,164,250
2034	706,525	415,000	2,097,038	\$2,512,038	\$3,218,563
2035	699,200	500,000	2,074,163	\$2,574,163	\$3,273,363
2036	701,419	585,000	2,047,038	\$2,632,038	\$3,333,456
2037	703,019	675,000	2,015,538	\$2,690,538	\$3,393,556
2038	703,788	770,000	1,979,413	\$2,749,413	\$3,453,200
2039	703,725	875,000	1,938,288	\$2,813,288	\$3,517,013
2040	702,813	985,000	1,891,788	\$2,876,788	\$3,579,600
2041	701,044	1,105,000	1,838,156	\$2,943,156	\$3,644,200
2042		1,715,000	1,764,131	\$3,479,131	\$3,479,131
2043		1,805,000	1,671,731	\$3,476,731	\$3,476,731
2044		1,905,000	1,574,344	\$3,479,344	\$3,479,344
2045		2,005,000	1,471,706	\$3,476,706	\$3,476,706
2046		2,110,000	1,363,688	\$3,473,688	\$3,473,688
2047		2,225,000	1,249,894	\$3,474,894	\$3,474,894
2048		2,345,000	1,129,931	\$3,474,931	\$3,474,931
2049		2,470,000	1,003,538	\$3,473,538	\$3,473,538
2050		2,605,000	870,319	\$3,475,319	\$3,475,319
2051		2,745,000	729,881	\$3,474,881	\$3,474,881
2052		2,890,000	581,963	\$3,471,963	\$3,471,963
2053		3,045,000	426,169	\$3,471,169	\$3,471,169
2054		3,210,000	261,975	\$3,471,975	\$3,471,975
2055		3,385,000	88,856	\$3,473,856	\$3,473,856
	\$12,358,705	\$41,395,000	\$47,173,013	\$88,568,013	\$100,926,718
Average Annual Debt Service Requirement					\$3,255,701
Maximum Debt Service Requirement					\$3,644,200

⁽¹⁾ Preliminary, subject to change.

Table 13 - Tax Adequacy ⁽¹⁾

2025 Net Principal and Interest Requirements	\$919,391	
\$0.1518 Tax Rate at 98% Collections Produces	\$919,100	(2)
<hr/>		
Average Annual Debt Service Requirements (2025-2055)	\$3,255,701	
\$0.5374 Tax Rate at 98% Collections Produces	\$3,255,929	(2)
<hr/>		
Maximum Annual Debt Service Requirements (2041)	\$3,644,200	
\$0.6015 Tax Rate at 98% Collections Produces	\$3,644,289	(2)

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

(2) Based upon 2025 Taxable Assessed Valuation of \$618,231,534 at a 98% collections rate.

Table 14 - Authorized But Unissued Bonds

Following the issuance of the Bonds, the District anticipates that it will have \$0 in voted but unissued bonds as further described below.

A summary of the bonds authorized at said Election is as follows:

Purpose	Amount Authorized	Issued to Date	Being Issued ⁽¹⁾	Unissued Balance ⁽²⁾
School Building	\$42,000,000	\$0	\$42,000,000	\$0

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

(1) Includes the Bonds and an anticipated allocation of the original issue premium relating thereto being deposited to the District's construction fund and therefore being applied towards the amount of authorization. Preliminary, subject to change.

(2) Preliminary, subject to change.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the Somerville Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2024.

The information presented represents only a part of the Report and does not purport to be a complete statement of the District's financial condition. Reference is made to the complete Annual Audit Report for additional information.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
Somerville, Texas

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2024

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INTRODUCTORY SECTION

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD
August 31, 2024

Somerville Independent School District
Name of School District

Burleson
County

026-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2024, at a meeting of the Board of Trustees of such school district on the 15th day of January, 2025.


Signature of Board Secretary


Signature of Board President

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are): (attach list as necessary)

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Somerville Independent School District
Somerville, Texas

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, fiduciary funds, each major fund, and the aggregate remaining fund information of Somerville 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 general 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 District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* that 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 judgement made by a reasonable user based on the financial statements.

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

- Exercise professional judgement 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.

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

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

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2, U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements for Federal Awards, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, supplementary information, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 15, 2025, on our consideration of Somerville 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 Somerville 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 Somerville Independent School District's internal control over financial reporting and compliance.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
January 15, 2025



MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Somerville Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2024. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position was \$3,137,613 as of August 31, 2024.
- For the fiscal year ended August 31, 2024, the District's general fund reported a total fund balance of \$2,401,703, of which all was unassigned. The debt service fund reported a fund balance of \$933,774.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, and the debt service fund) reported combined ending fund balances of \$3,555,777.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of several parts - **management's discussion and analysis** (this section), the **basic financial statements, and required supplementary information**. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the fiduciary resources belong. The fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *required supplementary information* that further explains and supports the information in the financial statements.

Government-wide Financial Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Position includes all of the District's assets and liabilities. All of the current period's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The government-wide statements report the District's net position and how it has changed. Net position is the difference between the District's assets and liabilities and is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base, staffing patterns, enrollment, and attendance.

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in the *governmental activities*. Locally assessed property taxes together with State foundation programs entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds - not the District as a whole. Funds are simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees (the "Board") establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity - these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following kinds of funds:

Governmental Funds - Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental fund statement, or on the subsequent page, that explains the relationship (or differences) between them.

Fiduciary Funds - The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$3,137,613 at August 31, 2024. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2024. The District reported an increase of \$96,969 in net position from the prior year. Liabilities increased due to a significant increase in accounts payable from the prior year caused by money that is due to state. Revenues for the District increased due to an increase in operating grants and contributions due to the increase in on behalf revenues related to the increase in the pension and OPEB liabilities. Expenses increased significantly in instruction, school leadership, co-curricular activities, general administration, and bond issuance costs due to expending less throughout the year and as the result of the increase in the OPEB liability, pension liability, and the related decrease in on behalf expenses.

The District's Net Position (Table 1)

	2024	2023
Current and other assets	\$ 4 515 981	\$ 4 701 425
Capital and non-current assets	14 506 164	15 103 652
TOTAL ASSETS	19 022 145	19 805 077
Deferred outflows related to pensions	1 787 877	2 133 667
Deferred outflows related to OPEB	1 059 949	1 270 561
TOTAL ASSETS AND DEFERRED OUTFLOWS	21 869 971	23 209 305
Current liabilities	1 134 960	1 555 927
Long term liabilities	14 989 675	15 458 338
TOTAL LIABILITIES	16 124 635	17 014 265
Deferred inflows related to pensions	572 303	855 823
Deferred inflows related to OPEB	2 035 420	2 298 573
TOTAL LIABILITIES AND DEFERRED INFLOWS	18 732 358	20 168 661
Net Position:		
Net investment in capital assets	2 910 236	3 509 470
Restricted	1 154 074	1 010 756
Unrestricted	(926 697)	(1 479 582)
TOTAL NET POSITION	\$ 3 137 613	\$ 3 040 644

The District's Changes in Net Position (Table 2)

	YEAR ENDED	
	2024	2023
Revenues:		
Program Revenues:		
Charges for services	\$ 173 217	\$ 129 881
Operating grants	2 636 272	2 595 013
General Revenues:		
Property taxes	4 212 502	4 917 997
Grants and contributions	4 264 771	2 839 727
Investment earnings	146 454	56 903
Other general revenues	29 481	11 583
TOTAL REVENUES	<u>11 462 697</u>	<u>10 551 104</u>
Expenses:		
Instructional and instructional related	5 625 241	4 955 971
Instructional resources and media services	86 886	132 616
Curriculum and staff development	178 075	332 387
Instructional leadership	91 867	137 925
School leadership	619 659	573 677
Guidance, counseling, and evaluation services	224 215	189 655
Social work services	11 570	70 253
Health services	100 630	100 011
Student transportation	398 526	355 116
Food services	599 760	497 278
Co-curricular/extracurricular activities	684 622	550 284
General administration	722 127	621 363
Plant maintenance and operations	1 181 939	1 073 446
Security and monitoring	138 442	72 738
Data processing services	154 198	163 815
Interest on long-term debt	241 432	404 832
Capital outlay	126 089	96 115
Payments related to shared services arrangements	88 873	72 271
Other intergovernmental charges	91 577	96 307
TOTAL EXPENSES	<u>11 365 728</u>	<u>10 496 060</u>
CHANGE IN NET POSITION	\$ <u>96 969</u>	\$ <u>55 044</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2024, the District's governmental funds reported a combined fund balance of \$3,555,777. This compares to a combined fund balance of \$3,290,322 at August 31, 2023. The debt service fund balance increased as a direct result of an increase in revenue received from local sources, particularly tax revenue resulting from an increase in the current year valuations. The District's combined governmental funds revenue increased by \$734,852. The total combined revenue was \$10,244,010 this year compared to \$9,509,158 last year. The District's combined governmental funds expenditures increased by \$407,371. The total combined expenditures were \$9,996,967 this year compared to \$9,589,596 last year.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting principles, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ending August 31, 2024, The District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There was a material change between the original budget and the final amended budget. The general fund's actual revenues were more than budgeted revenues by \$145,919 due to the District receiving more in state revenues than budgeted. In addition, the District's actual expenditures were less than budgeted expenditures by \$50,371 with the District spending more than budgeted in expenses associated with instruction.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost of an amount determined by the Board. Donated capital assets are recorded at acquisition value at the date of donation. During the fiscal year ended August 31, 2024, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2024, the District had a total of \$25,363,646 invested in capital assets such as land, buildings, and District equipment. This total includes \$123,342 invested during the fiscal year ended August 31, 2024.

Major additions included:

- Updated HVAC systems \$81,700
- Copier lease \$18,412
- Security Radio Tower \$16,487

More detailed information about the District's capital assets can be found in the notes to the financial statements.

Long-term Debt

At year-end, the District had \$10,930,770 in general obligation bonds, maintenance tax notes, leases, and right of use assets payable outstanding versus \$11,648,013 last year. The decrease is due to current year payments.

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

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS

The following factors were considered in establishing the District's budget for 2024-2025:

- Student enrollment for 2024-2025 is expected to increase slightly when compared to 2023-2024. District officials anticipate a slight increase in the rate of attendance for the 2025 school year, compared to 2024, therefore, the refined daily attendance, which is a significant component of the formula upon which State Foundation Program entitlements are based, is projected to increase slightly for 2024-2025.
- The District's total tax rate decreased from the previous year to \$0.8244 per \$100 valuation with the maintenance and operations tax rate at \$0.6669 and the interest and sinking tax rate at \$0.1575.
- No new programs were added and no significant changes to existing programs occurred during the current year. No significant changes are planned for 2024-2025.
- District officials anticipate that the fund balance for the general fund will not materially change for 2024-2025 compared to 2023-2024.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Somerville Independent School District Administration Office at (979) 596-2154.

BASIC FINANCIAL STATEMENTS

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
August 31, 2024

EXHIBIT A-1

DATA CONTROL CODES		1 GOVERNMENTAL ACTIVITIES
	ASSETS	
1110	Cash and cash equivalents	\$ 2 022 156
1120	Investments	1 515 406
1225	Property taxes receivable, net allowance of \$265,554	619 627
1240	Due from other governments	358 792
	Capital Assets:	
1510	Land	406 185
1520	Buildings and improvements, net	13 507 387
1550	Right of use assets, net	24 848
1530	Furniture and equipment, net	534 906
1540	Capital leases, net	32 838
1000	TOTAL ASSETS	<u>19 022 145</u>
	DEFERRED OUTFLOWS	
	Deferred outflow related to pension	1 787 877
	Deferred outflow related to OPEB	1 059 949
1700	TOTAL DEFERRED OUTFLOWS	<u>2 847 826</u>
	TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>21 869 971</u>
	LIABILITIES	
	Current Liabilities:	
2110	Accounts payable	27 463
2140	Interest payable	37 776
2150	Payroll and withholding payable	22 488
2165	Accrued liabilities	280 636
2180	Due to state	11 319
2501	Due within one year	755 278
	Noncurrent Liabilities:	
2502	Due in more than one year	10 175 492
2516	Premium on bond issue	627 382
2540	Net pension liability	2 825 236
2545	Net other post-employment benefits (OPEB) liability	1 361 565
2000	TOTAL LIABILITIES	<u>16 124 635</u>
	DEFERRED INFLOWS	
	Deferred inflow related to pension	572 303
	Deferred inflow related to OPEB	2 035 420
2600	TOTAL DEFERRED INFLOWS	<u>2 607 723</u>
	TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>18 732 358</u>
	NET POSITION	
3200	Net investment in capital assets	2 910 236
	Restricted for:	
3820	Federal and state grants	51 982
3850	Debt service	933 774
3890	Other purposes	168 318
3900	Unrestricted	(926 697)
3000	TOTAL NET POSITION	<u>\$ 3 137 613</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2024

EXHIBIT B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1	3		4	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS
		EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	GOVERNMENTAL ACTIVITIES	
	Governmental Activities:					
11	Instruction	\$ 5 625 241	\$ -	\$ 1 391 222	\$ (4 234 019)	
12	Instruction resources and media services	86 886	-	13 986	(72 900)	
13	Curriculum and staff development	178 075	-	174 309	(3 766)	
21	Instructional leadership	91 867	-	14 767	(77 100)	
23	School leadership	619 659	-	111 395	(508 264)	
31	Guidance, counseling, and evaluation services	224 215	-	51 432	(172 783)	
32	Social work services	11 570	-	-	(11 570)	
33	Health services	100 630	-	500	(100 130)	
34	Student transportation	398 526	-	36 628	(361 898)	
35	Food services	599 760	84 606	415 654	(99 500)	
36	Cocurricular/extracurricular activities	684 622	88 611	51 064	(544 947)	
41	General administration	722 127	-	82 664	(639 463)	
51	Plant maintenance and operations	1 181 939	-	87 718	(1 094 221)	
52	Security and monitoring services	138 442	-	38 063	(100 379)	
53	Data processing services	154 198	-	9 866	(144 332)	
71	Debt service	241 432	-	12 078	(229 354)	
81	Capital outlay	126 089	-	144 926	18 837	
93	Payments to SSA	88 873	-	-	(88 873)	
99	Other intergovernmental charges	91 577	-	-	(91 577)	
TG	TOTAL GOVERNMENTAL ACTIVITIES	11 365 728	173 217	2 636 272	(8 556 239)	
TP	TOTAL PRIMARY GOVERNMENT	\$ 11 365 728	\$ 173 217	\$ 2 636 272	(8 556 239)	
General Revenues:						
MT	Property taxes, levied for general purposes				3 311 113	
DT	Property taxes, levied for debt service				901 389	
IE	Investment earnings (loss)				146 454	
GC	Grants and contributions not restricted to specific programs				4 264 771	
MI	Miscellaneous				29 481	
TR	TOTAL GENERAL REVENUES				8 653 208	
CN	CHANGE IN NET POSITION				96 969	
NB	Net position - Beginning				3 040 644	
NE	NET POSITION - ENDING				\$ 3 137 613	

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
For the Year Ended August 31, 2024

EXHIBIT C-1

DATA CONTROL CODES		10	50		98
		GENERAL FUND	DEBT SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	TOTAL GOVERN- MENTAL FUNDS
	ASSETS				
1110	Cash and cash equivalents	\$ 1 027 659	\$ 931 917	\$ 62 580	\$ 2 022 156
1120	Investments	1 348 188	-	167 218	1 515 406
1225	Taxes receivable, net	544 225	75 402	-	619 627
1240	Due from other governments	251 022	1 857	105 913	358 792
1260	Due from other funds	94 009	-	-	94 009
1000	TOTAL ASSETS	<u>\$ 3 265 103</u>	<u>\$ 1 009 176</u>	<u>\$ 335 711</u>	<u>\$ 4 609 990</u>
	LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES				
	Liabilities:				
2110	Accounts Payable	12 438	-	15 025	27 463
2150	Payroll and withholding payable	22 488	-	-	22 488
2160	Accrued wages payable	272 930	-	6 377	279 307
2170	Due to other funds	-	-	94 009	94 009
2181	Due to state	11 319	-	-	11 319
2000	TOTAL LIABILITIES	<u>319 175</u>	<u>-</u>	<u>115 411</u>	<u>434 586</u>
	Deferred Inflows:				
	Unavailable revenues - Property taxes	544 225	75 402	-	619 627
2600	TOTAL DEFERRED INFLOWS	<u>544 225</u>	<u>75 402</u>	<u>-</u>	<u>619 627</u>
	Fund Balances:				
	Restricted:				
3450	Federal/state funds grant restrictions	-	-	51 982	51 982
3480	Retirement of long-term debt	-	933 774	-	933 774
3490	Other restrictions of fund balance	-	-	168 318	168 318
3600	Unassigned	2 401 703	-	-	2 401 703
3000	TOTAL FUND BALANCE	<u>2 401 703</u>	<u>933 774</u>	<u>220 300</u>	<u>3 555 777</u>
4000	TOTAL LIABILITIES, DEFERRED INFLOWS AND FUND BALANCE	<u>\$ 3 265 103</u>	<u>\$ 1 009 176</u>	<u>\$ 335 711</u>	<u>\$ 4 609 990</u>

The accompanying notes are an integral part of this statement.

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

EXHIBIT C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET	\$ 3 555 777
Amounts Reported for Governmental Activities in the Statement of Net Position are Different because:	
Capital assets used in governmental activities are not reported in the funds.	14 506 164
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	619 627
Payables for debt principal which are not due in the current period are not reported in the funds, including premium amortization.	(11 558 152)
Payables for debt interest which are not due in the current period are not reported in the funds.	(37 776)
The liabilities for workers' compensation are included in governmental activities in the SNP.	(1 329)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(2 825 236)
Recognition of the District's proportionate share of the net OPEB liability is not reported in the funds.	(1 361 565)
Deferred outflows of resources related to Teacher Retirement System of Texas (TRS) are not reported in the funds.	1 787 877
Deferred outflows of resources related to the OPEB plan are not reported in the funds.	1 059 949
Deferred inflows of resources related to TRS are not reported in the funds.	(572 303)
Deferred inflows of resources related to the OPEB plan are not reported in the funds.	<u>(2 035 420)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION	\$ <u>3 137 613</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
For the Year Ended August 31, 2024

EXHIBIT C-2

DATA CONTROL CODES		10 GENERAL FUND	50 DEBT SERVICE FUNDS	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
	Revenues:				
5700	Local and intermediate sources	\$ 3 507 229	\$ 914 975	\$ 164 440	\$ 4 586 644
5800	State program revenues	3 931 361	130 859	434 718	4 496 938
5900	Federal program revenues	202 551	-	957 877	1 160 428
5020	TOTAL REVENUES	<u>7 641 141</u>	<u>1 045 834</u>	<u>1 557 035</u>	<u>10 244 010</u>
	Expenditures:				
0011	Instruction	3 762 026	-	616 375	4 378 401
0012	Instructional resources and media services	56 994	-	-	56 994
0013	Curriculum and staff development	3 732	-	174 343	178 075
0021	Instructional leadership	73 366	-	604	73 970
0023	School leadership	478 259	-	18 514	496 773
0031	Guidance, counseling and evaluation services	159 469	-	-	159 469
0032	Social work services	11 570	-	-	11 570
0033	Health services	97 087	-	500	97 587
0034	Student transportation	253 808	-	3 053	256 861
0035	Food services	-	-	502 889	502 889
0036	Cocurricular/extracurricular activities	409 924	-	71 720	481 644
0041	General administration	614 563	-	3 076	617 639
0051	Plant maintenance and operations	993 758	-	7 827	1 001 585
0052	Security and monitoring services	98 709	-	34 508	133 217
0053	Data processing services	116 371	-	2 822	119 193
0071	Debt service	121 888	911 186	-	1 033 074
0081	Capital outlay	72 650	-	144 926	217 576
0093	Payments to SSA	76 795	-	12 078	88 873
0099	Other intergovernmental charges	91 577	-	-	91 577
6030	TOTAL EXPENDITURES	<u>7 492 546</u>	<u>911 186</u>	<u>1 593 235</u>	<u>9 996 967</u>
1100	EXCESS/(DEFICIT) REVENUE OVER EXPENDITURES	<u>148 595</u>	<u>134 648</u>	<u>(36 200)</u>	<u>247 043</u>
	Other Financing Sources and (Uses):				
7913	Right of use asset proceeds	18 412	-	-	18 412
7915	Transfers in	-	-	44 870	44 870
8911	Transfers out	(44 870)	-	-	(44 870)
7080	TOTAL OTHER FINANCING SOURCES AND (USES)	<u>(26 458)</u>	<u>-</u>	<u>44 870</u>	<u>18 412</u>
1200	NET CHANGE IN FUND BALANCES	122 137	134 648	8 670	265 455
0100	Fund balance - Beginning	2 279 566	799 126	211 630	3 290 322
3000	FUND BALANCE - ENDING	\$ <u>2 401 703</u>	\$ <u>933 774</u>	\$ <u>220 300</u>	\$ <u>3 555 777</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2024

EXHIBIT C-3

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 265 455
Amounts Reported for Governmental Activities in the Statement of Activities ("SOA") are Different because:	
The depreciation of capital assets used in governmental activities is not reported in the funds.	(720 830)
Capital outlays are not reported as expenses in the SOA.	123 342
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(24 990)
Repayment of debt principal is an expenditure in the funds but is not an expense in the SOA.	739 951
(Increase) decrease in accrued interest from beginning of period to end of period as well as amortization of bond premium.	51 691
Right of use asset lease proceeds reported in the funds but not in the government wide	(18 412)
Governmental funds report district pension and OPEB contributions as expenses in the government wide statements, the cost of pension and OPEB net of employee contributions is reported as pension expense	(319 661)
(Increase) decrease in accrued workers' compensation	<u>423</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	<u>\$ 96 969</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2024

EXHIBIT E-1

	CUSTODIAL FUNDS
ASSETS	
Cash and cash equivalents	\$ 48 908
Investments	<u>1 495</u>
TOTAL ASSETS	<u>\$ 50 403</u>
NET POSITION	
Restricted Net position	\$ 50 403
TOTAL NET POSITION	<u>\$ 50 403</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2024

EXHIBIT E-2

	<u>CUSTODIAL FUNDS</u>
Additions:	
Contributions	\$ <u>100 324</u>
TOTAL ADDITIONS	<u>100 324</u>
Deductions:	
Payments to others	<u>90 497</u>
TOTAL DEDUCTIONS	<u>90 497</u>
NET CHANGE IN NET POSITION	9 827
Net position - Beginning	<u>40 576</u>
NET POSITION - ENDING	\$ <u><u>50 403</u></u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Somerville Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

A. The Reporting Entity

The Board of School Trustees (the "Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity" and there are not component units included within the reporting entity.

B. Basis of Presentation, Basis of Accounting

Basis of Presentation:

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: This fund is used to account for tax revenues and for the payment for principal, interest, and related cost on long-term debt for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the debt obligations have been met.

In addition, the District reports the following fund types:

Special Revenue Funds: these funds are used to account for revenues and expenditures related to grant awards or entitlements from federal, state, and local agencies. These funds are primarily on reimbursement basis and have a program year that does not always coincide with the District's fiscal year. Nearly all of these funds cannot carry a fund balance and, other than the food service fund, none of these funds are legally required to have an adopted budget.

Permanent Funds: These funds are governmental funds that are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs.

Custodial Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity. Custodial funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee capacity and therefore not available to support District programs, these funds are not included in the government-wide statements.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Measurement Focus, Basis of Accounting, and Financial Statement Presentation:

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

C. Financial Statements Amounts

Cash and Cash Equivalents:

For purposes of the statement of cash flow, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Property Taxes:

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the general and debt service funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Inventories and Prepaid Items:

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Agriculture. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Agriculture and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operations supplies, as well as instructional supplies.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

Capital Assets:

Purchased or constructed capital assets are reported at cost or estimated historical costs. Donated capital assets are recorded at acquisition value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extended assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

<u>ASSET CLASS</u>	<u>ESTIMATED USEFUL LIFE</u>
Building	50
Vehicles	2-15
Equipment	3-15

Deferred Outflows and Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement, *deferred outflows of resources*, represents a consumption of net position that applies to one or more future periods and so will *not* be recognized as an outflow of resources (expenses/expenditures) until then.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to one or more future periods and so will *not* be recognized as an inflow of resources (revenue) until that time.

Receivable and Payable Balances:

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 of year end.

Interfund Activity:

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

Use of Estimates:

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

Data Control Codes:

Data control codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

Fund Balances - Governmental Funds:

Fund balances of the governmental funds are classified as follows:

- Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).
- Restricted Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board. Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.
- Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the board or by an official or body to which the Board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts have been restricted, committed, or assigned.

Net Position Flow Assumption:

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

Fund Balance Flow Assumption:

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

Program Revenues:

Amounts reported as *program revenues* include 1) charges to customers or applications who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

Pensions:

The fiduciary net position of 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.

Other Post-Employment Benefits:

The fiduciary net position of TRS-Care 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 OPEB, OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments (including refunds of employee contributions) 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.

NOTE 2 - DEPOSITS AND INVESTMENTS

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

1. Cash Deposits:

At August 31, 2024, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,587,965 and the bank balance was \$2,666,188. The District's cash deposits at August 31, 2024, and during the year ended August 31, 2024, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), 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 rate 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.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the area of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies. The Act determines the types of investments which are allowable for the District. These include, with certain restrictions: 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas; 2) certificates of deposit; 3) certain municipal securities; 4) securities lending program; 5) repurchase agreements; and 10) commercial paper.

The District's investments at August 31 are shown below:

NAME	WEIGHTED AVERAGE	FAIR VALUE
TexPool Investment Pool	36 days	\$ 152 489
T. Rowe Price Mutual Funds	N/A	107 468
Certificates of Deposits	43 days	77 223
Logic Investment	46 days	1 179 721
TOTAL INVESTMENTS		\$ <u>1 516 901</u>

Fair Value Measurements:

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

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

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

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of August 31, 2024, the District had the following recurring investments subject to fair value measurements:

		FAIR VALUE MEASUREMENTS USING	
		QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	
		AUGUST 31, 2024	
Investments by Fair Value Level:			
Mutual Funds:			
GNMA	\$	4 807	\$ 4 807
Spectrum income		102 661	102 661
TOTAL	\$	<u>107 468</u>	\$ <u>107 468</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

Analysis of Specific Deposit and Investment Risks:

a. 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 year end, the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 2 - DEPOSITS AND INVESTMENTS - CONTINUED

TexPool

The District invests in the Texas Local Government Investment Pool ("TexPool"), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board (the "Board") to advise with respect to TexPool. The Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool and are qualified to advise in respect to TexPool. The Board members review the investment policy and management fee structure. TexPool is rated 'AAAm' by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

NOTE 3 - CAPITAL ASSETS

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

	BEGINNING BALANCES	INCREASES	TRANSFERS	ENDING BALANCES
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 406 185	\$ -	\$ -	\$ 406 185
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATED	406 185	-	-	406 185
Capital Assets Being Depreciated:				
Buildings and improvements	22 960 663	16 487	7 406	22 984 556
Leases	21 654	18 412	-	40 066
Vehicles and equipment	1 753 288	88 443	(7 406)	1 834 325
Right of use assets	98 514	-	-	98 514
TOTAL CAPITAL ASSETS BEING DEPRECIATED	24 834 119	123 342	-	24 957 461
Less Accumulated Depreciation for:				
Buildings and improvements	(8 671 644)	(573 149)	(232 376)	(9 477 169)
Leases	(10 273)	(4 945)	-	(15 218)
Vehicles and equipment	(1 421 897)	(109 898)	232 376	(1 299 419)
Right of use assets	(32 838)	(32 838)	-	(65 676)
TOTAL ACCUMULATED DEPRECIATION	(10 136 652)	(720 830)	-	(10 857 482)
TOTAL CAPITAL ASSETS BEING DEPRECIATED, NET	14 697 467	(597 488)	-	14 099 979
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 15 103 652	\$ (597 488)	\$ -	\$ 14 506 164

Depreciation was charged to functions as follows:

Instruction	\$ 288 051
Instructional resources and media services	12 311
Instructional leadership	94
School leadership	6 132
Guidance, counseling and evaluation services	94
Health services	3 043
Student transportation	99 461
Food services	47 487
Cocurricular/extracurricular activities	146 178
General administration	4 443
Plant maintenance and operations	86 629
Security and monitoring services	756
Data processing	26 151
	\$ 720 830

NOTE 4 - INTERFUND BALANCES AND ACTIVITIES

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2024 consisted of the following:

DUE TO	DUE FROM	AMOUNT	REASON
General Fund	Other Government Funds	\$ 94 009	Short-term loan
	TOTAL	\$ 94 009	

All amounts due are scheduled to be repaid within one year.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 4 - INTERFUND BALANCES AND ACTIVITIES - CONTINUED

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2024 consisted of the following:

TRANSFERS FROM	TRANSFERS TO	AMOUNT	REASON
General Fund	Other Government Funds	\$ 44 870	Supplement other funds sources
	TOTAL	\$ 44 870	

NOTE 5 - LONG - TERM OBLIGATIONS

Long-Term Obligation Activity:

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

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE	AMOUNTS DUE WITHIN ONE YEAR
Governmental Activities:					
Bonds, Notes, and Other Payables:					
School building bonds, 2016	\$ 7 095 000	\$ -	\$ (295 000)	\$ 6 800 000	\$ 305 000
School building bonds, 2017	2 585 000	-	(110 000)	2 475 000	110 000
Tax refunding bonds, 2020	615 000	-	(200 000)	415 000	205 000
Maintenance tax note, 2020	1 281 000	-	(94 000)	1 187 000	96 000
TOTAL BONDS, NOTES, AND OTHER PAYABLES	11 576 000	-	(699 000)	10 877 000	716 000
Other Liabilities:					
Bond premium	664 287	-	(36 905)	627 382	-
Xerox copier lease	3 409	-	(1 989)	1 420	1 420
Xerox copier lease	3 980	-	(2 322)	1 658	1 658
Xerox copier lease 2024	-	18 412	(547)	17 865	3 373
Apptegy	11 330	-	(5 556)	5 774	5 774
ASCENDER	40 125	-	(19 756)	20 369	20 369
Heartland	5 014	-	(2 470)	2 544	2 544
Web Filtering - Region 6	8 155	-	(4 015)	4 140	4 140
TOTAL GOVERNMENT ACTIVITIES	\$ 12 312 300	\$ 18 412	\$ (772 560)	\$ 11 558 152	\$ 755 278

Bonded indebtedness of the District reflects in the general long-term debt and current requirements of principal and interest expenditures are accounted for in the debt service fund. These bonds were issued as school tax refunding bonds and school building bonds and the interest rates on the bonds ranged from 3.00% to 4.00% for School Building Bonds, Series 2016; 3.00% to 3.75% for School Building Bonds, Series 2017, and 1.25% to 1.50% for Tax Refunding Bonds, Series 2020.

Notes payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditure are accounted for on the general fund. The District approved the 2020 maintenance tax note at 2.26% for the acquisition and maintenance of facilities, vehicles, and equipment.

Notes payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the general fund. The District approved the 2020 maintenance loans at interest rates of 2.60% for the acquisition and maintenance of facilities, vehicles, and equipment.

Lease payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the general fund. The District approved the 2020 copier leases at an interest rate of 0.350% for 60 months starting April 15, 2020.

Right of use payables of the District reflected in the general long-term debt and current requirements for principal and interest are accounted for in the general fund. The right of use assets are payable over 3 years at an interest rate of 3.1 to 3.92%.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 5 - LONG - TERM OBLIGATIONS - CONTINUED

Debt Service Requirements:

Debt service requirements on long-term debt at August 31, 2024 are as follows:

GOVERNMENTAL ACTIVITIES										
YEAR ENDING AUGUST 31,	BONDS PAYABLE		NOTES PAYABLE		LEASES		RIGHT OF USE ASSETS		TOTAL	
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST
2025	\$ 620 000	\$ 287 398	\$ 96 000	\$ 25 741	\$ 6 451	\$ 769	\$ 32 827	\$ 1 065	\$ 755 278	\$ 314 973
2026	645 000	268 462	98 000	23 549	3 534	603	-	-	746 534	292 614
2027	450 000	252 012	101 000	21 301	3 703	434	-	-	554 703	273 747
2028	465 000	238 287	103 000	18 996	3 880	257	-	-	571 880	257 540
2029	475 000	224 187	105 000	16 645	3 375	73	-	-	583 375	240 905
2030-2034	2 625 000	893 348	564 000	45 991	-	-	-	-	3 189 000	939 339
2035-2039	3 050 000	461 150	120 000	1 356	-	-	-	-	3 170 000	462 506
2040-2044	1 360 000	43 857	-	-	-	-	-	-	1 360 000	43 857
TOTAL	\$ 9 690 000	\$ 2 668 701	\$ 1 187 000	\$ 153 579	\$ 20 943	\$ 2 136	\$ 32 827	\$ 1 065	\$ 10 930 770	\$ 2 825 481

NOTE 6 - RISK MANAGEMENT

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

NOTE 7 - PENSION PLAN

A. Plan Description

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

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

B. Pension Plan Fiduciary Net Position

Detailed information about TRS' fiduciary net position is available in a separately issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.state.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, Texas, 78701-2698; or by calling (512) 542-6592.

C. Benefits Provided

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

D. 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% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 7 - PENSION PLAN - CONTINUED

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates. The 85th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2023 and 2024.

	CONTRIBUTION RATES	
	2023	2024
Member	8.00%	8.25%
Non-Employer Contributing Entity (State)	8.00%	8.25%
Employers	8.00%	8.25%
Employer Contributions		\$ 104 217
Member Contributions		\$ 265 988
NECE On-behalf Contributions		\$ 274 403

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

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

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

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

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors, and Disability Insurance (OASDI) Program for certain employees, the must contribute 1.7% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

E. Actuarial Assumptions

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

Valuation Date	August 31, 2023
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	7.00%
Long-term Expected Investment Rate of Return	7.00%
Inflation	2.30%
Salary Increases	2.95% to 8.95% including inflation
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 7 - PENSION PLAN - CONTINUED

F. Discount Rate

The single discount rate used to measure the total pension liability was 7.00%. The single discount rate was based on the expected rate of return on pension plan investments of 7.00 percent and a municipal bond rate of 3.91 percent. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2023 are summarized below:

ASSET CLASS	TARGET** ALLOCATION	LONG-TERM EXPECTED GEOMETRIC REAL RATE OF RETURN***	EXPECTED CONTRIBUTION TO LONG-TERM PORTFOLIO RETURNS
Global Equity			
U.S.A.	18%	4.0%	1.0%
Non-U.S. Developed	13%	4.5%	0.9%
Emerging Markets	9%	4.8%	0.7%
Private Equity*	14%	7.0%	1.5%
Stable Value			
Government Bonds	16%	2.5%	0.5%
Absolute Return*	- %	3.6%	- %
Stable Value Hedge Funds	5%	4.1%	0.2%
Real Return			
Real Estate	15%	4.9%	1.1%
Energy, Natural Resources, and Infrastructure	6%	4.8%	0.4%
Commodities	- %	4.4%	- %
Risk Parity			
Risk Parity	8%	4.5%	0.4%
Asset Allocation Leverage			
Cash	2%	3.7%	- %
Asset Allocation Leverage	(6)%	4.4%	(0.1)%
Inflation Expectation			2.3%
Volatility Drag****			(0.9)%
Expected Return	<u>100%</u>		<u>8.0%</u>

* Absolute Return includes Credit Sensitive Investments.

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

*** Capital Market Assumptions come from Aon Hewitt (as of 06/30/2023).

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

For the fiscal year ended August 31, 2023, the annual money-weighted rate of return on pension plan investments was 7.00 percent. The annual money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.00%) in measuring the net pension liability.

	1% Decrease in Discount (6.00%)	Current Single Discount (7.00%)	1% Increase in Discount (8.00%)
District's proportionate share of the net Pension liability \$	4 223 884	\$ 2 825 236	\$ 1 622 259

H. Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At August 31, 2024, the District reported a liability of \$2,825,236 for its proportionate share of the TRS's Net Pension Liability. This liability reflects a reduction for State pension support provide 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 OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 2 825 236
State's proportionate share that is associated with the District	3 666 914
TOTAL	<u>\$ 6 492 150</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 7 - PENSION PLAN - CONTINUED

The Net Pension Liability was measured as of 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 District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2022 thru August 31, 2023.

At August 31, 2023, the District's proportion of the collective net pension liability was 0.00411% which was an increase of 0.00009% from its proportion measured as of August 31, 2022.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions of other inputs that affected measurement of the total pension liability since the prior measurement period.

The total pension liability as of August 31, 2023 was developed using a roll-forward method from the August 31, 2022 valuation.

Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2023.

Economic assumptions including rates of salary increase for individual participants was updated based on the same experience study.

The discount rate remained the same as of August 31, 2023.

The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

For the year ended August 31, 2024, the District recognized pension expense of \$553,672 and revenue of \$553,672 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 100 664	\$ 34 211
Changes in actuarial assumptions	267 212	65 393
Difference between projected and actual investment earnings	882 801	471 660
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	432 983	1 039
Contributions paid to TRS subsequent to the measurement date	104 217	-
TOTAL	\$ 1 787 877	\$ 572 303

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

YEAR ENDED AUGUST 31,	OPEB EXPENSE AMOUNT
2025	\$ 272 711
2026	\$ 210 257
2027	\$ 446 512
2028	\$ 166 318
2029	\$ 15 559
Thereafter	\$ -

Plan Description

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detailed information about TRS-Care's fiduciary net position is available in the separately issued TRS Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 8 - DEFINED OTHER POSTEMPLOYMENT BENEFIT PLANS

Benefits Provided

TRS-Care provides a basic health insurance coverage, TRS-Care 1 (the "Basic Plan"), at no cost to all 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 retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits, TRS-Care 2 and TRS-Care 3 (the "Optional Health Insurance"). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board 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. There are no automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs).

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

TRS-Care Monthly for Retirees			
January 1, 2023 - December 31, 2023			
		Medicare	Non-Medicare
Retiree*	\$	135	\$ 200
Retiree and Spouse		529	689
Retiree* and Children		468	408
Retiree and Family		1 020	999

* *or surviving spouse*

Contributions

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

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

CONTRIBUTION RATES		
	2023	2024
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%
Employer Contributions - 2024		\$ 26 035
Member Contributions - 2024		\$ 20 956
NECE On-behalf Contributions - 2023		\$ 64 377

In addition to the employer contributions listed above, there is an additional surcharge, which all TRS employers are subject (regardless of whether they participate in TRS-Care.) When employers hire a TRS retiree, they are required to pay a monthly surcharge of \$535 per retiree to TRS-Care.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 8 - DEFINED OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

Actuarial Assumptions

The total OPEB liability in the August 31, 2023 actuarial valuations was determined using the following actuarial assumptions:

Actuarial Methods and Assumptions:

Valuation Date	August 31, 2022 rolled forward to August 31, 2023
Methods and Assumptions:	
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	4.13% as of August 31, 2023
Demographic Assumptions	Based on the experience study performed for the Teachers Retirement System of Texas of the period ending August 31, 2017.
Mortality Assumption	The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection, the ultimate improvement rates from the most recently published projection scale ("U-MP").
Healthcare Trend Rates	Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and initial medical trend rate of 7.3% for non-Medicare retirees. Initial prescription drug trend rate of 9.0% for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 13 years.
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
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.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2023 TRS pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Discount Rate

A single discount rate of 4.13% was used to measure the total OPEB liability. There was an increase of 0.22% in the discount rate since the previous year. Because the plan is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to *not be able to* make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

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

	1% Decrease in Discount Rate (3.13%)	Current Single Discount Rate (4.13%)	1% Increase in Discount Rate (5.13%)
District's proportionate share of net OPEB liability	\$ 1 603 640	\$ 1 361 565	\$ 1 164 026

The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed 4.25% rate is used.

	1% Decrease Healthcare Cost Trend Rate (3.25%)	Current Healthcare Cost Trend Rate (4.25%)	1% Increase Healthcare Cost Trend Rate (5.25%)
District's proportionate share of net OPEB liability	\$ 1 121 180	\$ 1 361 565	\$ 1 670 820

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 8 - DEFINED OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

OPEB Liabilities, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

At August 31, 2024, the District reported a liability of \$1,361,565 for its proportionate share of TRS' 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	\$ 1 361 565
State's proportionate share that is associated with the District	1 642 937
TOTAL	<u>\$ 3 004 502</u>

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

At August 31, 2023, the employer's proportion of the collective Net OPEB Liability was 0.00615% which was a decrease of 0.0001% from August 31, 2022.

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

The following assumptions and other inputs which are specific to TRS-Care were updated from the prior year's report:

1. The discount rate changed from 3.91 percent as of August 31, 2022 to 4.13 percent as of August 31, 2023. This change decreased the TOL.
2. The health care trend rates were reset to better reflect the plan's anticipated experience. This change decreased the TOL.
3. The participation rate for pre-65 retirees was lowered from 70 percent to 65 percent. The participation rate for post-65 retirees was lowered from 50 percent to 40 percent. 25 percent of pre-65 retirees are assumed to discontinue their coverage at age 65. There was no lapse assumption in the prior valuation. These changes decreased the TOL.
4. The percentage of retirees who are assumed to have two-person coverage was lowered from 20 percent to 15 percent. In addition, the participation assumption for the surviving spouses of employees that die while actively employed was lowered from 20 percent to 10 percent. These changes decreased the TOL.
5. Change of Benefit Terms Since the Prior Measurement Date - There were no changes in benefit terms since the prior measurement date.

There were no changes of benefit terms that affected measurement of the Total OPEB liability during the measurement period.

For the year ended August 31, 2024, the District recognized OPEB expense of \$351,225 and revenue of \$351,225 for support provided by the State.

At August 31, 2024, the District reported its proportionate share of TRS' 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 economic experience	\$ 61 600	\$ 1 145 499
Changes in actuarial assumptions	185 844	833 722
Differences between projected and actual investment earnings	3 096	2 508
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	783 374	53 691
Contributions paid to TRS subsequent to the measurement date	26 035	-
	<u>\$ 1 059 949</u>	<u>\$ 2 035 420</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 8 - DEFINED OTHER POSTEMPLOYMENT BENEFIT PLANS - CONTINUED

The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

YEAR ENDED AUGUST 31,	OPEB AMOUNT
2025	\$ (259 371)
2026	\$ (196 922)
2027	\$ (112 376)
2028	\$ (133 805)
2029	\$ (129 743)
Thereafter	\$ (169 289)

The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) is offering a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care received payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS based this allocation percentage on the "completed" report submissions by reporting entities for the month of May. For the fiscal years ended August 31, 2024, 2023 and 2022, the subsidy payments received by TRS-Care on behalf of the District were \$20,807, \$28,519 and \$20,315 respectively.

NOTE 9 - EMPLOYEE HEALTH CARE COVERAGE

During the year ended August 31, 2024, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$350 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Cost 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 collectability 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 basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2024.

NOTE 11 - SHARED SERVICES ARRANGEMENTS

The District participates in a shared services arrangement (SSA) for resource education with other participating independent 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 a joint ownership interest in fixed assets purchased by the fiscal agent, Rockdale Independent School District, 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 fiscal agent is responsible for all financial activities of the SSA.

The District participates in an SSA with Brazos Valley Regional Day School for the Deaf with other participating independent 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 a joint ownership interest in fixed assets purchased by Bryan ISD, 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 fiscal agent is responsible for all financial activities of the SSA.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 11 - SHARED SERVICES ARRANGEMENTS - CONTINUED

The District participates in an SSA for career and technology education services with other participating independent 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 a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, 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 fiscal agent is responsible for all financial activities of the SSA.

The District participates in an SSA for the improvement of the education of limited English proficient children funded under ESEA Title III, Part A, English Language Acquisition and Language Enhancement. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, 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 fiscal agent is responsible for all financial activities of the SSA.

NOTE 12 - WORKERS' COMPENSATION

Claims Administrative Service

During the year ended August 31, 2024, employees of the District were covered by a Workers' Compensation Plan (the "Plan"). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third-party administrator, Claims Administrative Services (CAS), acting on behalf of the self-funded pool, is renewable September 1, 2023, and terms, as well as cost of coverage, are included in the contractual provisions.

In accordance with state statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Midwest Employers Casualty, a commercial insurer licensed or eligible to do business in the state of Texas in accordance with Texas Insurance Code. Reinsurance coverage was in effect for individual claims exceeding \$750,000 and for aggregate claims with a statutory limit of \$3,000,000. According to CAS, the unfunded claim benefit obligation of \$1,329 included \$-0- in estimated claims incurred, but not reported.

The claim liability is based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate of claims in which have been incurred, but not reported based on historical experience. Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below:

	FISCAL YEAR	
	2024	2023
Claims liability at beginning of year	\$ 1 345	\$ 1 421
Current year claims and estimated changes	97	(6)
Claims payments	(113)	(70)
CLAIMS LIABILITY AT YEAR END	<u>\$ 1 329</u>	<u>\$ 1 345</u>

TASB Risk Management Fund

During the year ended August 31, 2024, the District met its statutory worker's 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, 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 District participates in the Fund's reimbursement aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims and liability.

The Fund and its members are protected against higher than expected 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, 2024, the fund carries a discounted reserve of \$46,076,113 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 and reimbursable aggregate deductibles.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2024

NOTE 12 - WORKERS' COMPENSATION - CONTINUED

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 and have been filed with the Texas Department of Insurance in Austin.

NOTE 13 - UNEMPLOYMENT COMPENSATION

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 and have been filed with the Texas Department of Insurance in Austin.

NOTE 14 - SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 15, 2025, the date the financial statements were available to be issued.

NOTE 15 - BUDGETARY COMPLIANCE

For the fiscal year ended August 31, 2024, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

<u>FUND</u>	<u>FUNCTION</u>	<u>VARIANCE</u>
General	11 Instruction	\$ (13 034)

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board, but not considered a part of the basic financial statements.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended August 31, 2024

EXHIBIT G-1

DATA CONTROL CODES		1 BUDGETED AMOUNTS		3 ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
		ORIGINAL	FINAL		
	Revenues:				
5700	Local and intermediate sources	\$ 4 186 586	\$ 3 533 890	\$ 3 507 229	\$ (26 661)
5800	State program revenues	2 618 153	3 776 157	3 931 361	155 204
5900	Federal program revenue	270 099	185 175	202 551	17 376
5020	TOTAL REVENUES	<u>7 074 838</u>	<u>7 495 222</u>	<u>7 641 141</u>	<u>145 919</u>
	Expenditures:				
0011	Instruction	3 416 992	3 748 992	3 762 026	(13 034)
0012	Instructional resources and media services	76 007	56 994	56 994	-
0013	Curriculum and staff development	6 300	3 828	3 732	96
0021	Instructional leadership	146 569	73 753	73 366	387
0023	School leadership	472 229	478 387	478 259	128
0031	Guidance, counseling and evaluation services	160 171	159 470	159 469	1
0032	Social work services	11 877	11 573	11 570	3
0033	Health services	97 321	97 361	97 087	274
0034	Student (pupil) transportation	273 383	256 883	253 808	3 075
0036	Cocurricular/extracurricular activities	414 211	414 711	409 924	4 787
0041	General administration	577 141	617 291	614 563	2 728
0051	Plant maintenance and operations	857 782	1 012 782	993 758	19 024
0052	Security and monitoring services	76 100	128 100	98 709	29 391
0053	Data processing services	115 148	117 531	116 371	1 160
0071	Principle on long-term debt	121 889	121 889	121 888	1
0081	Capital outlay	75 000	75 000	72 650	2 350
0093	Shared services arrangements	81 718	76 795	76 795	-
0099	Other intergovernmental charges	95 000	91 577	91 577	-
6030	TOTAL EXPENDITURES	<u>7 074 838</u>	<u>7 542 917</u>	<u>7 492 546</u>	<u>50 371</u>
1100	EXCESS/(DEFICIT) REVENUE OVER EXPENDITURES	<u>-</u>	<u>(47 695)</u>	<u>148 595</u>	<u>196 290</u>
	Other Financing Sources and (Uses):				
7913	Proceeds	-	-	18 412	18 412
8911	Transfers out	-	-	(44 870)	(44 870)
7080	TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>(26 458)</u>	<u>(26 458)</u>
1200	NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(47 695)</u>	<u>122 137</u>	<u>151 420</u>
0100	Fund balance - Beginning	<u>2 279 566</u>	<u>2 279 566</u>	<u>2 279 566</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 2 279 566</u>	<u>\$ 2 231 871</u>	<u>\$ 2 401 703</u>	<u>\$ 151 420</u>

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

EXHIBIT G-2

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
District's proportion of the net pension liability (asset)	0.0041%	0.004%	0.00301%	0.00285%	0.00243%	0.00244%	0.022634%	0.020614%	0.019645%	0.013849%
District's proportionate share of the net pension liability (asset)	\$ 2 825 236	\$ 2 385 639	\$ 767 668	\$ 1 527 547	\$ 1 261 038	\$ 1 342 326	\$ 723 713	\$ 778 986	\$ 694 425	\$ 369 926
State's proportionate share of the net pension liability (asset) associated with the District	3 666 914	3 468 003	1 561 489	3 163 923	2 684 891	2 635 961	1 901 259	2 279 680	2 199 153	1 820 146
TOTAL	\$ 6 492 150	\$ 5 853 642	\$ 2 329 157	\$ 4 691 470	\$ 3 945 929	\$ 3 978 287	\$ 2 624 972	\$ 3 058 666	\$ 2 893 578	\$ 2 190 072
District's covered-employee payroll	\$ 4 588 384	\$ 4 556 688	\$ 3 954 560	\$ 3 582 061	\$ 3 116 631	\$ 3 156 047	\$ 3 423 938	\$ 3 283 037	\$ 3 103 562	\$ 3 025 331
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	61.57%	52.35%	19.41%	42.64%	40.46%	42.53%	21.14%	23.73%	22.38%	12.23%
Plan fiduciary net position as a percentage of the total pension liability	73.15%	75.62%	88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%	83.25%

Information provided by the Teacher Retirement System of Texas.

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
LAST TEN FISCAL YEARS

EXHIBIT G-3

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 104 217	\$ 195 134	\$ 173 895	\$ 116 916	\$ 108 357	\$ 77 541	\$ 81 860	\$ 74 181	\$ 65 497	\$ 58 171
Contributions in relation to the contractually required contribution	<u>(104 217)</u>	<u>(195 134)</u>	<u>(173 895)</u>	<u>(116 916)</u>	<u>(108 357)</u>	<u>(77 541)</u>	<u>(81 860)</u>	<u>(74 181)</u>	<u>(65 497)</u>	<u>(58 171)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District's covered-employee payroll	\$ 3 224 084	\$ 4 588 384	\$ 4 556 688	\$ 3 954 560	\$ 3 582 061	\$ 3 116 631	\$ 3 156 047	\$ 3 423 938	\$ 3 283 037	\$ 3 103 562
Contributions as a percentage of covered payroll	3.23%	4.25%	3.82%	2.96%	3.02%	2.49%	2.59%	2.17%	2.00%	1.87%

Information provided by the Teacher Retirement System of Texas.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
DISTRICT'S PROPORTIONATE SHARE OF LIABILITY AND DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
LAST TEN FISCAL YEARS*

EXHIBIT G-4

District's Proportionate Share of Liability	2023	2022	2021	2020	2019	2018	2017
District's proportion of the OPEBL	0.0062%	0.0062%	0.005261%	0.0049%	0.0048%	0.004276%	0.0043495%
District's proportionate share of the OPEBL	\$ 1 361 565	\$ 1 491 230	\$ 2 029 286	\$ 1 848 286	\$ 2 263 734	\$ 2 135 170	\$ 1 891 426
State share of the OPEBL associated with the District	<u>1 642 937</u>	<u>1 819 066</u>	<u>2 718 791</u>	<u>2 483 653</u>	<u>3 007 997</u>	<u>2 581 803</u>	<u>2 622 787</u>
TOTAL	<u>\$ 3 004 502</u>	<u>\$ 3 310 296</u>	<u>\$ 4 748 077</u>	<u>\$ 4 331 939</u>	<u>\$ 5 271 731</u>	<u>\$ 4 716 973</u>	<u>\$ 4 514 213</u>
District's covered-employee payroll* <i>*Prior FY TRS Gross - September through August</i>	\$ 4 588 384	\$ 4 556 688	\$ 3 954 560	\$ 3 582 061	\$ 3 116 631	\$ 3 156 047	\$ 3 423 938
Proportionate share/covered payroll	29.67%	32.73%	51.32%	51.6%	72.63%	67.65%	55.24%
Plan fiduciary net position/total OPEB liability	14.94%	11.52%	6.18%	4.99%	2.66%	1.57%	0.91%

Notes to Required Supplementary Information:

Changes in Assumptions:

See note disclosure for current year changes.

Changes in Benefits:

See note disclosure for current year changes.

District Contributions	2024	2023	2022	2021	2020	2019	2018
Statutorily or contractually required contribution	\$ 26 035	\$ 43 224	\$ 42 442	\$ 31 746	\$ 29 075	\$ 30 383	\$ 31 069
Contributions to required contribution	<u>(26 035)</u>	<u>(43 224)</u>	<u>(42 442)</u>	<u>(31 746)</u>	<u>(29 075)</u>	<u>(30 383)</u>	<u>(31 069)</u>
CONTRIBUTION DEFICIENCY (EXCESS)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 3 224 084	\$ 4 588 384	\$ 4 556 688	\$ 3 954 560	\$ 3 582 061	\$ 3 116 631	\$ 3 156 047
Contributions to covered payroll	0.81%	0.94%	0.93%	0.80%	0.81%	0.97%	0.98%

Information provided by the Teacher Retirement System of Texas.

* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended August 31, 2024

Budget

The official budget was prepared for adoption for the General fund in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Defined Benefit Pension and OPEB Plan

Changes of Benefit Terms

See Note disclosure for current year changes.

Changes of Assumptions

See Note disclosure for current year changes.

COMBINING STATEMENTS AND BUDGET COMPARISONS
AS SUPPLEMENTARY INFORMATION

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
August 31, 2024

EXHIBIT H-1

DATA CONTROL CODES		SPECIAL REVENUE FUND	SCHOLARSHIP FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS (SEE EXHIBIT C-1)
	ASSETS			
1110	Cash and cash equivalents	\$ 61 480	\$ 1 100	\$ 62 580
1120	Current investments	-	167 218	167 218
1240	Due from other governments	105 913	-	105 913
1000	TOTAL ASSETS	<u>\$ 167 393</u>	<u>\$ 168 318</u>	<u>\$ 335 711</u>
	LIABILITIES			
2110	Accounts Payable	\$ 15 025	\$ -	\$ 15 025
2160	Accrued wages payable	6 377	-	6 377
2170	Due to other funds	94 009	-	94 009
2000	TOTAL LIABILITIES	<u>115 411</u>	<u>-</u>	<u>115 411</u>
	FUND BALANCES			
	Restricted Fund Balances:			
3490	Other restrictions of fund balance	51 982	168 318	220 300
3000	TOTAL FUND BALANCES	<u>51 982</u>	<u>168 318</u>	<u>220 300</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 167 393</u>	<u>\$ 168 318</u>	<u>\$ 335 711</u>

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2024

EXHIBIT H-2

DATA CONTROL CODES		SPECIAL REVENUE FUND	SCHOLARSHIP FUNDS	TOTAL NONMAJOR GOVERNMENTAL FUNDS (SEE EXHIBIT C-2)
	Revenues:			
5700	Local and intermediate sources	\$ 154 044	\$ 10 396	\$ 164 440
5800	State program revenues	434 718	-	434 718
5900	Federal program revenues	957 877	-	957 877
5020	TOTAL REVENUES	<u>\$ 1 546 639</u>	<u>\$ 10 396</u>	<u>\$ 1 557 035</u>
	Expenditures:			
0011	Instruction	\$ 616 375	\$ -	\$ 616 375
0013	Curriculum and staff development	174 343	-	174 343
0021	Instructional leadership	604	-	604
0023	School leadership	18 514	-	18 514
0033	Health services	500	-	500
0034	Student transportation	3 053	-	3 053
0035	Food service	502 889	-	502 889
0036	Cocurricular/extracurricular activities	63 093	8 627	71 720
0041	General administration	3 076	-	3 076
0051	Plant maintenance and operations	7 827	-	7 827
0052	Security and monitoring services	34 508	-	34 508
0053	Data processing services	2 822	-	2 822
0081	Capital outlay	144 926	-	144 926
0093	Payments to shared services arrangements	12 078	-	12 078
6030	TOTAL EXPENDITURES	<u>1 584 608</u>	<u>8 627</u>	<u>1 593 235</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(37 969)</u>	<u>1 769</u>	<u>(36 200)</u>
	Other Financing Sources and (Uses):			
7915	Transfers in	44 870	-	44 870
7080	TOTAL OTHER FINANCING SOURCES AND (USES)	<u>44 870</u>	<u>-</u>	<u>44 870</u>
1200	NET CHANGE IN FUND BALANCES	6 901	1 769	8 670
0100	Fund balances - Beginning	<u>45 081</u>	<u>166 549</u>	<u>211 630</u>
3000	FUND BALANCES - ENDING	<u>\$ 51 982</u>	<u>\$ 168 318</u>	<u>\$ 220 300</u>

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
August 31, 2024

		211	240	242	255
DATA CONTROL CODES		ESEA TITLE I GRANT	CHILD NUTRITION FUND	SUMMER FEEDING PROGRAM	TITLE II PART A TRAINING GRANT
	ASSETS				
1110	Cash and cash equivalents	\$ -	\$ 10 140	\$ -	\$ 3 121
1240	Due from other governments	53 041	23 798	-	6 658
1000	TOTAL ASSETS	\$ 53 041	\$ 33 938	\$ -	\$ 9 779
	LIABILITIES				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ 3 121
2160	Accrued wages payable	-	6 377	-	-
2170	Due to other funds	53 041	23 798	-	6 658
2000	TOTAL LIABILITIES	53 041	30 175	-	9 779
	FUND BALANCES				
	Restricted Fund Balances:				
3490	Other restrictions of fund balance	-	3 763	-	-
3000	TOTAL FUND BALANCES	-	3 763	-	-
4000	TOTAL LIABILITIES AND FUND BALANCES	\$ 53 041	\$ 33 938	\$ -	\$ 9 779

See independent auditor's report.

279	281	282	289	290	410	427
ESSER III TCLAS	ESSER II	ESSER III	TITLE IV PART A SUBPART 1	USDA RURAL SCHOOLS	TEXTBOOK/ TECHNOLOGY FUND	SAFETY GRANT
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8 709	-	-	1 803	-	-	11 904
<u>\$ 8 709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1 803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11 904</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11 904
-	-	-	-	-	-	-
8 709	-	-	1 803	-	-	-
<u>8 709</u>	<u>-</u>	<u>-</u>	<u>1 803</u>	<u>-</u>	<u>-</u>	<u>11 904</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 8 709</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1 803</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11 904</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
August 31, 2024

EXHIBIT H-3
Page 2 of 2

DATA CONTROL CODES		428	429	461	TOTAL NONMAJOR SPECIAL REVENUE FUNDS (SEE EXHIBIT H-1)
		SILENT PANIC TECH. FUND	TCLAS - GR	CAMPUS ACTIVITY FUND	
	ASSETS				
1110	Cash and cash equivalents	\$ -	\$ -	\$ 48 219	\$ 61 480
1242	Due from other governments	-	-	-	105 913
1000	TOTAL ASSETS	\$ -	\$ -	\$ 48 219	\$ 167 393
	LIABILITIES				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ 15 025
2160	Accrued wages payable	-	-	-	6 377
2170	Due to other funds	-	-	-	94 009
2000	TOTAL LIABILITIES	-	-	-	115 411
	FUND BALANCES				
	Restricted Fund Balances:				
3490	Other restrictions of fund balance	-	-	48 219	51 982
3000	TOTAL FUND BALANCES	-	-	48 219	51 982
4000	TOTAL LIABILITIES AND FUND BALANCES	\$ -	\$ -	\$ 48 219	\$ 167 393

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS
 For the Year Ended August 31, 2024

		211	240	242	255
DATA CONTROL CODES		ESEA TITLE I GRANT	CHILD NUTRITION FUND	SUMMER FEEDING PROGRAM	TITLE II PART A TRAINING GRANT
	Revenues:				
5700	Local and intermediate sources	\$ -	\$ 84 606	\$ 808	\$ -
5800	State program revenues	-	15 297	176	-
5900	Federal program revenues	307 564	350 918	6 977	25 221
5020	TOTAL REVENUES	307 564	450 821	7 961	25 221
	Expenditures:				
0011	Instruction	233 596	-	-	9 552
0013	Curriculum and staff development	67 221	-	-	5 203
0021	Instructional leadership	-	-	-	104
0023	School leadership	4 694	-	-	9 820
0033	Health services	-	-	-	-
0034	Student transportation	2 053	-	-	-
0035	Food services	-	491 928	7 961	-
0036	Extracurricular activities	-	-	-	-
0041	General administration	-	-	-	576
0051	Plant maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	-	-
0053	Data processing services	-	-	-	-
0081	Capital outlay	-	-	-	-
0093	Payments to shared services arrangements	-	-	-	-
6030	TOTAL EXPENDITURES	307 564	491 928	7 961	25 255
1100	EXCESS/(DEFICIT) REVENUE OVER EXPENDITURES	-	(41 107)	-	(34)
	Other Financing Sources:				
7915	Transfer in	-	44 870	-	-
7080	TOTAL OTHER FINANCING SOURCES	-	44 870	-	-
1200	NET CHANGE IN FUND BALANCE	-	3 763	-	(34)
0100	Fund balances - Beginning	-	-	-	34
3000	FUND BALANCES - ENDING	\$ -	\$ 3 763	\$ -	\$ -

See independent auditor's report.

279	281	282	289	290	410	427
ESSER III TCLAS	ESSER II	ESSER III	TITLE IV PART A SUBPART 1	USDA RURAL SCHOOLS	TEXTBOOK/ TECHNOLOGY FUND	SAFETY GRANT
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	98 571	176 880
120 731	-	84 189	24 484	37 793	-	-
120 731	-	84 189	24 484	37 793	98 571	176 880
121 117	1 365	58 548	10 991	37 793	98 571	-
-	-	4 120	1 415	-	-	-
-	-	500	-	-	-	-
-	-	4 000	-	-	-	-
-	-	500	-	-	-	-
-	-	1 000	-	-	-	-
-	-	3 000	-	-	-	-
-	-	500	-	-	-	-
-	-	2 500	-	-	-	-
-	-	7 827	-	-	-	-
-	-	-	-	-	-	-
-	-	2 822	-	-	-	31 954
-	-	-	-	-	-	144 926
-	-	-	12 078	-	-	-
121 117	1 365	85 317	24 484	37 793	98 571	176 880
(386)	(1 365)	(1 128)	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
(386)	(1 365)	(1 128)	-	-	-	-
386	1 365	1 128	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2024

EXHIBIT H-4
Page 2 of 2

DATA CONTROL CODES		428	429	461	TOTAL NONMAJOR SPECIAL REVENUE FUNDS (SEE EXHIBIT H-1)
		SILENT PANIC TECH. FUND	TCLAS - GR	CAMPUS ACTIVITY FUND	
	Revenues:				
5700	Local and intermediate sources	\$ -	\$ -	\$ 68 630	\$ 154 044
5800	State program revenues	2 554	141 226	14	434 718
5900	Federal program revenues	-	-	-	957 877
5020	TOTAL REVENUES	<u>2 554</u>	<u>141 226</u>	<u>68 644</u>	<u>1 546 639</u>
	Expenditures:				
0011	Instruction	-	44 842	-	616 375
0013	Curriculum and staff development	-	96 384	-	174 343
0021	Instructional leadership	-	-	-	604
0023	School leadership	-	-	-	18 514
0033	Health services	-	-	-	500
0034	Student transportation	-	-	-	3 053
0035	Food services	-	-	-	502 889
0036	Extracurricular activities	-	-	62 593	63 093
0041	General administration	-	-	-	3 076
0051	Plant maintenance and operations	-	-	-	7 827
0052	Security and monitoring services	2 554	-	-	34 508
0053	Data processing services	-	-	-	2 822
0081	Capital outlay	-	-	-	144 926
0093	Payments to shared services arrangements	-	-	-	12 078
6030	TOTAL EXPENDITURES	<u>2 554</u>	<u>141 226</u>	<u>62 593</u>	<u>1 584 608</u>
1100	EXCESS/(DEFICIT) REVENUE OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>6 051</u>	<u>(37 969)</u>
	Other Financing Sources:				
7915	Transfer in	-	-	-	44 870
7080	TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>-</u>	<u>44 870</u>
1200	NET CHANGE IN FUND BALANCE	-	-	6 051	6 901
0100	Fund balances - Beginning	<u>-</u>	<u>-</u>	<u>42 168</u>	<u>45 081</u>
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 48 219</u>	<u>\$ 51 982</u>

See independent auditor's report.

OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended August 31, 2024

	(1)	(2)	(3)	
	TAX RATES		ASSESSED/APPRaisal VALUE FOR SCHOOL TAX PURPOSES	
LAST 10 YEARS	MAINTENANCE	DEBT SERVICE		
2015 and prior years	Various	Various		Various
2016	1.0040	0.0727	\$	280 433 153
2017	1.0040	0.2954	\$	262 437 622
2018	1.0040	0.3102	\$	288 267 138
2019	1.0040	0.3000	\$	319 863 582
2020	0.0970	0.2700	\$	360 547 500
2021	0.0966	0.2700	\$	359 929 935
2022	0.8976	0.2575	\$	374 388 700
2023	0.8546	0.2100	\$	475 028 649
2024 (School year under audit)	0.6692	0.1875	\$	494 257 100
TOTALS				
	Refunds			

See independent auditor's report.

EXHIBIT J-1

(10) BEGINNING BALANCE 08/31/2023	(20) CURRENT PERIOD'S TOTAL LEVY	(31) MAINTENANCE COLLECTIONS	(32) DEBT SERVICE COLLECTIONS	(40) ENTIRE PERIOD'S ADJUSTMENTS	(50) ENDING BALANCE 08/31/2024	99 TOTAL TAXES REFUNDED UNDER SECTION 26.1115(c)
\$ 86 780	\$ -	\$ 2 753	\$ 244	\$ (10 682)	\$ 73 101	
41 417	-	634	59	(4 241)	36 483	
30 164	-	1 300	90	(4 411)	24 363	
39 249	-	2 453	704	(7 652)	28 440	
63 564	-	5 145	1 633	(7 139)	49 647	
81 172	-	13 250	3 874	(7 839)	56 209	
111 580	-	29 778	8 608	(265)	72 929	
176 096	-	47 713	14 320	(17 089)	96 974	
367 451	-	105 517	31 343	(60 265)	170 326	
-	4 234 350	3 069 296	863 596	(24 749)	276 709	
\$ <u>997 473</u>	\$ <u>4 234 350</u>	\$ <u>3 277 839</u>	\$ <u>924 471</u>	\$ <u>(144 332)</u>	\$ <u>885 181</u>	
						\$ <u>869</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
For the Year Ended August 31, 2024

EXHIBIT J-2

DATA CONTROL CODES		1	2	3	VARIANCE WITH FINAL BUDGET POSITIVE OR (NEGATIVE)
		BUDGETED AMOUNTS		ACTUAL AMOUNTS	
		ORIGINAL	FINAL		
	Revenues:				
5700	Local and intermediate sources	\$ 68 050	\$ 88 168	\$ 84 606	\$ (3 562)
5800	State program revenues	13 105	15 340	15 297	(43)
5900	Federal program revenues	333 500	341 147	350 918	9 771
5020	TOTAL REVENUES	<u>414 655</u>	<u>444 655</u>	<u>450 821</u>	<u>6 166</u>
	Expenditures:				
0035	Food services	<u>429 655</u>	<u>492 183</u>	<u>491 928</u>	<u>255</u>
6030	TOTAL EXPENDITURES	<u>429 655</u>	<u>492 183</u>	<u>491 928</u>	<u>255</u>
1100	EXCESS/(DEFICIT) REVENUE OVER (UNDER) EXPENDITURES	<u>(15 000)</u>	<u>(47 528)</u>	<u>(41 107)</u>	<u>6 421</u>
	Other Financing Sources:				
7915	Transfer in	<u>-</u>	<u>-</u>	<u>44 870</u>	<u>44 870</u>
7080	TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>44 870</u>	<u>44 870</u>
1200	NET CHANGE IN FUND BALANCES	<u>(15 000)</u>	<u>(47 528)</u>	<u>3 763</u>	<u>51 291</u>
0100	Fund balance - Beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ (15 000)</u>	<u>\$ (47 528)</u>	<u>\$ 3 763</u>	<u>\$ 51 291</u>

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
For the Year Ended August 31, 2024

EXHIBIT J-3

		1	2	3	VARIANCE WITH FINAL BUDGET POSITIVE OR (NEGATIVE)
DATA CONTROL CODES		BUDGETED AMOUNTS		ACTUAL AMOUNTS	
		ORIGINAL	FINAL		
	Revenues:				
5700	Local and intermediate sources	\$ 942 889	\$ 887 889	\$ 914 975	\$ 27 086
5800	State program revenues	25 000	80 000	130 859	50 859
5020	TOTAL REVENUES	967 889	967 889	1 045 834	77 945
	Expenditures:				
	Debt Service:				
0071	Debt service	911 186	911 185	911 186	(1)
6030	TOTAL DEBT SERVICE	911 186	911 185	911 186	(1)
1200	NET CHANGE IN FUND BALANCES	56 703	56 704	134 648	77 944
0100	Fund balance - Beginning	799 126	799 126	799 126	-
3000	FUND BALANCE - ENDING	\$ 855 829	\$ 855 830	\$ 933 774	\$ 77 944

See independent auditor's report.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
STATE SUPPLEMENTAL ALLOTMENT COMPLIANCE
USE OF FUNDS REPORT
For the Year Ended August 31, 2024

EXHIBIT J-4

<u>DATA CONTROL CODES</u>		<u>RESPONSES</u>
	<u>Section A: Compensatory Education Programs</u>	
	Districts are required to use at least 55% of state compensatory education state allotment funds on direct program costs. Statutory Authority: Texas Education Code §48.104.	
AP1	Did your district expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the district have written policies and procedures for its state compensatory education program?	Yes
AP3	Total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$ <u>645 183</u>
AP4	Actual direct program expenditures for state compensatory education programs during the district's fiscal year. (PICs 24,26,28,29,30,34)	\$ <u>417 191</u>
	<u>Section B: Bilingual Education Programs</u>	
	Districts are required to use at least 55% of bilingual education state allotment funds on direct program costs. Statutory Authority: Texas Education Code §48.105.	
AP5	Did your district expend any bilingual education program state allotment funds during the district's fiscal year?	Yes
AP6	Does the district have written policies and procedures for its bilingual education program?	Yes
AP7	Total state allotment funds received for bilingual education programs during the district's fiscal year.	\$ <u>31 096</u>
AP8	Actual direct program expenditures for bilingual education programs during the district's fiscal year. (PICs 25 and 35)	\$ <u>38 516</u>

FEDERAL AWARDS SECTION

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Somerville Independent School District
Somerville, Texas

Members of the Board of Trustees:

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Somerville 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 basic financial statements and have issued our report thereon dated January 15, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Somerville Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Somerville Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Somerville Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Lufkin, Texas
January 15, 2025


CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH *UNIFORM GUIDANCE*

Board of Trustees
Somerville Independent School District
Somerville, Texas

Members of the Board:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Somerville Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Somerville Independent School District's major federal programs for the year ended August 31, 2024. Somerville Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Somerville Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2024.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Somerville Independent School District and to meet our other 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of Somerville Independent School District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Somerville Independent School District's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Somerville Independent School District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Somerville Independent School District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, 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 Somerville Independent School District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Somerville Independent School District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Somerville Independent School District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
January 15, 2025

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2024

EXHIBIT K-1

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	EXPENDITURES
U.S. Department of Agriculture:			
Passed through State Department of Agriculture:			
School Breakfast Program	10.553	71402001	\$ 63 460
National School Lunch Program	10.555	71302001	256 312
Summer Food Service Program for Children	10.559	N/A	<u>6 977</u>
TOTAL CHILD NUTRITION CLUSTER			326 749
Commodity Supplemental Food Program	10.565	N/A	<u>31 146</u>
TOTAL PASSED THROUGH STATE DEPARTMENT OF AGRICULTURE			<u>357 895</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>357 895</u>
U.S. Department of Education:			
Passed through State Department of Education:			
Title I Grants to Local Educational Agencies	84.010	23610101026902	309 575
ESEA, Title VI, Part B - Rural and Low Income School Grant	84.358B	24696001003907	37 793
Supporting Effective Instruction State Grants	84.367	23694501026902	25 221
Title IV, Part A, Subpart 1	84.424A	23680101026902	12 407
ESSER III TCLAS	84.425U	23694501026902	120 731
ESSER III ARP	84.425U	21528001026902	84 189
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>589 916</u>
Special Education Cluster (IDEA):			
Passed through Texas Education Agency:			
SPED Capacity Contracted Services	84.027A	N/A	<u>12 077</u>
TOTAL SPECIAL EDUCATION CLUSTER (IDEA)			<u>12 077</u>
Federal Communications Commission:			
ERATE	32.001	N/A	<u>103 412</u>
TOTAL FEDERAL COMMUNICATIONS COMMISSIONS			<u>103 412</u>
U.S. Department of Defense:			
Flood Control Projects	12.106	N/A	<u>21 728</u>
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>21 728</u>
TOTAL EXPENDITURE OF FEDERAL AWARDS			\$ <u>1 085 028</u>
RECONCILIATION TO FEDERAL REVENUE PER C-2			
TOTAL EXPENDITURE OF FEDERAL AWARDS			\$ <u>1 085 028</u>
Other Federal Programs:			
Passed through State Department of Health and Human Services:			
Medicaid Administration Claim	93.778		<u>75 400</u>
TOTAL OTHER FEDERAL PROGRAMS			<u>75 400</u>
TOTAL FEDERAL REVENUE PER EXHIBIT C-2			\$ <u>1 160 428</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2024

1. The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Somerville Independent School District under programs of the federal government for the year ended August 31, 2024. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Somerville Independent School District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Somerville Independent School District.
2. For all federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
3. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a Special Revenue Fund which is a governmental fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the governmental fund types. The basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.
4. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3 Uniform Guidance Compliance Statement - Provisional 6/97.
5. Somerville Independent School District has not elected to use the 10% de minimis indirect cost rate as allowed under Uniform Guidance.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2024

A. Summary of the Auditor's Results

Type of report on financial statements	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes <u>X</u> None reported
Internal control over major programs:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes <u>X</u> None reported
Noncompliance which is material to the basic financial statement	___ Yes <u>X</u> None
Type of report on compliance with major programs:	<u>Unmodified</u>
Findings and questioned costs for Federal awards as defined in Section 200.516, Uniform Guidance	None
Dollar threshold considered between Type A and Type B Federal programs:	<u>\$750,000</u>
Low-risk auditee statement	The District qualifies as a low-risk auditee.
Major Federal programs	10.553/10.555/10.559 Child Nutrition Cluster

B. Findings related to the financial statements which are required to be reported in Accordance with Generally Accepted Auditing Standards.

NONE

C. Findings and Questioned Costs for Federal Award

NONE

Corrective Action Plan

NONE

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2024

None

SOMERVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED
SCHOOL FIRST INDICATORS
As of August 31, 2024

Exhibit L-1

DATA CONTROL CODES		RESPONSES
SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF3	Did the school district make timely payments to the Teacher Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If the school district was issued a warrant hold and the warrant hold was not cleared within 30 days from the date the warrant hold was issued, the school district is considered to not have made timely payments.) Payments to the TRS and TWC are considered timely if a warrant hold that was issued in connection to the untimely payment was cleared within 30 days from the date the warrant hold was issued. Payments to the IRS are considered timely if a penalty or delinquent payment notice was cleared within 30 days from the date the notice was issued.	Yes
SF4	Was the school district issued a warrant hold? Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, the school district is considered to have been issued a warrant hold.	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code, and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8	Did the school board members discuss the school district's property values at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ _____ -

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



Orrick, Herrington & Sutcliffe LLP
200 West 6th Street
Suite 2250
Austin, Texas 78701
orrick.com

_____, 2025

Somerville Independent School District
Unlimited Tax School Building Bonds, Series 2025

We have acted as bond counsel to Somerville Independent School District (the “Issuer”) in connection with the issuance of its Unlimited Tax School Building Bonds, Series 2025 (the “Bonds”), dated [_____] , 2025, in the aggregate principal amount of \$[_____]. The Bonds are authorized by a bond order adopted by the Board of Trustees of the Issuer authorizing their issuance (the “Order”).

In such connection, we have reviewed a transcript of certain certified proceedings pertaining to the issuance of the Bonds, including the Order, the tax certificate of the Issuer, dated the date hereof (the “Tax Certificate”), certificates of the Issuer and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures provided to us and the due and legal execution and delivery of each such document by each party thereto other than the Issuer and that each such document constitutes a valid and binding agreement of such party. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against governmental entities such as the Issuer in the State of Texas. We express no opinion with respect

to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, 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.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect. The Bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions thereof, and the Bonds have been authorized and delivered in accordance with law;
- (2) The Bonds are payable from, and secured by, the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property located within the Issuer, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and
- (3) Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. We observe that interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds.

Very truly yours,

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be “permanent,” and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of

admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas' historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund was established and administered, which occurred on September 13, 2003 (the "Total Return Constitutional Amendment"), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions, and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Corporation's Annual Comprehensive Financial Report (the "Annual Report"), which is filed with the Municipal

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

Management and Administration of the Fund

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

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

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

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

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

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

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

Corporation, but such authorization does not affect the State Auditor's authority to conduct an audit of the PSF Corporation in accordance with State laws.

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

The Total Return Constitutional Amendment

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

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

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

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

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023²</u>	<u>2024</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156
PSF(SBOE) Distribution	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-
PSF(SLB) Distribution	-	-	-	-	300	600	600 ³	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	432	440	430

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

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

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

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

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

<u>State Fiscal Biennium</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>	<u>2024-25</u>	<u>2026-27</u>
<u>SBOE Distribution Rate¹</u>	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32%	3.45%

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

PSF Corporation Strategic Asset Allocation

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

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

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

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

Natural Resources	5.0%	0.0%	10.0%
Infrastructure	5.0%	0.0%	10.0%

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

Comparative Investment Schedule – PSF(CORP)

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

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

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

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2024

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

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

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

³ Includes an estimated 1,000,000.00 acres in freshwater rivers.

⁴ Includes an estimated 1,747,600.00 in excess acreage.

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

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

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

The School District Bond Guarantee Program

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

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

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings. The SDBGP Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per

average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

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

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

Capacity Limits for the Guarantee Program

The capacity of the Fund to guarantee bonds under the Guarantee Program is limited to the lesser of that imposed by State law (the "State Capacity Limit") and that imposed by regulations and a notice issued by the IRS (the "IRS Limit", with the limit in effect at any given time being the "Capacity Limit"). From 2005 through 2009, the Guarantee Program twice reached capacity under the IRS Limit, and in each instance the Guarantee Program was closed to new bond guarantee

applications until relief was obtained from the IRS. The most recent closure of the Guarantee Program commenced in March 2009 and the Guarantee Program reopened in February 2010 after the IRS updated regulations relating to the PSF and similar funds.

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

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

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

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

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

Charter District Risk Factors

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

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

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort" for students residing in the geographical territory of the district, which makes it unlikely that State funding for those school districts would be discontinued, although the TEA can require the dissolution and merger into another school district if necessary to ensure sound education and financial management of a school district. That is not the case with a charter district, however, and open-enrollment charter schools in the State have been dissolved by TEA from time to time. If a charter district that has bonds outstanding that

are guaranteed by the Charter District Bond Guarantee Program should be dissolved, debt service on guaranteed bonds of the district would continue to be paid to bondholders in accordance with the Charter District Bond Guarantee Program, but there would be no funding available for reimbursement of the PSF by the Comptroller for such payments. As described under “The Charter District Bond Guarantee Program,” the Act established the Charter District Reserve Fund, to serve as a reimbursement resource for the PSF.

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

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

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

⁽²⁾ At August 31, 2024, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.2 million, and \$318.9 million, respectively, and market values of approximately \$4,540.6 million, \$277.4 million, \$153.1 million, and \$457.0 million, respectively.

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

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

⁽²⁾ At August 31, 2024 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$196,294,405,488, of which \$70,478,423,885 represents interest to be paid. As shown in the table above, at August 31, 2024, there were \$125,815,981,603 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$169,961,518,160 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of January 31, 2025, 7.69% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of January 31, 2025, the amount of

outstanding bond guarantees represented 76.33% of the Capacity Limit (which is currently the State Capacity Limit). January 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

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

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

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

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

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

PSF Returns Fiscal Year Ended 8-31-2024¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(CORP) Portfolio	10.12	9.28
Domestic Large Cap Equities	27.30	27.14
Domestic Small/Mid Cap Equities	18.35	18.37
International Equities	18.82	18.08
Private Credit	1.41	0.93
Core Bonds	7.08	7.30
Absolute Return	11.50	8.87
Real Estate	(6.42)	(7.22)
Private Equity	4.62	4.23
High Yield	12.03	12.53
Natural Resources	12.36	6.42
Infrastructure	4.41	3.63
Bank Loans	3.02	3.23
Short Term Investment Portfolio	2.42	2.28

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

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

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

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

Other Events and Disclosures

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

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

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

PSF Continuing Disclosure Undertaking

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

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

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

Annual Reports

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

The TEA and the PSF Corporation may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. In the event audits are not available by the filing deadline, unaudited financial statements will be provided by such deadline, and audited

financial statements will be provided when available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund are required to be prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

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

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

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

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

Event Notices

The TEA and the PSF Corporation will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA or the PSF Corporation will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the

meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption, or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

The TEA and the PSF Corporation have agreed to update information and to provide notices of material events only as described above. The TEA and the PSF Corporation have not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The TEA and the PSF Corporation make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell bonds at any future date. The TEA and the PSF Corporation disclaim any contractual or tort

liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA and the PSF Corporation to comply with its agreement.

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12.

The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

