

**PRELIMINARY OFFICIAL STATEMENT**  
Dated \_\_\_\_, 2026

NEW ISSUE – BOOK-ENTRY-ONLY

**Enhanced/Unenhanced Ratings:**  
**S&P: “AAA” / “[Rating]”**  
**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 Tax Counsel (defined herein), assuming continuing compliance by the District (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Bond Order (defined below) and subject to the matters set forth under “TAX MATTERS” herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (i) is excludable from gross income pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See “TAX MATTERS” herein.*

*The District will designate the Bonds as “Qualified Tax-Exempt Obligations” within the meaning of Section 265(b)(3) of the Code for financial institutions.*



**\$5,355,000\***  
**LLANO INDEPENDENT SCHOOL DISTRICT**  
**(a political subdivision of the State of Texas located in Llano County)**  
**UNLIMITED TAX REFUNDING BONDS, SERIES 2026**

**Dated Date: August 15, 2026**

**Due: As shown on the inside cover page hereto**

**Interest to Accrue from Date of Delivery**

**AUTHORITY FOR ISSUANCE ...** The Llano Independent School District Unlimited Tax Refunding Bonds, Series 2026 (the “Bonds”) are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including Chapter 1207 of the Texas Government Code, as amended, (the “Act”) and a bond order (the “Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on June 22, 2026. As permitted by the Act, in the Bond Order, the Board has delegated to certain District officials the ability to execute an approval certificate (the “Pricing Certificate”) evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) which is expected to be executed on July 14, 2026. See “THE BONDS - Authority for Issuance” herein. The District has applied for and anticipates receiving 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 Texas approves the Bonds. See “APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein.

**PAYMENT TERMS ...** Interest on the Bonds will accrue from the date of initial delivery to the Underwriter (detailed below), will be payable on August 25, 2026 (an irregular interest payment date) and thereafter on February 15 and August 15 of each year, 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 BOKF, NA, Dallas, 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 for the purpose of (i) refunding certain outstanding debt of the District as provided in Schedule I (the “Refunded Bonds”) for debt service savings, and (ii) paying for the costs of issuance of the Bonds. See “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 and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which 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.

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

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*The Bonds are offered for delivery when, as, and if issued and received by the Underwriter of the Bonds named below (the “Underwriter”) and are subject to the approving opinion of the Attorney General of the State of Texas and the opinions of FBT Gibbons LLP, Houston, Texas, Co-Bond Counsel and Tax Counsel, and Powell Law Group, LLP, Austin, Texas, Co-Bond Counsel. See “APPENDIX C – FORMS OF CO-BOND COUNSEL’S OPINION AND TAX COUNSEL’S OPINION” attached hereto. Certain matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through DTC on or about August 18, 2026” (the “Date of Delivery”).*

**STIFEL**

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\* Preliminary, subject to change.

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

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

**\$5,355,000\***

**LLANO INDEPENDENT SCHOOL DISTRICT  
(a political subdivision of the State of Texas located in Llano County)  
UNLIMITED TAX REFUNDING BONDS, SERIES 2026**

**CUSIP No. Prefix 539362 <sup>(1)</sup>**

<b>Maturity Date</b>	<b>Principal*</b> <b>(\$)</b>	<b>Interest Rate</b> <b>(%)</b>	<b>Initial Yield <sup>(2)</sup></b> <b>(%)</b>	<b>CUSIP No. <sup>(1)</sup></b> <b>Suffix</b>
8/25/2026	\$1,900,000			
2/15/2027	2,630,000			
2/15/2028	775,000			
2/15/2029	50,000			

**\$ \_\_\_\_\_ Term Bonds\***

**\$ \_\_\_\_\_ \* \_\_\_\_% Term Bonds Due February 15, 20\_\_ to yield \_\_\_\_\_% CUSIP No. <sup>(1)</sup> Suffix \_\_\_\_**

**\$ \_\_\_\_\_ \* \_\_\_\_% Term Bonds Due February 15, 20\_\_ to yield \_\_\_\_\_% CUSIP No. <sup>(1)</sup> Suffix \_\_\_\_**

(Interest to accrue from the initial Date of Delivery)

**Optional Redemption.** The District reserves the option to redeem the Bonds maturing on and after February 15, 20\_\_, in whole or in part, before their respective scheduled maturity dates, in the principal amount 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. Additionally, if two or more Bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the Order. See "THE BONDS – Redemption Provisions of the Bonds" herein.

\* Preliminary, subject to change.

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, the District, or the Municipal Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 15, 20\_\_, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to the redemption date.

**LLANO INDEPENDENT SCHOOL DISTRICT**

**1400 Oatman St  
Llano, Texas 78643**

**BOARD OF TRUSTEES**

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Jeff Kuykendall	President	May 2028
Rob Wilson	Vice-President	May 2027
Paul Hull	Secretary	May 2028
Grant Morgan	Trustee	May 2028
Chris Carrell	Trustee	May 2029
Michelle Chance	Trustee	May 2027
JD Baker	Trustee	May 2029

**ADMINISTRATION – FINANCE RELATED**

<u>Name</u>	<u>Position</u>
Mac Edwards	Superintendent
Ryan Turner	Assistant Superintendent

**CONSULTANTS AND ADVISORS**

Auditors	Patillo, Brown & Hill, LLP, Waco, Texas
Co-Bond Counsel	FBT Gibbons, LLP Houston, Texas Powell Law Group, LLP, Austin, Texas
Municipal Advisor	Live Oak Public Finance, LLC, Austin, Texas

For Additional Information Contact:

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Llano Independent School District  
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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 Underwriter.

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 Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does 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 UNDERWRITER 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 Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System described under the 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.

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The cover page hereof, Schedule I, 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 Llano County. 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 (the "State"), including Chapter 1207 of the Texas Government Code, as amended, (the "Act") and a bond order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on June 22, 2026. As permitted by the Act, in the Bond Order, the Board has delegated to certain District officials the ability to execute an approval certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order") which is expected to be executed on July 14, 2026. See "THE BONDS - Authority for Issuance" herein.

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

**DATED DATE** .....August 15, 2026.

**PAYMENT OF INTEREST** .....Interest on the Bonds will accrue from the date of initial delivery to the Underwriter (detailed below), will be payable on August 25, 2026 (an irregular interest payment date) and thereafter on February 15 and August 15 of each year, 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 option to redeem the Bonds maturing on and after February 15, 20\_\_\_\_, in whole or in part before their respective scheduled maturity dates, in the principal amount 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. Additionally, if two or more Bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriter, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with the provisions of the 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 FBT Gibbons LLP, Houston, Texas, Tax Counsel, under existing statutes, regulations, published rulings and court decisions, interest on the Bonds (i) is excludable from gross income of the owners thereof pursuant to Section 103 of the Code, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See "TAX MATTERS" herein and "APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION AND TAX COUNSEL'S OPINION" attached hereto.

**QUALIFIED TAX-EXEMPT OBLIGATIONS**.....The District will designate the Bonds as "Qualified Tax-Exempt Obligations" within the meaning of Section 265(b)(3) of the Code for financial institutions. 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 BOKF, NA, Dallas, Texas.

### **MUNICIPAL BOND RATING**

.....The presently outstanding unlimited tax-supported debt of the District including the Bonds is rated "[Rating]" 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 "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.

**USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used for the purpose of (i) refunding certain outstanding debt of the District as provided in Schedule I (the "Refunded Bonds") for debt service savings, and (ii) paying for the costs of issuance of the Bonds. See "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 18, 2026.\*

**LEGALITY** .....The Bonds are subject to the receipt of an approving opinion from the Attorney General of the State of Texas and an opinion from FBT Gibbons LLP, Houston, Texas and Powell Law Group, LLP, Austin, Texas, Co-Bond Counsel. See "APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION AND TAX COUNSEL'S OPINION" attached hereto.

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\* Preliminary, subject to change.

## PRELIMINARY OFFICIAL STATEMENT

Relating to

**\$5,355,000\***

### **LLANO INDEPENDENT SCHOOL DISTRICT (a political subdivision of the State of Texas located in Llano County) UNLIMITED TAX REFUNDING BONDS, SERIES 2026**

#### INTRODUCTION

This Official Statement, which includes the schedule and appendices attached hereto, and incorporated herein, provides certain information regarding the issuance of the \$5,355,000\* Unlimited Tax Refunding Bonds, Series 2026 (the "Bonds") of the Llano Independent School District (the "District"). The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 1207 of the Texas Government Code, as amended, (the "Act") and a bond order (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on [Board Meeting]. As permitted by the Act, in the Bond Order, the Board has delegated to certain District officials the ability to execute an approval certificate (the "Pricing Certificate") evidencing the final sale terms of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order") which is expected to be executed on July 14, 2026. 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 Llano Independent School District, 1400 Oatman St, Llano, Texas 78643 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: Christian Merritt, 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 Llano County. 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.

#### **PLAN OF FINANCING**

##### **Purpose**

Proceeds from the sale of the Bonds will be used for the purpose of (i) refunding certain outstanding debt of the District as provided in Schedule I (the "Refunded Bonds") for debt service savings, and (ii) paying for the costs of issuance of the Bonds. See "Sources and Uses of Funds" herein.

##### **Refunded Bonds**

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled redemption date from funds to be deposited with BOKF, NA, Dallas, Texas, a national banking association, in its capacity as the paying agent for the Refunded Bonds (the "Paying Agent for the Refunded Bonds"). The Bond Order provides that the District will deposit with the Paying Agent for the Refunded Bonds a portion of the proceeds of the sale of the Bonds to the Underwriters, which, together with other lawfully available funds of the District, if any, will

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\* Preliminary, subject to change.

be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be used to pay the maturing principal of and interest on the Refunded Bonds on the Date of Delivery.

The Paying Agent for the Refunded Bonds and/or the District's Municipal Advisor will provide a certificate at the time of delivery of the Bonds to the Underwriters verifying that the funds on deposit with the Paying Agent for the Refunded Bonds are sufficient to pay, when due, the principal of and interest on the Refunded Bonds.

By the deposit of the proceeds of the Bonds and other lawfully available funds of the District, if any, with the Paying Agent for the Refunded Bonds, the District will have effected the defeasance of the Refunded Bonds pursuant to the provisions of Chapter 1207, Texas Government Code, and the order authorizing the issuance of the Refunded Bonds. As a result of such defeasance, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the funds held for such purpose by the Paying Agent for the Refunded Bonds, and the Refunded Bonds will not be deemed as being outstanding obligations of the District, payable from the sources and secured in the manner provided in the order authorizing their issuance or for any other purpose. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the corpus of the Permanent School Fund of the State of Texas.

**Sources and Uses of Funds**

The proceeds from the sale of the Bonds, together with lawfully available funds of the District, if any, 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 with Paying Agent for the Refunded Bonds	\$
Costs of Issuance & Rounding Amount	
Underwriter's Discount	
TOTAL USES	\$

**THE BONDS**

**Description of the Bonds**

The Bonds will be dated August 15, 2026 (the "Dated Date") and mature on February 15 in each of the years and in the amounts shown on the inside cover page of this Official Statement. Interest on the Bonds will accrue from the date of initial delivery to the Underwriter, will be payable on August 25, 2026 (an irregular interest payment date) and thereafter on February 15 and August 15 of each year, 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 to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (detailed below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or 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 above) 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, including the Act and a Bond Order adopted by the Board on June 22, 2026. As permitted by the Act, in the Bond Order, the Board has delegated to certain District officials the ability to execute the Pricing Certificate evidencing the final sale terms of the Bonds which is expected to be executed on July 14, 2026.

## 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 State Commissioner of Education (the "Education 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 to redeem the Bonds maturing on and after February 15, 20\_\_, in whole or in part, in denominations of \$5,000 of the principal amount or any integral multiple thereof, on February 15, 20\_\_ or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. When the Bonds or portions thereof have been called for redemption and due provisions have been made to redeem the Bonds, the amounts so redeemed shall be payable solely from the funds provided for redemption, and interest that would otherwise accrue on the Bonds or portions thereof called for redemption shall terminate on the date fixed for redemption.

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

### Mandatory Redemption

The Bonds maturing on February 15 in the years 20\_\_, 20\_\_, 20\_\_ and 20\_\_ (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity from moneys required to be deposited into the Bond Fund for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on February 15 in each of the years as set forth below:

\$_____ Term Bond		\$_____ Term Bond		\$_____ Term Bond		\$_____ Term Bond	
Due February 15, 20__		Due February 15, 20__		Due February 15, 20__		Due February 15, 20__	
Date	Principal Amount	Date	Principal Amount	Date	Principal Amount	Date	Principal Amount
(2/15)	_____ (\$)	(2/15)	_____ (\$)	(2/15)	_____ (\$)	(2/15)	_____ (\$)

The particular Term Bonds to be redeemed on each redemption date shall be chosen by lot by the Paying Agent/Registrar; provided, however, that the principal amount of Term Bonds for a Stated Maturity required to be redeemed on a mandatory redemption date may be reduced, at the option of the District, by the principal amount of Term Bonds of like maturity which, at least fifty (50) days prior to a mandatory redemption date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation or (2) shall have been redeemed pursuant to the optional redemption provisions appearing below and not theretofore credited against a mandatory redemption requirement.

## **Selection of Bonds for Redemption**

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

## **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, 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**

Any Bond(s) will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Bond Order when payment of the principal of and interest on such Bond(s) to its stated maturity or redemption date has been made or will have been provided by depositing with an authorized escrow agent: (1) cash in an amount sufficient to make such payment; (2) Government Obligations (defined below) certified, in the case of a net defeasance, by an independent public accounting firm of national reputation, the District's Municipal Advisor, the Paying Agent/Registrar, or another qualified third party certifying such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment; or (3) a combination of moneys and Government Obligations together so certified sufficient to make such payment.

The Bond Order provides that "Government Obligations" means: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the District adopts or approves the proceedings authorizing the financial arrangements have been refunded and that are, on the date of the governing body of the District authorizes the defeasance, rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Authorized District officials may limit these eligible securities as deemed necessary, in connection with the sale of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional

securities for such purpose in the event the aforementioned list is expanded. Because the Bond Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of the Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

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

The District may amend the Bond Order without the consent of any beneficial owner 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 written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Bond Order; except 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 and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereof or in any other way modify the terms of payment of the principal or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the percentage of the aggregate principal amount of Bonds required to be held for beneficial owners for consent to any amendment, addition, or waiver, or rescission.

### **Default and Remedies**

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 Co-Bond Counsel 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 Co-Bond Counsel, FBT Gibbons, LLP Houston, Texas, and Powell Law Group, LLP, Austin, Texas.

## **Delivery**

When issued; anticipated to occur on or about August 18, 2026.\*

## **Future Issues**

The District has no authorized but unissued ad valorem tax bonds. Aside from the Bonds and any future refunding bonds issued for debt service savings, the District does not anticipate the issuance of new money ad valorem tax-supported debt in the next twelve months.

The District's voters could authorize the issuance of new money bonds at a future election. In addition, the District may, without voter approval, 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 BOKF, NA, Dallas, 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 commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any changes in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

### **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. However, the Record Date for the initial special interest payment date of August 29, 2026 shall be the close of business on the preceding business day.

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 shall be discontinued, printed certificates will be issued to the registered owners of the Bonds and thereafter the Bonds may be transferred, registered, and assigned on the Bond Register only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond(s) will be delivered by the Paying Agent/Registrar in lieu of the Bond(s) being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. A new Bond(s) issued in an exchange or transfer of a Bond(s) will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bond(s) to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. Any new Bond(s) registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount and having the same maturity or maturities as the Bond(s) surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bond(s).

## 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 Underwriter 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](http://www.dtcc.com).

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

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,320,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

The appraisal values set by each Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by each 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**

State law grants, with respect to the ad valorem taxes of each school district in the State imposed for general elementary and secondary public school purposes, (1) a \$140,000 exemption of the appraised value of all residence homesteads, (2) an additional \$60,000 exemption of the appraised value of the residence homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

### **Local Option Homestead Exemptions**

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all residence homesteads (but not less than \$5,000); and (2) an additional exemption of at least \$3,000 of the appraised 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 presentation 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 reducing or repealing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

### **State-Mandated Freeze on School District Taxes**

Except for increases attributable to certain improvements, a school district is prohibited from increasing the total ad valorem tax on the 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 maximum compressed rate of the maintenance and operations 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. Legislation passed by the Legislature during the 89th Regular Session and approved by the voters provides a person an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit. Such exemption is applicable from and after the 2026 tax year.

### **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 outside of the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside of 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 and 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. 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. 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, Texas Tax Code, to clarify that “damage” for the purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35, Texas 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 (formerly Chapter 313, Texas Tax Code, as amended ("Chapter 313") previously allowed school districts to grant limitations on appraised property values to certain entities to encourage economic development within the school district. Generally, for a ten-year period during 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 was not fully taxable was excluded from the school district's taxable property values. Therefore, a school district was not subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts" herein.

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. HB 5 was codified as Chapter 403, Subchapter T, Texas Government Code ("Chapter 403") and had an effective date of January 1, 2024. Under Chapter 403, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. Chapter 403 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt service tax securing a series of bonds cannot be abated under Chapter 403. Eligible projects must involve manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects and projects must create and maintain jobs, as well as meet certain minimum investment requirements.

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 Districts by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the District may bring suit against the Appraisal Districts 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, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$62,883,169 for the 2026 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases. See "TAX RATE LIMITATIONS — Public Hearing and Voter-Approval Tax Rate" 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 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 provides the State-mandated exemption to the market value of residence homesteads of \$140,000.

The District grants a State-mandated \$60,000 residence homestead exemption for persons 65 years of age or older or the disabled.

The District does collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code.

The District's taxes are collected by the Llano County Tax Assessor Collector.

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

The District does not participate in a tax increment financing zone.

The District grants an additional local option exemption of up to 10% of the market value of residence homesteads; minimum exemption of \$5,000.

The District does tax non-business personal property.

The District does not tax freeport property.

The District does not tax "goods-in-transit."

The District has not granted a tax abatement under a Texas Tax Code Chapter 313 Property Value Limitations Agreement.

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

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

(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 Legislature from time to time (i) met the requirements of Article VII, Section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of Article VIII, Section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) ("*Morath*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated Article VII, Section 1 and Article VIII, Section 1-e of the Texas Constitution. In its opinion, the Court held that despite 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. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations ("M&O") tax to pay current expenses and an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts are prohibited from levying an M&O tax at a rate intended to create a surplus in M&O tax revenues to pay the district's debt service. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount. See "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein. Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize, on a per student basis 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 and the Legislature has concluded two special sessions since the conclusion of the 89th Regular Session (such special sessions, together with the 89th Regular Session hereinafter referred to as the "2025 Legislative Sessions").

Enacted legislation increased: (1) effective January 1, 2025, the State-mandated general homestead exemption from \$100,000 to \$140,000, (2) effective January 1, 2025, the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) effective January 1, 2026, the exemption for tangible personal property used in the production of income from \$2,500 to \$125,000. Voters approved constitutional amendments authorizing the new exemptions at a statewide election held on November 4, 2025. Additionally, enacted legislation authorized roughly \$8.5 billion in funding for public schools and provided districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning.

Finally, enacted legislation created an Education Savings Account ("ESA") Program (commonly referred to as vouchers) for students that attend private schools or are homeschooled. The legislation became effective September 1, 2025, when the State fiscal biennium began, though families will not receive ESA funds until the 2026-2027 school year. The amount spent for purposes of the program for the 2026-2027 biennium may not exceed \$1 billion. Beginning on September 1, 2027, the legislation requires the Legislature to reappropriate funds for the program for each subsequent State fiscal biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District's attendance-based funding.

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. However, the District does intend to monitor any such legislation.

### **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: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

**Maximum Compressed Tax Rate.** The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the school district's current year SCP multiplied by \$1.00; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then the MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2025 Regular 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. Pursuant to voter approval at a Statewide election held on November 4, 2025, the residential homestead exemption under Section 1-b(c), Article VIII, Texas Constitution will 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 constitutional amendment took effect for the tax year beginning January 1, 2025.

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however, to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR in such year. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two" herein.

## **State Funding for School Districts**

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

The Basic Allotment for 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 supplemented for all school districts by various weights to account for differences among school districts and their student populations. Beginning in the 2026-27 school year, special education funding is provided through a service-intensity model, with the Education Commissioner establishing eight tiers of intensity and at least four service groups to determine funding levels based on the type and intensity of services students receive, rather than categorical placement. Additional allotments also support students who: (i) are diagnosed with dyslexia or a related disorder, (ii) are economically disadvantaged, or (iii) 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 change to 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$320 million for each year of the 2026-2027 State fiscal biennium.

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

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

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

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

Since future-year IFA awards were not funded by the 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 Education Commissioner. In the 2025 Regular Legislative Session, the Legislature appropriated funds in the amount of \$150,000,000 for each fiscal year of the 2026-2027 State fiscal biennium for NIFA allotments.

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

For the 2026-2027 school year, school districts will be held harmless and entitled to additional state aid to the extent that state and local revenue used to service eligible debt is less than the state and local revenue that would have been available to the district under state law providing for state aid to districts to account for increases in the general residence homestead exemption and the elderly or disabled tax ceiling as such state law existed on January 1, 2025, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred.

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

A school district that has sufficient property wealth per student in ADA to generate local revenues on the school district's Tier One Tax Rate and Copper Pennies in excess of the school district's respective funding entitlements (a "Chapter 49 school district"), is subject to the local revenue reduction provisions contained in Chapter 49, 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." 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 Education Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Education Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Education Commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district's excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. A district that receives approval of a request to delay the date of an election shall pay for credit purchased in equal monthly payments as determined by the Education Commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the Education Commissioner of the district's election to pay through a lump sum not later than March 15, 2026.

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

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

For the 2025-2026 fiscal year, the District was designated as an "excess local revenue" district by the TEA. Accordingly, the District has been entered into a wealth equalization agreement with the Education Commissioner for the purchase of attendance credits for the 2025-26 school year, for the purpose of implementing permitted wealth equalization options.

A district's status as to any excess local revenue in Tier One and its wealth per student for Copper Penny purposes in Tier Two must be tested for each future school year and, if it exceeds the maximum permitted levels, the excess must be reduced by exercising one of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

### **TAX RATE LIMITATIONS**

#### **M&O Tax Rate Limitations**

A school district is authorized to levy 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 July 14, 1962, under Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (now codified as Section 45.003, Texas Education Code, as amended).

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

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

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

A school district is also authorized to issue bonds and levy taxes for payment of bonds subject to voter approval of one or more propositions submitted to the voters under Section 45.003(b)(1), Texas Education Code, as amended, which provides a tax unlimited as to rate or amount for the support of school district bonded indebtedness. See "THE BONDS – 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 of Texas 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 50-cent Test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the 50-cent Test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. The Bonds are issued as refunding bonds under Chapter 1207, Texas Government Code. As such, they are not subject to the 50-cent Test. The District has not utilized projected values or State assistance to satisfy the 50-cent Test.

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

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

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

The Voter-Approval Tax Rate for a school district is the sum of (i) the school district's MCR; (ii) the greater of (a) the school district's Enrichment Tax Rate for the preceding year, less any amount by which the school district is required to reduce its current year Enrichment Tax Rate pursuant to Section 48.202(f), 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 III Other Information – A. Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2025, 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 III Other Information – B. Defined Other Post-Employment Benefit Plans" in the audited financial statements of the District for the year ended August 31, 2025, as set forth in APPENDIX B attached hereto.

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 2024-2025 fiscal year, the District had a net pension liability of \$7,275,124.

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 Texas law in accordance with investment policies approved by the Board. Both Texas 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 (Chapter 2256, Texas Government Code) (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 is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation 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 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 FDIC or the NCUSIF, 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 fewer, 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.); and (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. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or 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. 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

The delivery of the Bonds is subject to receipt of the approving opinion of the Attorney General of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District 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 opinion of Co-Bond Counsel, FBT Gibbons LLP, Houston, Texas, and Powell Law Group, LLP, Austin, Texas, that the Bonds are valid and legally binding obligations of the District. Tax Counsel will deliver its opinion that interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103(a) of the Code and other matters as set forth under "TAX MATTERS" herein. Copies of the opinions of Co-Bond Counsel and Tax Counsel issued in connection with the issuance of the Bonds are attached hereto as APPENDIX C – FORMS OF CO-BOND COUNSEL OPINION AND TAX COUNSEL'S OPINION. The legal fees to be paid to Co-Bond Counsel and Tax Counsel are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. The legal fee to be paid to counsel to the Underwriter for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Co-Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Co-Bond Counsel, such firms have reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Payment Record," "Future Issues," "Permanent School Fund Guarantee" and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS," "LEGAL MATTERS" (excluding the information under the subcaption "Litigation," as to which no opinion is expressed), "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale" in the Preliminary Official Statement and the Official Statement and such firms are of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order. Tax 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 herein, except that, in its capacity as Tax Counsel, such firm has reviewed the information under the caption "TAX MATTERS" in the Preliminary Official Statement and the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such caption is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Order.

Though they may represent the Municipal Advisor and the Underwriter from time to time in matters unrelated to the Bonds, Co-Bond Counsel and Tax Counsel have been engaged by and only represent the District with respect to the issuance of the Bonds. The legal opinions to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering legal opinions, the attorneys do 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 such opinions 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 Underwriter 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

### Tax Exemption

The delivery of the Bonds is subject to the opinion of FBT Gibbons LLP, Houston, Texas, Tax Counsel, to the effect that interest on the Bonds for federal income tax purposes (i) is excludable from gross income of the owners thereof pursuant to Section 103 of the Code, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the federal alternative minimum tax imposed certain on corporations. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Tax Counsel's opinion appears in APPENDIX C attached hereto.

For tax years beginning after December 31, 2022, corporations that are classified as an "applicable corporation" (as defined in Section 59(k) of the Code) may be subject to an alternative minimum tax imposed under section 55 of the Code on their "adjusted financial statement income" (as defined in Section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as

the Bonds, is included in an applicable corporation's "adjusted financial statement income," ownership of the Bonds could subject an applicable corporation to alternative minimum tax consequences.

The District will designate the Bonds as "Qualified Tax-Exempt Obligations" as defined in Section 265(b)(3) of the Code.

In rendering the foregoing opinions, FBT Gibbons LLP, Houston, Texas, as Tax Counsel, will rely upon representations and certifications of the District made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Department of the Treasury (the "Treasury") of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. It is uncertain whether this legislation will be enacted and, if so, whether it will be enacted in its current form. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### **Ancillary Tax Consequences**

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

### **Tax Accounting Treatment of Discount Bonds**

Any Bonds that have an original yield above their interest rate, as set forth herein (for purposes of this section, the "Tax-Exempt OID Bonds"), are being initially offered and sold to the public at an original issue discount ("OID") from the amounts payable at maturity thereon. OID is the excess of the stated redemption price of a bond at maturity (the face amount) over the "issue price" of such bond. The issue price is the initial offering price to the public (other than to bond houses, brokers or similar persons acting in the capacity of underwriters or wholesalers) at which a substantial amount of bonds of the same maturity are sold pursuant to that initial offering. For federal income tax purposes, OID on each bond will accrue over the term of the bond. The amount accrued will be based on a single rate of interest, compounded semiannually (the "yield to maturity") and, during each semi-annual period, the amount will accrue ratably on a daily basis. The OID accrued during the period that an initial purchaser of a Tax-Exempt OID Bond at its issue price owns it is added to the purchaser's tax basis for purposes of determining gain or loss at the maturity, redemption, sale or other disposition of that Tax-Exempt OID Bond. In practical effect, accrued OID is treated as stated interest, that is, excludible from gross income for federal income tax purposes.

In addition, original issue discount that accrues in each year to an owner of a Tax-Exempt OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the ancillary federal income tax consequences discussed above. Consequently, owners of any Tax-Exempt OID Bond should be aware that the accrual of original issue

discount in each year may result in an corporate alternative minimum tax liability, if applicable, additional distribution requirements or other ancillary federal income tax consequences although the owner of such Tax-Exempt OID Bond has not received cash attributable to such original issue discount in such year.

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

### **Tax Accounting Treatment of Premium Bonds**

“Acquisition Premium” is the excess of the cost of a bond over the stated redemption price of such bond. Any Bonds that are being sold at original yield below their interest rate, as set forth herein (collectively, the “Premium Bonds”), are being initially offered and sold to the public with Acquisition Premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually. This amount is amortized ratably over that semiannual period on a daily basis. For purposes of determining the owner’s gain or loss on the sale, redemption (including redemption at maturity) or other disposition of a Premium Bond, the owner’s tax basis in the Premium Bond is reduced by the amount of bond premium that is amortized during the period of ownership. For federal income tax purposes, the amount of Acquisition Premium on the Premium Bonds must be amortized and will reduce the bondholder’s adjusted basis in that bond; however, no amount of amortized Acquisition Premium on the Premium Bonds may be deducted in determining bondholder’s taxable income for federal income tax purposes. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond. A purchaser of a Premium Bond in the initial public offering who holds that Premium Bond to maturity (or, in the case of a callable Premium Bond, to its earlier call date that results in the lowest yield on that Premium Bond) will realize no gain or loss upon the retirement of that Premium Bond.

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

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

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

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

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

### **Future and Proposed Legislation**

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

### **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer

(together with any “on-behalf or and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a “bank,” as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District expects that the Bonds will be designated as “qualified tax-exempt obligations” within the meaning of section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the IRS could take a contrary view. If the IRS takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be “qualified tax-exempt obligations.”

### **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 (“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 Electronic Municipal Market Access (“EMMA”) system at [www.emma.msrb.org](http://www.emma.msrb.org), as further described below under “Availability of Information from MSRB.”

#### **Annual Reports**

The District will provide in an electronic format as prescribed by the MSRB certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in APPENDIX A under Tables numbered 1 through 6 and Tables 8 through 13, and in APPENDIX B attached hereto. The District will update and provide this information within twelve months after the end of each fiscal year.

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 Tables 8 through 13, and in APPENDIX C attached hereto. The District will update and provide this information within six (6) months after the end of any such 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 31<sup>st</sup>. Accordingly, it must provide updated information by the last day of February in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

### **Notice of Certain Events**

The District will file with the MSRB notice of any of the following events with respect to the Bonds 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) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material, (15) incurrence of a financial obligation of the District (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, (A) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, and (B) as used in clauses (15) and (16) in the immediately preceding paragraph, "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in Rule 15c2-12) has been provided to the MSRB consistent with Rule 15c2-12.

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of 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 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 Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell 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 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 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 Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of Rule 15c2-12. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data 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 Underwriter to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The District agrees to cooperate, at the Underwriter's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

### **Municipal Bond Rating**

The Bonds are expected to be 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 "[Rating]" 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 Co-Bond Counsel and Tax 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 Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District at a price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriter's discount of \$ \_\_\_\_\_. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter 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 Underwriter.

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

The Underwriter and its 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 Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for 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 Underwriter and its affiliates also may communicate independent investment recommendations, market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial instruments.

## **Use of Audited Financial Statements**

Patillo, Brown & Hill, LLP, Waco, Texas ("The Auditor"), 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. The Auditor has not performed any procedures relating to this Official Statement.

## **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, SEC Rule 15c2-12.

**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.

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

**LLANO INDEPENDENT SCHOOL DISTRICT**

/s/ \_\_\_\_\_  
Pricing Officer

**SCHEDULE I  
REFUNDED BONDS**

**Refunded Bonds\***

<b>Series</b>	<b>Principal Amount</b>	<b>Maturities</b>	<b>Principal Being Redeemed</b>	<b>Interest Rates</b>	<b>Redemption Date and Price</b>
Llano Independent School District Unlimited Tax School Building Bonds Series 2023	\$5,270,000	02/15/2032	\$5,270,000	5.000%	08/18/2026@100.00%
	85,000	02/15/2033	85,000	5.000%	08/18/2026@100.00%

*\*Preliminary, subject to change.*

**APPENDIX A**  
**SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT**

**Table 1**  
**Valuation, Exemptions and Tax Supported Debt<sup>(1)</sup>**

2025 Total Assessed Valuation		\$13,230,336,649
Less: Exemptions & Deductions		
\$100,000 Residential Homestead Exemption	1,139,218,636	
\$10,000 Over-65/Disabled Exemption	251,483,229	
Disabled Veterans/Persons	3,213,681	
Productivity Loss	3,335,158,742	
10% Residential Cap Loss	287,560,032	
23.231 Cap Loss	97,884,876	
Other	178,114,194	5,292,633,390
<b>2025 Net Taxable Assessed Valuation</b>		<b>\$7,937,703,259</b>
Freeze Taxable		1,360,018,440
<b>2025 Net Freeze Adjusted Taxable Assessed Valuation</b>		<b>\$6,577,684,819</b>
Unlimited Tax Bonds Outstanding		\$48,935,000
Less: The Refunded Bonds <sup>(4)</sup>		\$5,355,000
Plus: The Bonds <sup>(4)</sup>		\$5,355,000
Less: Interest & Sinking Fund Balance <sup>(2)</sup>		\$2,589,022
<b>Net General Obligation Debt</b>		<b>\$46,345,978</b>
Estimated District Population <sup>(3)</sup>		21,224
Per Capita Net Taxable Valuation		373,997
Per Capita Net GO Debt		2,184

<sup>(1)</sup> Source: Llano Central Appraisal District

<sup>(2)</sup> Source: The District's Audited Financial Statements.

<sup>(3)</sup> Source: The Municipal Advisory Council of Texas.

<sup>(4)</sup> Preliminary, subject to change.

**Table 2**  
**Net Taxable Assessed Valuations by Category**

<b>Category</b>	<b>Net Taxable Assessed Value for Fiscal Year Ended August 31,</b>					
	<b>2026</b>		<b>2025</b>		<b>2024</b>	
	<b>Amount</b>	<b>% of Total</b>	<b>Amount</b>	<b>% of Total</b>	<b>Amount</b>	<b>% of Total</b>
Real, Single Family Residence	\$7,897,801,150	59.69%	\$7,609,532,243	57.26%	\$6,402,359,078	58.24%
Real, Multifamily Residence	247,734,972	1.87%	252,332,725	1.90%	150,979,170	1.37%
Real, Vacant Lots and Land Tracts	475,963,657	3.60%	483,637,079	3.64%	480,570,041	4.37%
Real, Acreage (Land Only)	3,407,652,749	25.76%	3,760,320,085	28.29%	2,930,422,663	26.65%
Real, Farm and Ranch Improvements	543,452,326	4.11%	543,854,254	4.09%	449,949,658	4.09%
Real, Commercial	261,654,967	1.98%	257,650,893	1.94%	239,546,611	2.18%
Real, Industrial	-	0.00%	-	0.00%	2,390,750	0.02%
Real, Oil, Gas & Other Min Resources	240,577	0.00%	253,970	0.00%	238,509	0.00%
Real and Tangible Personal, Utilities	60,429,477	0.46%	57,596,720	0.43%	53,701,260	0.49%
Tangible Personal, Commercial	80,908,651	0.61%	77,468,400	0.58%	67,650,040	0.62%
Tangible Personal, Industrial	7,281,473	0.06%	7,228,700	0.05%	6,485,540	0.06%
Tangible Other Personal, Mobile Home	15,787,799	0.12%	15,567,720	0.12%	13,647,163	0.12%
Residential Inventory	47,863,430	0.36%	46,837,763	0.35%	29,497,984	0.27%
Special Inventory	2,984,510	0.02%	2,676,460	1.32%	2,914,150	0.03%
Totally Exempt Property	180,580,911	1.36%	175,488,135	0.02%	163,551,381	1.49%
<b>Total Market Value</b>	<b>\$13,230,336,649</b>	<b>100%</b>	<b>\$13,290,445,147</b>	<b>100%</b>	<b>\$10,993,903,998</b>	<b>100%</b>
Less: Total Exemptions/Reductions	5,292,633,390		5,292,633,390		4,249,031,383	
Adjustments	-		-		-	
<b>Net Taxable Assessed Value</b>	<b>\$7,937,703,259</b>		<b>\$7,997,811,757</b>		<b>\$6,744,872,615</b>	

<b>Category</b>	<b>Net Taxable Assessed Value for Fiscal Year Ended August 31,</b>			
	<b>2023</b>		<b>2022</b>	
	<b>Amount</b>	<b>% of Total</b>	<b>Amount</b>	<b>% of Total</b>
Real, Single Family Residence	\$5,340,477,812	54.30%	\$4,438,281,347	54.61%
Real, Multifamily Residence	130,812,446	1.33%	109,683,285	1.35%
Real, Vacant Lots and Land Tracts	519,443,616	5.28%	356,160,173	4.38%
Real, Acreage (Land Only)	2,906,745,042	29.56%	2,419,308,560	29.77%
Real, Farm and Ranch Improvements	396,514,812	4.03%	311,604,254	3.83%
Real, Commercial	231,252,916	2.35%	208,414,826	2.56%
Real, Industrial	-	0.00%	-	0.00%
Real, Oil, Gas & Other Min Resources	254,041	0.00%	258,058	0.00%
Real and Tangible Personal, Utilities	51,618,700	0.52%	43,169,950	0.53%
Tangible, Personal, Commercial	53,584,880	0.54%	49,281,460	0.61%
Tangible Personal, Industrial	6,261,470	0.06%	4,984,520	0.06%
Tangible Other Personal, Mobile Home	11,088,434	0.11%	9,762,830	0.12%
Residential Inventory	27,523,678	0.28%	32,187,241	0.40%
Special Inventory	1,107,360	0.01%	2,287,680	0.03%
Totally Exempt Property	158,271,301	1.61%	142,328,433	1.75%
<b>Total Market Value</b>	<b>\$9,834,956,508</b>	<b>100%</b>	<b>\$8,127,712,617</b>	<b>100%</b>
Less: Total Exemptions/Reductions	3,761,324,825		2,977,328,310	
Adjustments	-		-	
<b>Taxable Assessed Value</b>	<b>\$6,073,631,683</b>		<b>\$5,150,384,307</b>	

Source: Llano Central Appraisal District.

**Table 3  
Valuation and Tax Supported Debt History**

Fiscal Year Ended	Estimated District Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Per Capita Assessed Valuation	Unlimited Tax Debt	Per Capita Tax Supported Debt	Ratio of Tax Supported Debt to Taxable Assessed Valuation
2022	20,919	5,150,384,307	246,206	31,580,000	1,510	0.61%
2023	21,191	6,073,631,683	286,614	61,030,000	2,880	1.00%
2024	20,955	6,744,872,615	321,874	55,480,000	2,648	0.82%
2025	21,285	7,788,285,448	365,905	48,935,000	2,299	0.63%
2026	21,224	7,937,703,259	373,997	41,465,000 <sup>(3)</sup>	1,954 <sup>(3)</sup>	0.52%

<sup>(1)</sup> Source: Municipal Advisory Council of Texas

<sup>(2)</sup> Source: Llano Central Appraisal District.

<sup>(3)</sup> Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

**Table 4  
Tax Rate, Levy and Collection History**

Fiscal Year Ended 8/31	Total Tax Rate <sup>(1)</sup>	Local Maintenance	Interest and Sinking Fund	Tax Levy <sup>(2)</sup>	% Current Collections <sup>(2)</sup>	% Total Collections <sup>(2)</sup>
2022	0.9894	0.8720	0.1174	48,072,054	99.13%	99.93%
2023	0.9720	0.8546	0.1174	56,333,583	97.79%	98.30%
2024	0.7866	0.6692	0.1174	47,931,164	97.10%	98.12%
2025	0.7843	0.6669	0.1174	55,076,892	98.88%	100.13%
2026	0.7843	0.6669	0.1174	57,910,905	94.56% <sup>(3)</sup>	94.56% <sup>(3)</sup>

<sup>(1)</sup> Source: Municipal Advisory Council of Texas

<sup>(2)</sup> Source: District's Audited Financial Statements.

<sup>(3)</sup> Source: District's records as of June 1, 2026.

**Table 5  
Principal Taxpayers and Their 2025 Taxable Assessed Valuations <sup>(1)</sup>**

Name of Taxpayer	Type of Property	Taxable Assessed Valuation	% TAV
Horseshoe Bay Resort Destinations LLC	Resort	\$46,865,788	0.59%
LCRA Transmission Service	Electric Utility/Power Plant	29,935,270	0.38%
Central Texas Electric Co-Op	Electric Utility/Power Plant	16,970,470	0.21%
Darin E. & Latonna Yates	Individual Residence	13,172,940	0.17%
Bonnie Jean & Kinney W. Raymond	Individual Residence	12,276,478	0.15%
Horseshoe Bay Resort Ltd.	Resort	10,866,340	0.14%
Horseshoe Bay Resort Interests LLC	Resort	9,834,646	0.12%
FUNF K Ranch Investments LLC	Commercial Land	9,207,240	0.12%
Sutton Family Partnership Ltd.	Commercial Land	5,472,690	0.07%
Chanas Ranch LLC	Ranch	3,887,540	0.05%
<b>Top 10 Totals:</b>		<b>\$158,489,402</b>	<b>2.00%</b>

<sup>(1)</sup> Source: Llano County Appraisal District

**Table 6**  
**Tax Adequacy**

2026 Net Principal and Interest Requirements	\$9,379,575		
\$0.1206 Tax Rate at 98% Collection Produces	\$9,381,413	(1)	(2)
Average Net Annual Principal and Interest Requirements, 2026-2034	\$6,124,285		
\$0.0788 Tax Rate at 98% Collection Produces	\$6,129,812	(1)	(2)
Maximum Net Principal and Interest Requirements, 2027	\$9,935,595		
\$0.1278 Tax Rate at 98% Collection Produces	\$9,941,497	(1)	(2)

(1) Calculation based on the 2025 Net Taxable Value.

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

**Table 7**  
**Estimated Overlapping Debt (1)**

<u>Taxing Body</u>	<u>Amount</u>	<u>As of</u>	<u>Overlap %</u>	<u>Overlap</u>
Deerhaven WC&ID	\$920,000	1/31/2026	100.00%	\$ 920,000
Horsehoe Bay, City of	47,815,000	1/31/2026	88.86%	42,488,409
Llano County	7,105,000	1/31/2026	93.03%	6,609,782
Llano County MUD #1	2,183,000	1/31/2026	100.00%	2,183,000
Llano, City of	15,325,000	1/31/2026	100.00%	15,325,000
Sunrise Beach Village, City of	-	1/31/2026	100.00%	-
Total Net Overlapping Debt				\$67,526,191
<b>Llano ISD (2)</b>			100.00%	<b>\$48,935,000</b>
Total Direct and Overlapping Debt				<u>\$116,461,191</u>
Ratio Direct and Overlapping Debt to Net Valuation				1.47%
Ratio Direct and Overlapping Debt to Actual Valuation				0.88%
Per Capita Direct and Overlapping Debt				\$5,487

(1) Source: Municipal Advisory Council of Texas

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

**Table 8**  
**Tax Supported Debt Service Requirements**

<u>Fiscal Year (8/31)</u>	<u>The Bonds</u>					
	<u>Outstanding Debt Service Requirements</u>	<u>Less: Refunded Bonds (1)</u>	<u>Principal (1)</u>	<u>Interest (1)</u>	<u>Total (1)</u>	<u>Total Debt Service (1)</u>
2026	\$7,474,369	\$0	\$1,900,000	\$5,206	\$1,905,206	\$9,379,575
2027	7,471,144	267,750	2,630,000	102,201	\$2,732,201	\$9,935,595
2028	7,465,119	267,750	775,000	21,875	\$796,875	\$7,994,244
2029	7,460,694	267,750	50,000	1,250	\$51,250	\$7,244,194
2030	7,462,575	267,750				\$7,194,825
2031	7,465,524	267,750				\$7,197,774
2032	7,464,082	5,406,000				\$2,058,082
2033	2,143,758	87,125				\$2,056,633
2034	2,057,646					\$2,057,646
<b>Totals:</b>	<b>\$56,464,911</b>	<b>\$6,831,875</b>	<b>\$5,355,000</b>	<b>\$130,533</b>	<b>\$5,485,533</b>	<b>\$55,118,568</b>

(1) Preliminary, subject to change.

**Table 9  
Interest & Sinking Fund Budget Projection**

Interest & Sinking Fund Balance, 08/31/2025 <sup>(1)</sup>		<b>\$2,589,022</b>
Tax Supported Debt Service Requirements for FYE Ended 2026 <sup>(3)</sup>	\$9,379,575	
Projected Interest & Sinking Fund Local Revenue	\$7,722,202	
EDA/IFA from Texas Education Agency <sup>(2)</sup>	-	
ASAHE from Texas Education Agency <sup>(2)</sup>	\$742,585	
Transfers In/(Out)	-	
Projected Interest & Sinking Fund Balance, 08/31/2026 (Ending)		<b>\$1,674,234</b>
Net Increase/(Decrease) in Fund Balance		-\$914,788

<sup>(1)</sup> Source: The District's Audited Financial Statements.

<sup>(2)</sup> Projected, subject to change.

<sup>(3)</sup> Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

**Table 10  
Authorized But Unissued Bonds**

None.

**Table 11  
Other Obligations <sup>(1)</sup>**

<b>Purpose</b>	<b>Interest Rate</b>	<b>Initial Year of Lease</b>	<b>Original Amount</b>	<b>Interest Current Year</b>	<b>Amounts Outstanding 08/31/2025</b>	<b>Amounts Due Within One Year</b>
Copiers	2.925%	2025	\$544,453	\$7,664	\$495,281	\$100,523
Total Leases				\$7,664	\$495,281	\$100,523

The future principal and interest lease payments as of August 31, 2025, are as follows:

<b>FYE 8/31</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2026	\$100,523	\$13,146	\$113,669
2027	103,503	10,166	113,669
2028	106,571	7,098	113,669
2029	109,731	3,939	113,670
2030	74,953	825	75,778
Total	\$495,281	\$35,174	\$530,455

<sup>(1)</sup> Source: The District's Audited Financial Statements.

**Table 12**  
**Change in Net Assets <sup>(1)</sup>**

	Fiscal Years Ended August 31,				
	2025	2024	2023	2022	2021
<b>Revenues</b>					
Program Revenues:					
Charges for Services	\$401,405	\$376,462	\$399,806	\$393,379	\$346,222
Operating Grants and Contributions	4,121,299	6,533,062	5,202,010	5,843,145	5,865,545
Property Taxes	55,312,857	48,033,131	56,493,896	48,750,779	45,550,151
State Aid-Formula Grants	1,079,714	1,209,507	1,291,282	1,185,767	1,861,951
Investment Earnings	2,434,755	2,953,694	2,029,904	227,852	68,854
Miscellaneous Local and Intermediate Revenue	313,413	19,237	195,951	157,270	204,954
Extraordinary Item	-	-	838,660	-	753,859
<b>Total Revenues</b>	<b>\$63,663,443</b>	<b>\$59,125,093</b>	<b>\$66,451,509</b>	<b>\$56,558,192</b>	<b>\$54,651,536</b>
<b>Expenses</b>					
Instruction	\$16,685,894	\$16,657,051	\$15,357,987	\$13,857,075	\$14,328,184
Instructional Resources & Media Services	486,055	435,340	419,090	384,682	435,134
Curriculum & Staff Development	147,419	89,238	133,384	63,500	54,811
Instructional Leadership	472,026	425,503	370,599	307,882	387,436
School Leadership	1,770,097	1,683,790	1,554,765	1,398,722	1,512,646
Guidance & Counseling Services	1,016,179	963,411	867,828	731,405	814,279
Social Work Services	-	-	8,875	57,137	4,212
Health Services	285,679	267,893	227,277	205,065	228,669
Student Transportation (Pupil)	1,533,830	1,629,062	1,418,139	1,393,292	1,314,044
Food Services	1,821,535	1,812,285	1,773,416	1,452,652	1,355,765
Cocurricular/Extracurricular Activities	1,948,486	2,217,872	2,178,872	1,918,750	1,827,450
General Administration	1,210,643	1,117,103	1,031,374	965,413	964,128
Plant Maintenance & Operations	3,980,396	3,728,711	3,044,823	2,745,028	2,692,290
Security & Monitoring Services	630,195	752,097	502,740	200,383	244,178
Data Processing Services	624,500	639,013	556,611	531,691	659,671
Community Services	6,856	10,022	6,886	7,965	3,835
Debt Service	1,666,777	1,782,094	403,744	646,552	1,092,572
Bond issuance costs and fees	-	-	387,064	12,199	301,619
Contracted Instructional Services Between Schools	26,266,439	20,571,105	30,394,120	24,603,340	24,171,310
Payments to Shared Services Arrangements	-	-	-	-	-
Other Governmental Charges	517,982	442,716	421,141	387,666	372,332
<b>Total Expenses</b>	<b>\$61,070,988</b>	<b>\$55,224,306</b>	<b>\$61,058,735</b>	<b>\$51,870,399</b>	<b>\$52,764,565</b>
Change in Net Assets	2,592,455	3,900,787	5,392,774	4,687,793	1,886,971
Beginning Net Assets	33,526,169	29,625,382	24,232,608	19,544,815	17,657,844
Prior Period Adjustment	(634,297)	-	-	-	-
<b>Ending Net Assets</b>	<b>\$35,484,327</b>	<b>\$33,526,169</b>	<b>\$29,625,382</b>	<b>\$24,232,608</b>	<b>\$19,544,815</b>

<sup>(1)</sup> The District's Audited Financial Statements.

**Table 12 A**  
**General Fund Revenue and Expenditure History <sup>(1)</sup>**

	Fiscal Years Ended August 31,				
	2025	2024	2023	2022	2021
<b>Revenues:</b>					
Local and Intermediate Sources	\$49,036,123	\$42,786,504	\$51,661,400	\$43,640,045	\$41,066,545
State Sources	2,399,057	2,359,761	2,213,028	1,873,539	2,500,227
Federal Sources	113,554	231,435	865,302	1,078,815	798,936
<b>Total Revenues</b>	<b>\$51,548,734</b>	<b>\$45,377,700</b>	<b>\$54,739,730</b>	<b>\$46,592,399</b>	<b>\$44,365,708</b>
<b>Expenditures:</b>					
Instruction and Instructional Related Services	\$14,588,156	\$13,118,367	\$11,662,627	\$10,275,154	\$10,054,235
Instructional and School Leadership	2,319,831	2,129,517	1,966,556	1,810,348	1,804,606
Support Services - Student (Pupil)	3,429,175	3,224,973	3,230,796	3,037,276	2,931,434
Administrative Support Services	1,199,862	1,067,761	991,385	977,372	902,154
Support Services - Nonstudent Based	3,999,505	3,576,897	3,516,499	3,129,367	2,446,550
Capital Outlay	-	1,568,214	-	-	-
Debt Service	136,972	88,398	86,118	87,914	-
Intergovernmental Charges	26,784,421	21,013,821	30,815,261	24,991,006	24,543,642
<b>Total Expenditures</b>	<b>\$52,457,922</b>	<b>\$45,787,948</b>	<b>\$52,269,242</b>	<b>\$44,308,437</b>	<b>\$42,682,621</b>
Excess (Deficiency) Revenues Over (Under) Expenditures	(\$909,188)	(\$410,248)	\$2,470,488	\$2,283,962	\$1,683,087
<b>Other Financing Sources (Uses)</b>					
Other Sources	619,244	1,642,070	446	22,005	-
Other (Uses)	-	-	-	-	-
<b>Total Other Financing Sources (Uses)</b>	<b>619,244</b>	<b>1,642,070</b>	<b>446</b>	<b>22,005</b>	<b>-</b>
Extraordinary Item	-	-	-	-	1,782,152
Extraordinary Item (Use)	-	-	(197,451)	-	(1,792,436)
Net Change in Fund Balances	(\$289,944)	\$1,231,822	\$2,273,483	\$2,305,967	\$1,672,803
Fund Balance - September 1 (Beginning)	\$18,390,938	\$17,159,116	\$14,885,633	\$12,579,666	\$10,906,863
Fund Balance - August 31 (Ending)	\$18,100,994	\$18,390,938	\$17,159,116	\$14,885,633	\$12,579,666

<sup>(1)</sup> Source: The District's Audited Financial Statements.

<sup>(2)</sup> The District's General Fund Balance is estimated to be \$18,100,994 as of August 31, 2026.

**Table 13**  
**Current Investments <sup>(1)</sup>**

---

As of August 31, 2025, the District's investable funds were invested in the following categories:

<u>Name</u>	<u>Percent of Value</u>	<u>Market Value</u>
Llano National Bank - CD	8.70%	\$4,675,887
Arrowhead Bank - CD	4.03%	2,163,992
Lone Star - Logic Investments	87.27%	46,893,041
	<hr/>	<hr/>
	100.00%	\$53,732,920

<sup>(1)</sup> Source: District's Records.

**APPENDIX B**

**AUDITED FINANCIAL STATEMENTS**

The information contained in this appendix consists of the Llano Independent School District Audited Financial Statements (the "Report") for the fiscal year ended August 31, 2025.

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.

# Llano

**INDEPENDENT SCHOOL DISTRICT**

*Home of Yellow Jackets*



## **Annual Financial Report**

**For the year ended August 31, 2025**

Llano, Texas



**LLANO INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2025

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CERTIFICATE OF BOARD

Llano Independent School District  
Name of School District

Llano  
County

150-901  
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, 2025, at a meeting of the Board of Trustees of such school district on the 28<sup>th</sup> day of January, 2026.

  
\_\_\_\_\_  
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)

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## INDEPENDENT AUDITOR'S REPORT

Board of Trustees of  
Llano Independent School District  
Llano, Texas

### Report on the Audit of the Financial Statements

#### Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Llano Independent School District, (the "District"), as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2025, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### Basis for Opinions

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

#### Emphasis of Matter - Change of Accounting Principle

As described in the notes to the financial statements, in fiscal year 2025 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

#### Responsibilities of Management for the Financial Statements

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

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

#### OFFICE LOCATIONS

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

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

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

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

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

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

### ***Required Supplementary Information***

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Llano Independent School District's basic financial statements. The combining statements, required TEA schedules, except for Exhibit L-1, and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, required TEA schedules, except for Exhibit L-1, and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Information**

Management is responsible for the other information included in the annual financial report (AFR). The other information comprises Exhibit L-1 Required Responses to Selected School First Indicators but does not include the financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2026 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Waco, Texas  
January 26, 2026

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Llano Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2025. Please read it in conjunction with the District's financial statements, which begin on page 11.

### FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$35,484,327 (*net position*).
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$30,293,593, a decrease of \$18,335,321 in comparison with the prior year. This decrease was mainly attributable to the District spending 2023 bond proceeds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$12,730,462, or 24.3% of total General Fund expenditures. During the year, total fund balance of the General Fund decreased by \$289,944.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 11 and 12). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 13) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about resources held for benefits of parties outside the District.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

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

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

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

The analysis of the District's overall financial condition and operations begins on page 11. Its primary objective is to show the results of operations and whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows/inflows, and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

**Governmental Activities** – Most of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

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

### ***Fund Financial Statements***

The Fund financial statements begin on page 13 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only governmental type funds.

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

## **The District as Trustee**

### ***Reporting the District's Fiduciary Responsibilities***

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Statement of Changes in Fund Net Position on pages 17 and 18. These resources are excluded from the District's other financial statements because the District cannot use them to support its operations.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position of the District’s governmental activities increased from \$33,526,169 to \$35,484,327. The following table provides detail on the District’s combined net position. Unrestricted net position decreased due to an increase in the District’s compensated absences liability, which resulted from the implementation of a new accounting standard.

**LLANO INDEPENDENT SCHOOL DISTRICT  
NET POSITION**

	Governmental Activities	
	2025	2024
Current and other assets	\$ 39,057,382	\$ 52,337,012
Capital assets	<u>73,165,156</u>	<u>58,964,885</u>
Total assets	<u>112,222,538</u>	<u>111,301,897</u>
Deferred outflows of resources	<u>6,176,727</u>	<u>7,279,903</u>
Current liabilities	7,910,891	2,843,098
Long-term liabilities	<u>67,631,896</u>	<u>73,063,836</u>
Total liabilities	<u>75,542,787</u>	<u>75,906,934</u>
Deferred inflows of resources	<u>7,372,151</u>	<u>9,148,697</u>
Net position:		
Net investment in capital assets	28,012,552	25,609,190
Restricted	2,905,160	2,882,784
Unrestricted	<u>4,566,615</u>	<u>5,034,195</u>
Total net position	<u>\$ 35,484,327</u>	<u>\$ 33,526,169</u>

The District’s net position increased by \$2,592,455 during the fiscal year. Key elements of this increase include the following.

- Operating grants and contributions decreased compared to the prior year due to a decrease of COVID-19 funding.
- An increase in property taxes by \$7 million, offset by a \$6 million increase in Chapter 41 (Robin Hood) payments. This results in a \$1 million increase compared to the prior year.

**LLANO INDEPENDENT SCHOOL DISTRICT  
CHANGES IN NET POSITION**

	Governmental Activities	
	2025	2024
<b>REVENUES</b>		
Program revenues:		
Charges for services	\$ 401,405	\$ 376,462
Operating grants and contributions	4,121,299	6,533,062
General revenues:		
Property taxes	55,312,857	48,033,131
Grants and contributions - not restricted	1,079,714	1,209,507
Investment earnings	2,434,755	2,953,694
Other	313,413	19,237
Total revenues	<u>63,663,443</u>	<u>59,125,093</u>
Chapter 41 (Robin Hood) payments	<u>26,266,439</u>	<u>20,571,105</u>
Revenues available to the District	<u>37,397,004</u>	<u>38,553,988</u>
<b>EXPENSES</b>		
Instruction and instructional related	17,319,368	17,181,629
Instructional leadership/school administration	2,242,123	2,109,293
Guidance, social work, health and transportation	2,835,688	2,860,366
Food services	1,821,535	1,812,285
Co-curricular/extracurricular activities	1,948,486	2,217,872
General administration/community services/other government	1,735,481	1,569,841
Plant maintenance and security	4,610,591	4,480,808
Data processing services	624,500	639,013
Debt service	1,666,777	1,782,094
Total expenses	<u>34,804,549</u>	<u>34,653,201</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<u>2,592,455</u>	<u>3,900,787</u>
<b>NET POSITION, BEGINNING, AS PREVIOUSLY REPORTED</b>	<u>33,526,169</u>	<u>29,625,382</u>
<b>RESTATEMENT</b>	<u>(634,297)</u>	<u>-</u>
<b>NET POSITION, BEGINNING, RESTATED</b>	<u>32,891,872</u>	<u>29,625,382</u>
<b>NET POSITION, ENDING</b>	<u>\$ 35,484,327</u>	<u>\$ 33,526,169</u>

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The fund balance of the General Fund decreased by \$289,944. The major elements of this decrease are discussed below.

- Operating grants and contributions decreased compared to the prior year due to a decrease of COVID-19 funding.
- An increase in property taxes by \$7 million, offset by a \$6 million increase in Chapter 41 (Robin Hood) payments. This results in a \$1 million increase compared to the prior year.

The fund balance for Debt Service Fund increased by \$96,193 due to the District collecting less in property taxes.

The fund balance for the Capital Projects Fund decreased by \$18,094,614, primarily due to the spending of the District's Series 2023 Unlimited Tax School Building Bonds.

The fund balance for Other Funds decreased by \$46,956. The Child Nutrition Program decrease in fund balance was the primary reason for the decrease.

## **Expenditures Per Student**

Expenditures per student for fiscal year 2025 and 2024 were \$9,604 and \$10,501, respectively. The decrease of \$897 per student was mainly attributable to expenditures being reclassified to federal funds.

Expenditures per student were calculated by dividing total expenditures related to governmental funds less debt service, capital outlay, TRS On-Behalf, and intergovernmental charges by weighted average daily attendance (WADA). Total expenditures less debt service, capital outlay, TRS On-Behalf, and intergovernmental charges for fiscal year 2025 and 2024 were \$27,083,412, and \$28,152,969, respectively. WADA for fiscal year 2025 and 2024 were 2,820 and 2,681 respectively.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

The fund balance of the District's General Fund, \$18,100,994, differs from the General Fund's budgetary fund balance of \$16,902,298 (see Exhibit G-1). The fund balance increased more than the amount expected, primarily because the district did not expend all of the budgeted funds, receiving more than anticipated state funding.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of the year, the District had \$73,165,156 invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. This year's major addition to capital assets included renovations to the high school and Packsaddle campuses, multiple buses, field and gym updates, along with other smaller additions.

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

### **School Land**

As authorized by the Texas Constitution, Article VII, Section 6, Llano County administers approximately 17,000 acres in Tom Green County solely for the benefit of school children in Llano County. Revenue from the land is shared 90% to the Llano Independent School District and 10% to the Burnet Consolidated School District. Pursuant to the agreement between Llano County and Llano Independent School District, the County and the District have agreed upon the expenses that each entity will pay. Since the Llano Independent School District does not hold title to the lands pursuant to the Constitution, the lands are not recorded on its books. Operational proceeds from the land become "Available Funds" and may be used at the District's discretion. The sale of land or the depletion of natural resources become "Permanent Funds" and can only be used for capital expenditures or the reduction of debt.

### **Long-term Debt**

At year-end, the District had \$48,935,000 in long-term debt outstanding versus \$55,480,000 last year. The decrease was due to the District's debt service payments of bonds.

More detailed information on the District's long-term liabilities can be found in the notes to the financial statements.

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

The District's Board of Trustees and management considered many factors when setting the fiscal year 2024-2025 budget and tax rates. The District used a conservative approach to budgeting again for fiscal year 2025-2026.

The District continues to see growth in the tax base. This growth is anticipated to continue with the growth in the Eastern end of Llano County. Because of the District's high property wealth relative to its student population, Llano Independent School District's wealth equalization payments exceed 47.5% of its tax collections.

During the 86th Texas Legislative Session completed mid-2019, the Legislature passed House Bill 3. SB2 from the 88th Legislature 1st Special Session provided additional tax compression. This was ratified in the November 2023 General Election. The Texas Education Agency continues to determine the legislative intent and provides guidance as they are able. The District will continue to monitor and make changes to adjust accordingly. One major change was a mandatory reduction in the Maintenance & Operations tax rate, causing the District to reduce its rate from \$0.6692 in 2023-2024 to \$0.6669 in the 2024-2025 year. Due to the increase homestead exemptions for homeowners and those who have their taxes frozen at age 65, the district has adopted the same rate for the 2025-2026 Fiscal Year for Maintenance and Operations of \$0.6669.

The district passed a bond in May of 2023 in the amount of \$37.8 Million. Construction at the Packsaddle and Llano High School campuses is nearing completion and expected to finish during the 2025-2026 school year. This construction will allow for the extra growth the district is experiencing in the eastern portion of the county, as well as, additional course offerings at the High School.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, 1400 Oatman, Llano, Texas.

## **BASIC FINANCIAL STATEMENTS**

LLANO INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

AUGUST 31, 2025

<u>Data Control Codes</u>		<u>Primary Government Governmental Activities</u>
<b>ASSETS</b>		
1110	Cash and cash equivalents	\$ 36,995,884
1220	Delinquent property taxes receivables	1,189,573
1230	Allowance for uncollectible taxes (credit)	(118,958)
1240	Due from other governments	576,198
1250	Accrued interest	13,848
1300	Inventories	30,305
1410	Prepaid items	370,532
	Capital assets:	
1510	Land	806,138
1520	Buildings and improvements, net	44,700,648
1530	Furniture and equipment, net	6,374,629
1550	Right to use equipment, net	483,958
1580	Construction in progress	20,799,783
1000	Total assets	<u>112,222,538</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
1705	Related to TRS pension	2,336,307
1706	Related to TRS OPEB	3,840,420
1700	Total deferred outflows of resources	<u>6,176,727</u>
<b>LIABILITIES</b>		
2110	Accounts payable	5,922,804
2140	Interest payable	86,570
2150	Payroll deductions and withholdings	224,320
2160	Accrued wages	1,338,940
2180	Due to other governments	326,780
2300	Unearned revenue	11,477
	Noncurrent liabilities:	
	Due within one year	
2501	Long-term debt	5,698,524
	Due in more than one year	
2502	Long-term debt	47,945,406
2502	Arbitrage liability	1,343,813
2540	Net pension liability (proportionate share)	7,275,124
2545	Net OPEB (proportionate share)	5,369,029
2000	Total liabilities	<u>75,542,787</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
2601	Deferred gain on bond refunding	66,864
2605	Related to TRS pension	933,092
2606	Related to TRS OPEB	6,372,195
2600	Total deferred inflows of resources	<u>7,372,151</u>
<b>NET POSITION</b>		
3200	Net investment in capital assets	28,012,552
	Restricted for:	
3820	Federal and state programs	273,009
3850	Debt service	2,632,151
3900	Unrestricted	4,566,615
3000	Total net position	<u>\$ 35,484,327</u>

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

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT B-1**

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		6 Primary Governmental Activities
			3 Charges for Services	4 Operating Grants and Contributions	
<b>Primary government:</b>					
Governmental activities:					
11	Instruction	\$ 16,685,894	\$ 24,068	\$ 1,440,074	\$ (15,221,752)
12	Instructional resources and media services	486,055	8,641	6,516	(470,898)
13	Curriculum and staff development	147,419	-	133,679	(13,740)
21	Instructional leadership	472,026	-	16,213	(455,813)
23	School leadership	1,770,097	6,847	47,228	(1,716,022)
31	Guidance, counseling, and evaluation services	1,016,179	-	326,904	(689,275)
33	Health services	285,679	1,327	5,772	(278,580)
34	Student transportation	1,533,830	-	26,425	(1,507,405)
35	Food service	1,821,535	114,963	1,596,183	(110,389)
36	Extracurricular activities	1,948,486	245,559	26,348	(1,676,579)
41	General administration	1,210,643	-	17,344	(1,193,299)
51	Facilities maintenance and operations operations	3,980,396	-	31,483	(3,948,913)
52	Security and monitoring services	630,195	-	36,158	(594,037)
53	Data processing services	624,500	-	10,150	(614,350)
61	Community services	6,856	-	6,856	-
72	Interest on long-term debt	1,666,777	-	393,966	(1,272,811)
91	Contracted instructional services between schools	26,266,439	-	-	(26,266,439)
99	Other governmental charges	<u>517,982</u>	<u>-</u>	<u>-</u>	<u>(517,982)</u>
TG	Total governmental activities	<u>\$ 61,070,988</u>	<u>\$ 401,405</u>	<u>\$ 4,121,299</u>	<u>(56,548,284)</u>
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				47,035,425
DT	Property taxes, levied for debt service				8,277,432
GC	Grants and contributions not restricted to specific programs				1,079,714
IE	Investment earnings				2,434,755
MI	Miscellaneous				<u>313,413</u>
TR	Total general revenues				<u>59,140,739</u>
CN	Change in net position				<u>2,592,455</u>
NB	Net position, beginning, as previously reported				33,526,169
PA	Restatement - change in accounting principle				<u>(634,297)</u>
NB	Net position, beginning				<u>32,891,872</u>
NE	Net position, ending				<u>\$ 35,484,327</u>

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

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT C-1**

**BALANCE SHEET  
GOVERNMENT FUNDS**

AUGUST 31, 2025

Data Control Codes		10	50	60		98
		General	Debt Service	Capital Projects	Other Governmental	Total Governmental Funds
<b>ASSETS</b>						
1110	Cash and cash equivalents	\$ 23,127,067	\$ 2,615,772	\$ 10,811,581	\$ 441,464	\$ 36,995,884
1220	Delinquent property taxes receivable	1,024,136	165,437	-	-	1,189,573
1230	Allowance for uncollectible taxes	(102,414)	(16,544)	-	-	(118,958)
1240	Due from other governments	125,923	863	-	449,412	576,198
1250	Accrued interest	13,848	-	-	-	13,848
1260	Due from other funds	203,851	-	-	-	203,851
1300	Inventories	-	-	-	30,305	30,305
1410	Prepaid items	370,532	-	-	-	370,532
1000	Total assets	<u>24,762,943</u>	<u>2,765,528</u>	<u>10,811,581</u>	<u>921,181</u>	<u>39,261,233</u>
<b>LIABILITIES</b>						
2110	Accounts payable	4,131,815	-	1,687,658	103,331	5,922,804
2150	Payroll deductions and withholdings	217,000	-	-	7,320	224,320
2160	Accrued wages	1,223,392	-	-	115,548	1,338,940
2170	Due to other funds	-	-	-	203,851	203,851
2180	Due to other governments	279,973	46,807	-	-	326,780
2300	Unearned revenue	-	-	-	11,477	11,477
2000	Total liabilities	<u>5,852,180</u>	<u>46,807</u>	<u>1,687,658</u>	<u>441,527</u>	<u>8,028,172</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
2600	Unavailable revenue - property taxes	809,769	129,699	-	-	939,468
	Total deferred inflows of resources	<u>809,769</u>	<u>129,699</u>	<u>-</u>	<u>-</u>	<u>939,468</u>
<b>FUND BALANCES</b>						
Non-spendable for:						
3410	Inventories	-	-	-	30,305	30,305
3430	Prepaid items	370,532	-	-	-	370,532
Restricted for:						
3450	Federal and state programs	-	-	-	242,704	242,704
3470	Capital acquisition	-	-	9,123,923	-	9,123,923
3480	Debt service	-	2,589,022	-	-	2,589,022
Committed for:						
3510	Construction	5,000,000	-	-	-	5,000,000
3545	Campus activity	-	-	-	206,645	206,645
3600	Unassigned	12,730,462	-	-	-	12,730,462
3000	Total fund balances	<u>18,100,994</u>	<u>2,589,022</u>	<u>9,123,923</u>	<u>479,654</u>	<u>30,293,593</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 24,762,943</u>	<u>\$ 2,765,528</u>	<u>\$ 10,811,581</u>	<u>\$ 921,181</u>	<u>\$ 39,261,233</u>

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

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT C-2**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION

AUGUST 31, 2025

<b>Total Fund Balances - Governmental Funds</b>	\$ 30,293,593
Capital assets used in governmental activities are not financial resources and are not reported in the funds.	73,165,156
Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	939,468
Long-term liabilities (compensated absences, leases and bonds) are not due and payable in the current period and are not reported in the funds. Also, the gain on refunding of bonds and the premium on issuance of bonds payable are not reported in the funds.	(53,710,794)
Amounts not due and payable in the current period are not reported as a liability in the governmental funds.	
Interest payable	(86,570)
Arbitrage liability	(1,343,813)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$2,336,307, a deferred resource inflow in the amount of \$933,092, and a net pension liability in the amount of \$7,275,124. This resulted in a decrease in net position.	(5,871,909)
Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to OPEB included a deferred resource outflow in the amount of \$3,804,420, a deferred resource inflow in the amount of \$6,372,195, and a net OPEB liability in the amount of \$5,369,029. This resulted in a decrease in net position.	<u>(7,900,804)</u>
<b>Total net position of governmental activities</b>	<b><u>\$ 35,484,327</u></b>

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT C-3**

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		10	50	60		98
		General	Debt Service	Capital Projects	Other Governmental	Total Governmental Funds
<b>REVENUES</b>						
5700	Local and intermediate sources	\$ 49,036,123	\$ 8,468,138	\$ 921,460	\$ 371,848	\$ 58,797,569
5800	State programs	2,399,057	393,966	-	110,555	2,903,578
5900	Federal programs	<u>113,554</u>	<u>-</u>	<u>-</u>	<u>3,038,898</u>	<u>3,152,452</u>
5020	Total revenues	<u>51,548,734</u>	<u>8,862,104</u>	<u>921,460</u>	<u>3,521,301</u>	<u>64,853,599</u>
<b>EXPENDITURES</b>						
Current:						
0011	Instruction	14,105,085	-	16,463	1,050,320	15,171,868
0012	Instructional resources and media services	483,071	-	-	7,838	490,909
0013	Curriculum and staff development	5,714	-	-	136,476	142,190
0021	Instructional leadership	473,904	-	-	1,809	475,713
0023	School leadership	1,840,213	-	-	14,494	1,854,707
0031	Guidance, counseling, and evaluation serv	764,518	-	-	306,612	1,071,130
0033	Health services	299,295	-	-	1,204	300,499
0034	Student transportation	1,018,995	-	194,838	48,261	1,262,094
0035	Food service	84,999	-	-	1,763,441	1,848,440
0036	Extracurricular activities	1,261,368	-	-	183,848	1,445,216
0041	General administration	1,199,862	-	-	-	1,199,862
0051	Facilities maintenance and operations	2,931,418	-	31,098	23,244	2,985,760
0052	Security and monitoring services	467,312	-	42,541	24,611	534,464
0053	Data processing services	600,775	-	15,344	-	616,119
0061	Community services	-	-	-	6,856	6,856
Debt service:						
0071	Principal on long-term debt	129,040	6,545,000	-	-	6,674,040
0072	Interest on long-term debt	7,932	2,215,969	-	-	2,223,901
0073	Bond issuance costs and fees	-	4,942	-	-	4,942
0081	Capital outlay	-	-	18,715,790	16,252	18,732,042
Intergovernmental:						
0091	Contracted instructional services between schools	26,266,439	-	-	-	26,266,439
0099	Other intergovernmental charges	<u>517,982</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>517,982</u>
6030	Total expenditures	<u>52,457,922</u>	<u>8,765,911</u>	<u>19,016,074</u>	<u>3,585,266</u>	<u>83,825,173</u>
1100	<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(909,188)</u>	<u>96,193</u>	<u>(18,094,614)</u>	<u>(63,965)</u>	<u>(18,971,574)</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
7912	Sale of real or personal property	91,800	-	-	-	91,800
7913	Issuance of lease	<u>527,444</u>	<u>-</u>	<u>-</u>	<u>17,009</u>	<u>544,453</u>
7080	Total other financing sources (uses)	<u>619,244</u>	<u>-</u>	<u>-</u>	<u>17,009</u>	<u>636,253</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	<u>(289,944)</u>	<u>96,193</u>	<u>(18,094,614)</u>	<u>(46,956)</u>	<u>(18,335,321)</u>
0100	<b>FUND BALANCES, BEGINNING</b>	<u>18,390,938</u>	<u>2,492,829</u>	<u>27,218,537</u>	<u>526,610</u>	<u>48,628,914</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ 18,100,994</u>	<u>\$ 2,589,022</u>	<u>\$ 9,123,923</u>	<u>\$ 479,654</u>	<u>\$ 30,293,593</u>

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

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

FOR THE YEAR ENDED AUGUST 31, 2025

Net change in fund balances - total governmental funds \$ (18,335,321)

Amounts reported for governmental activities in the statement of activities are different because:

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

Capital outlay	19,671,702
Depreciation expense	(5,450,546)

Property tax revenues that do not provide current financial resources are not reported as revenues in the funds. (20,710)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.

Lease issuance	(544,453)
Principal repayments	6,674,040

Some expenses reported in the statement of activities do not require the use of current financial resources and are not reported as expenditures in governmental funds.

Amortization of premium on issuance of bonds	553,458
Interest payable	8,608
Arbitrage liability	(385,340)
Compensated absences	28,011

GASB 68 required that certain pension plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$707,154. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$666,694. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$367,929. The net result is a decrease in the change in net position. (327,469)

GASB 75 required that certain OPEB plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$176,792. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$158,218. Finally, the proportionate share of the OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$722,786. The net result is an increase in the change in net position.

	741,360
Change in net position of governmental activities	\$ 2,592,455

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT E-1**

STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS

AUGUST 31, 2025

	<u>Private-Purpose Trust Funds</u>	<u>Custodial Fund</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 364,929	\$ 211,694
Total assets	<u>364,929</u>	<u>211,694</u>
<b>NET POSITION</b>		
Restricted for:		
Student groups	-	211,694
Scholarships	364,929	-
Total net position	<u>\$ 364,929</u>	<u>\$ 211,694</u>

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT E-2**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS**

FOR THE YEAR ENDED AUGUST 31, 2025

	<u>Private-Purpose Trust Funds</u>	<u>Custodial Fund</u>
<b>ADDITIONS</b>		
Contributions:		
Local and intermediate sources	\$ 17,202	\$ -
Total contributions	<u>17,202</u>	<u>-</u>
 Collections from student groups	 -	 294,847
Total additions	<u>17,202</u>	<u>294,847</u>
<b>DEDUCTIONS</b>		
Payments on-behalf of student groups	-	258,665
Other operating costs	<u>17,200</u>	<u>-</u>
Total deductions	<u>17,200</u>	<u>258,665</u>
 <b>NET INCREASE IN FIDUCIARY NET POSITION</b>	 2	 36,182
 <b>NET POSITION, BEGINNING</b>	 <u>364,927</u>	 <u>175,512</u>
 <b>NET POSITION, ENDING</b>	 <u>\$ 364,929</u>	 <u>\$ 211,694</u>

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# LLANO INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2025

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

Llano Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. There are no component units included within the reporting entity. The District prepares its basic financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

#### B. Government-wide and Fund Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Llano Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenue.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes and other items not properly included among program revenues are reported as general revenues.

Interfund activities between governmental appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities

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

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

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

Fiduciary funds are used to account for resources held for the benefit of parties outside the District. This District's private-purpose trust and custodial fund's activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The private-purpose trust and custodial funds are presented on an *economic resources measurement focus* and the *accrual basis of accounting*, similar to the government-wide financial statements.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenue and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenue in the accounting period in which it becomes both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims, and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenue available if it is collectible within 60 days after year-end.

Revenue from local sources consists primarily of property taxes. Property tax revenue and revenue received from the state are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenue is recorded as revenue when received in cash because it is generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenue until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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

The emphasis of fund financial statements is on major funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

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

**Debt Service Fund** – The Debt Service Fund accounts for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

**Capital Projects Fund** – The Capital Projects Fund accounts includes the proceeds from the sale of bonds and other revenues to be used for authorized construction and other capital asset acquisitions.

Additionally, the District reports the following fund types:

Governmental Funds:

**Special Revenue Funds** – The District accounts for resources restricted to, or committed for, specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund.

Fiduciary Funds:

**Private Purpose Trust Funds** – The District uses Private Purpose Trust Funds to account for donations for which the donor has stipulated that both principal and income be used for purposes that benefit parties outside the District.

**Custodial Fund** – The District accounts for resources held for and administered by others in a Custodial Fund.

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

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

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

**1. Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value, except for the position in investment pools. The District's investments in Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

**2. Receivables and Payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All interfund transactions between governmental funds are eliminated on the government-wide financial statements.

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the following year in which imposed. On January 31 of each year, a tax lien attaches to property to secure 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.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the year ended August 31, 2025, the rates were \$0.6669 and \$0.1174, respectively, per \$100 of assessed value.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on 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.

### **3. Inventory and Prepaid Items**

Certain payments to vendors reflect costs applicable to future accounting periods and are reflected as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

The District uses the consumption method to account for inventories of food products. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Inventories of food commodities used in the food service program are recorded at acquisition value. Although commodities are received at no cost, the acquisition value is recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenues are relieved, expenditures are charged, and revenue is recognized for an equal amount.

### **4. Due From Other Governments**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. In addition, the District has entered into interlocal agreements with local governments in which the District is to be reimbursed for certain costs. These amounts are reported in the basic financial statements as Due from Other Governments.

### **5. School Land**

As authorized by the Texas Constitution, Article VII, Section 6, Llano County administers approximately 17,000 acres in Tom Green County solely for the benefit of school children in Llano County. Revenue from the land is shared 90% to the Llano Independent School District and 10% to the Burnet Consolidated School District. Pursuant to the agreement between Llano County and Llano Independent School District, the County and the District have agreed upon the expenses that each entity will pay. Since the District does not hold title to the lands pursuant to the Constitution, the lands are not recorded on its books. Operational proceeds from the land become "Available Funds" and may be used at the District's discretion. The sale of land or the depletion of natural resources become "Permanent Funds" and can only be used for capital expenditures or the reduction of debt.

### **6. Capital Assets**

Capital assets are tangible and intangible assets, which include land, buildings, furniture and equipment, are reported in the governmental activities' column in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed, except for intangible right-to-use lease assets, the measurement of which is discussed in the Lease note disclosure. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant, and equipment, and right to use leased equipment of the primary government are depreciated/amortized using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	15-60
Vehicles	7-10
Furniture and equipment	5-10
Right to use - equipment	4-6

## **7. Long-term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenses.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

## **8. Leases**

The District is a lessee for a noncancellable lease of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements.

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

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

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

## **9. Compensated Absences**

It is the District's policy to allow certain employees to accumulate earned but unused leave benefits. Accordingly, the District records a liability for leave that relates to services already provided, can be carried forward, and is more likely than not to be taken as time off or otherwise paid or settled. Management estimates the amount of accumulated vacation, local leave, and state leave expected to be paid using historical usage patterns, and the resulting liability (including related payroll costs) is recorded in governmental activities.

## **10. Deferred outflows/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 element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are deferred charge on refunding and deferred outflows related to both the TRS net pension liability and the TRS net OPEB liability reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability.

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 or resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has three types of inflows, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending TRS net pension liability and the TRS net OPEB liability. The district also has a deferred gain on bond refunding.

## **11. Pensions**

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

## **12. Other Post-Employment Benefits**

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

## **13. Fund Balance Classification**

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Non-spendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.

- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by board resolution of the School Board, the District's highest level of decision-making authority. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. The School Board delegated the responsibility to assign fund balance not to exceed \$50,000 individually or 10% of unassigned fund balance in total to the Superintendent or his designee. The School Board has the authority to assign any amount of fund balance.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

#### **14. Net Position**

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

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.

#### **15. Estimates**

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

#### **16. Data Control Codes**

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

## 17. Restatement - Change in Accounting Principle

GASB Statement No. 101, *Compensated Absences* – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Accordingly, the cumulative effect of the accounting change has been recognized in a restatement of beginning net position by \$634,297.

## II. DETAILED NOTES ON ACTIVITIES AND FUNDS

### A. Deposits and Investments

As of August 31, 2025, the District had the following investments:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (Days)</u>
Logic	\$ 28,110	51
Lone Star - Corporate Overnight Plus	26,787,524	26

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

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The District's policies do not permit some of these investments. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is generally in compliance with the requirements of the Act and with local policies.

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

The District utilizes a pooled investment concept for some of its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested.

## Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2025, the District's deposit balance was entirely covered by FDIC insurance and securities held in the name of the District by the pledging financial institution.

## Credit Risk

It is the District's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District's investment pools are rated as follows by Moody's or Standard and Poor's Investors Service.

Logic	AAAm
Lone Star - Corporate Overnight Plus	AAAm

## B. Capital Assets

Capital assets activity for the year ended August 31, 2025, was as follows:

	Beginning Balance 08/31/24	Increases	Decreases/ Reclassifications	Ending Balance 08/31/25
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 806,138	\$ -	\$ -	\$ 806,138
Construction in progress	<u>3,432,593</u>	<u>17,461,572</u>	<u>(94,382)</u>	<u>20,799,783</u>
Total capital assets, not being depreciated	<u>4,238,731</u>	<u>17,461,572</u>	<u>(94,382)</u>	<u>21,605,921</u>
Capital assets, being depreciated:				
Buildings	93,942,114	867,572	(1,355,805)	93,453,881
Furniture and equipment	15,656,622	798,105	(3,134,233)	13,320,494
Right to use - equipment	<u>332,813</u>	<u>544,453</u>	<u>(332,813)</u>	<u>544,453</u>
Total capital assets, being depreciated	<u>109,931,549</u>	<u>2,210,130</u>	<u>(4,822,851)</u>	<u>107,318,828</u>
Less accumulated depreciation for:				
Buildings	(46,033,338)	(4,170,082)	1,450,187	(48,753,233)
Furniture and equipment	(8,921,041)	(1,159,057)	3,134,233	(6,945,865)
Right to use - equipment	<u>(251,016)</u>	<u>(121,407)</u>	<u>311,928</u>	<u>(60,495)</u>
Total accumulated depreciation	<u>(55,205,395)</u>	<u>(5,450,546)</u>	<u>4,896,348</u>	<u>(55,759,593)</u>
Total capital assets, being depreciated, net	<u>54,726,154</u>	<u>(3,240,416)</u>	<u>73,497</u>	<u>51,559,235</u>
Governmental activities capital assets, net	<u>\$ 58,964,885</u>	<u>\$ 14,221,156</u>	<u>\$ (20,885)</u>	<u>\$ 73,165,156</u>

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

<b>Governmental activities:</b>	
Instruction	\$ 2,560,525
Instructional resources and media services	18,481
Curriculum and staff development	5,824
Instructional leadership	21,131
School leadership	12,875
Student transportation	563,021
Food services	111,777
Extracurricular activities	603,524
General administration	63,156
Facilities maintenance and operations	1,273,030
Security and monitoring services	181,862
Data processing services	<u>35,340</u>
Total depreciation expense - governmental activities	<u>\$ 5,450,546</u>

Significant commitments related to construction contracts that were included in construction in progress at year end are as follows:

<u>Project Description</u>	<u>Paid-to-Date</u>	<u>Remaining Commitment</u>
Audio-visual systems - High School	\$ 82,105	\$ 20,526
Audio-visual systems - Packsaddle Elem	83,597	55,731
Various extracurricular projects - Packsaddle Elem	150,000	67,000
High School additions and renovations	9,723,482	2,119,445
Packsaddle Elementary additions	10,482,604	2,544,477
Weightroom equipment and flooring	-	173,124
Varsity locker room	-	49,772
	<u>\$ 20,521,788</u>	<u>\$ 5,030,075</u>

**C. Interfund Balances**

The composition of interfund balances as of August 31, 2025, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental	\$ 203,851
		<u>\$ 203,851</u>

Balances resulted from the lag between the dates that payments for expenditures are made and the date a granting agency reimbursed the District.

**D. Unearned Revenue**

The District defers revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the governmental funds is as follows:

Nonmajor governmental funds:	
Child nutrition charges for meals	\$ 11,477
Total unearned revenue	<u>\$ 11,477</u>

**E. Long-term Liabilities**

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

	Balance 08/31/24	Additions	Reductions	Balance 08/31/25	Amounts Due in One Year
Bonds	\$ 55,480,000	\$ -	\$ 6,545,000	\$ 48,935,000	\$ 5,570,000
Premium on bonds	3,981,597	-	546,028	3,435,569	-
Leases	79,868	544,453	129,040	495,281	100,523
Compensated absences	806,091	-	28,001	778,090	28,001
Total long-term debt	<u>\$ 60,347,556</u>	<u>\$ 544,453</u>	<u>\$ 7,248,069</u>	<u>\$ 53,643,940</u>	<u>\$ 5,698,524</u>
Arbitrage liability	\$ 958,473	\$ 385,340	\$ -	\$ 1,343,813	\$ -
Net pension liability	8,282,911	-	1,007,787	7,275,124	-
Net OPEB liability	4,109,193	1,259,836	-	5,369,029	-
Total long-term liabilities	<u>\$ 73,698,133</u>	<u>\$ 2,189,629</u>	<u>\$ 8,255,856</u>	<u>\$ 67,631,906</u>	<u>\$ 5,698,524</u>

Leases, net pension liability and net OPEB liability are generally liquidated by the General Fund. The additions and reductions of compensated absence liabilities are netted.

**Bonds**

As of August 31, 2025, the total amount of defeased bonds still outstanding is \$1,075,000 and will be callable in fiscal year 2026.

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

A summary of changes in unlimited tax bonds payable for the year ended August 31, 2025, is as follows:

Description	Interest Rate Payable	Amount Original Issue	Interest Paid in Current Year	Amount Outstanding 08/31/24	Issued	Retired	Amount Outstanding 08/31/25
Unlimited Tax							
Refunding	2%						
Bond	to						
Series 2016	4%	\$ 5,035,000	\$ 8,025	\$ 535,000	\$ -	\$ 535,000	\$ -
Unlimited Tax							
School Building	3%						
Bonds	to						
Series 2019	5%	9,395,000	18,925	1,695,000	-	1,695,000	-
Unlimited Tax							
School Building	2%						
Bonds	to						
Series 2021	5%	22,385,000	467,144	18,525,000	-	1,590,000	16,935,000
Unlimited Tax							
School Building							
Bonds							
Series 2023	5%	35,440,000	1,721,875	34,725,000	-	2,725,000	32,000,000
Totals			<u>\$ 2,215,969</u>	<u>\$ 55,480,000</u>	<u>\$ -</u>	<u>\$ 6,545,000</u>	<u>\$ 48,935,000</u>

Debt service requirements for bonds are as follows:

Year Ended August 31,	Governmental Activities		Total Requirements
	Principal	Interest	
2026	\$ 5,570,000	\$ 1,904,369	\$ 7,474,369
2027	5,835,000	1,636,144	7,471,144
2028	6,110,000	1,355,119	7,465,119
2029	6,400,000	1,060,694	7,460,694
2030	6,685,000	777,575	7,462,575
2031-2034	18,335,000	796,010	19,131,010
Totals	<u>\$ 48,935,000</u>	<u>\$ 7,529,911</u>	<u>\$ 56,464,911</u>

There are a number of limitations and restrictions contained within bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2025.

**Leases**

A summary of leases payable as of August 31, 2025, are as follows:

Purpose of Lease	Interest Rate	Initial Year of Lease	Amount of Initial Liability	Interest Current Year	Amounts Outstanding 08/31/25	Amounts Due Within One Year
Right to Use: Copiers	2.9250%	2025	\$ 544,453	\$ 7,664	\$ 495,281	\$ 100,523
Total leases				\$ 7,664	\$ 495,281	\$ 100,523

The future principal and interest lease payments as of August 31, 2025, are as follows:

Year Ended August 31,	Principal	Interest	Total Payment
2026	\$ 100,523	\$ 13,146	\$ 113,669
2027	103,503	10,166	113,669
2028	106,571	7,098	113,669
2029	109,731	3,939	113,669
2030	74,953	825	75,780
Totals	\$ 495,281	\$ 35,174	\$ 530,456

**Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that there it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations and the District has recognized a long-term liability at year end in the amount of \$1,343,813.

**III. OTHER INFORMATION**

**A. Defined Benefit Pension Plan**

**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 the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension’s Board of Trustees does not have the authority to establish or amend benefit terms.

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

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

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

Accordingly, the 2023 Texas Legislature passed Senate Bill (SB) 10 and House Joint Resolution (HJR) 2 to provide eligible retirees with a one-time stipend and an ad hoc cost-of-living-adjustment (COLA).

Stipends, regardless of annuity amount, were paid in September 2023 to annuitants who met the qualifying age requirement on or before August 31, 2023:

- A one-time \$7,500 stipend to eligible annuitants who are 75 years of age and older.
- A one-time \$2,400 stipend to eligible annuitants age 70 to 74.

A cost-of-living adjustment (COLA) was dependent on Texas voters approving a constitutional amendment (Proposition 9) to authorize the COLA. Voters approved the amendment in the November 2023 election and the following COLA was applied to eligible annuitants' payments beginning with their January 2024 payment:

- 2% COLA for eligible retirees who retired between September 1, 2013 through August 31, 2020.
- 4% COLA for eligible retirees who retired between September 1, 2001 through August 31, 2013.
- 6% COLA for eligible retirees who retired on or before August 31, 2001.

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.

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

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

	Contribution Rates	
	2024	2025
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
Current fiscal year employer contributions		\$ 707,154
Current fiscal year member contributions		1,421,985
2024 measurement year NECE on-behalf contributions		959,417

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

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

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

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

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

**Actuarial Assumptions.** The total pension liability in the August 31, 2023 actuarial valuation was rolled forward to August 31, 2024. And was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2023	3.87%
Last year ending August 31 in Projection Period (100 years)	2123
Inflation	2.30%
Salary Increases Including Inflation	2.95% to 8.95%
Ad Hoc Post-Employment Benefit Changes	None

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

**Discount Rate.** A single discount rate of 7.00 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 9.50 percent of payroll in fiscal year 2024 gradually increasing to 9.56 percent in fiscal year 2025 and thereafter. This includes all employer and state contributions for active and rehired retirees.

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

The long-term rate of return on pension plan investments is 7%. 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.

**Changes Since the Prior Actuarial Valuation.** The actuarial assumptions and methods are the same as used in the determination of the prior year’s Net Pension Liability.

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2025 are summarized below:

Asset Class <sup>1</sup>	Target Allocation <sup>2</sup>	Long-Term Expected Geometric Real Rate of Return <sup>3</sup>	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	4.40%	1.00%
Non-U.S. Developed	13.00%	4.20%	0.80%
Emerging Markets	9.00%	5.20%	0.70%
Private Equity	14.00%	6.70%	1.20%
Stable Value			
Government Bonds	16.00%	1.90%	0.40%
Absolute Return	0.00%	3.00%	0.00%
Stable Value Hedge Funds	5.00%	4.00%	0.20%
Real Return			
Real Estate	15.00%	6.60%	1.20%
Energy, Natural Resources and Infrastructure	6.00%	5.60%	0.40%
Commodities	0.00%	2.50%	0.00%
Risk Parity			
Risk Parity	8.00%	4.00%	0.40%
Leverage			
Cash	2.00%	1.00%	0.00%
Asset Allocation Leverage	-6.00%	1.30%	-0.10%
Inflation Expectation			2.40%
Volatility Drag <sup>4</sup>			-0.70%
Expected Return	100.00%		7.90%

<sup>1</sup>Absolute Returns Includes Credit Sensitive Investments.

<sup>2</sup>Target allocations are based on the FY2024 policy model.

<sup>3</sup>Capital Market Assumptions come from 2024 SAA Study CMA Survey (as of 12/31/2023)

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

**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 Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
District's proportionate share of the net pension liability	\$ 11,620,217	\$ 7,275,124	\$ 3,674,906

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2025, the District reported a liability of \$7,275,124 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 7,275,124
State's proportionate share that is associated with the District	<u>10,399,558</u>
Total	<u>\$ 17,674,682</u>

The net pension liability was measured as of August 31, 2024, and the total pension liability used in the measurement was rolled forward from an actuarial valuation as of August 31, 2023. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2023 thru August 31, 2024.

At August 31, 2024 the employer's proportion of the collective net pension liability was 0.0119099986% which was a decrease of 0.0001483336% from its proportion measured as of August 31, 2023.

For the year ended August 31, 2025, the District's pension expense was \$2,277,544 and revenue of \$1,242,921 for support provided by the State.

**Changes in Benefit Provisions Since Prior Measurement Date.** The Texas 2023 Legislature passed legislation that provides a one-time stipend to certain retired teachers. The stipend was paid to retirees beginning in September of 2023. The Legislature appropriated funds to pay for this one-time stipend so there will be no impact on the Net Pension Liability of TRS. In addition, the Legislature also provided for a cost-of-living adjustment (COLA) to retirees which was approved during the November 2023 election which will be paid January 2025. Therefore, this contingent liability was not reflected as of August 31, 2024.

At August 31, 2025, 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	\$ 400,995	\$ 56,801
Changes in actuarial assumptions	375,630	50,359
Difference between projected and actual investment earnings	44,223	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	808,305	825,932
Contributions paid to TRS subsequent to the measurement date	<u>707,154</u>	<u>-</u>
Totals	<u>\$ 2,336,307</u>	<u>\$ 933,092</u>

\$707,154 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended August 31, 2026. The other net amount of employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31,	Pension Expense
2026	\$ 39,726
2027	850,574
2028	102,175
2029	(312,074)
2030	15,660

**B. Defined Other Post-Employment Benefit Plans**

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

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

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

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

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

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

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

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

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of 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.

	Contributions Rates	
	2024	2025
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 176,792
Current fiscal year member contributions		111,278
2024 measurement year NECE on-behalf contributions		201,332

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

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

**Actuarial Assumptions.** The actuarial valuation was performed as of August 31, 2023. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2024. The actuarial valuation was determined using the following actuarial assumptions.

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

The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2023 TRS pension actuarial valuation that was rolled forward to August 31, 2024:

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

The active mortality rates were based on 90 percent of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables. The rates were projected on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2018.

**Additional Actuarial Methods and Assumptions**

Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Discount Rate	3.87% as of August 31, 2024
Aging Factors	Based on plan specific experience
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65. 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claim costs.
Healthcare Trend Rates	The initial medical trend rates of 6.75 percent for Medicare retirees. For Medicare retirees, trend rates are higher in the first two years due to anticipated growth but thereafter match those of non-Medicare retirees. Initial prescription drug trend rate of 7.25% for all retirees. Initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 2.95% to 8.95%, including inflation
Projected Salary Increases	
Ad hoc post-employment benefit changes	None

**Discount Rate.** A single discount rate of 3.87% was used to measure the total OPEB liability. There was an increase of 0.26% in the discount rate since the previous year. Because the plan is essentially a “payas-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 used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

A single discount rate of 3.87% was used to measure the total OPEB liability. There was an decrease of 0.26 percent in the discount rate since the previous year.

Because the investments are held in cash and there is no intentional objective to advance fund the benefits, the single discount rate is equal to the prevailing municipal bond rate.

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

**Discount Rate Sensitivity Analysis.** The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than the discount rate that was used (3.87%) in measuring the net OPEB liability.

	1% Decrease in Discount Rate <u>(2.87%)</u>	Discount Rate <u>(3.87%)</u>	1% Increase in Discount Rate <u>(4.87%)</u>
Proportionate share of net OPEB liability	\$ 6,378,657	\$ 5,369,029	\$ 4,553,234

**OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs.** At August 31, 2025 the District reported a liability of \$5,369,029 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 5,369,029
State's proportionate share that is associated with the District	<u>6,727,320</u>
Total	<u>\$ 12,096,349</u>

The Net OPEB Liability was measured as of August 31, 2024 and the Total OPEB Liability used to calculate the net OPEB Liability was rolled forward from an actuarial valuation as of August 31, 2023. The employer's proportion of the net OPEB liability was based on the employer's contributions to OPEB relative to the contributions of all employers to the plan for the period September 1, 2023 thru August 31, 2024.

At August 31, 2024 the employer's proportion of the collective Net OPEB Liability was 0.0176894814% which was a decrease of 0.0008719812% from its proportion measured as of August 31, 2023.

**Healthcare Cost Trend Sensitivity Analysis.** The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the health trend rates assumed.

	1% Decrease in Healthcare Trend Rate <u>Rate</u>	Current Single Healthcare Trend Rate <u>Rate</u>	1% Increase in Healthcare Trend Rate <u>Rate</u>
Proportionate share of net OPEB liability	\$ 4,372,277	\$ 5,369,029	\$ 6,667,896

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

- The discount rate changed from 4.13 percent as of August 31, 2023 to 3.87 percent as of August 31, 2024, accompanied by revised demographic and economic assumptions based on the TRS experience study.

For the year ended August 31, 2025, the District recognized OPEB expense of \$(1,438,995) and revenue of \$(874,427) for support provided by the State.

At August 31, 2025, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 1,029,063	\$ 2,679,436
Changes in actuarial assumptions	687,172	1,751,852
Differences between projected and actual investment earnings	-	15,035
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,947,393	1,925,872
Contributions paid to TRS subsequent to the measurement date	<u>176,792</u>	<u>-</u>
Totals	<u>\$ 3,840,420</u>	<u>\$ 6,372,195</u>

\$176,792 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended August 31, 2026. The other net amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended August 31,	OPEB Expense
2026	\$ (701,856)
2027	(458,685)
2028	(579,425)
2029	(492,860)
2030	(249,168)
Thereafter	(226,573)

**C. Health Care Coverage**

For the year ended August 31, 2025, all employees of the District were offered health care coverage under the TRS ActiveCare insurance plan (the Plan), which is a statewide health coverage program for public education employees established by the 77th Texas Legislature. The District contributed \$445 per month per enrolled employee to the Plan, and employees, at their option, authorized payroll withholdings to pay the additional cost of premiums for themselves and dependents.

**D. Medicare Part D – On-behalf Payments**

The Medicare Prescription Drug, Improvement, and Modernization act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from federal governments to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenue and expenditures by the District in the amount of \$122,306, \$88,628, and \$83,727 for the years ended August 31, 2025, 2024 and 2023, respectively.

**E. Risk Management**

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries insurance through the TASB Risk Management Fund (the Fund). During the year ended August 31, 2025, the District participated in the following programs with coverage in the following areas:

Program	Coverage Areas
Property Casualty program	Auto Physical Damage Crime Equipment breakdown Property
Liability program	Auto Liability General Liability School Professional Legal Liability Privacy & Information Security Liability

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the property and liability programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2025, the fund anticipates that the District has no additional liability for either the property or liability program beyond the contractual obligations for payment of contributions.

During the year ended August 31, 2025, the District met its statutory workers’ compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund’s Workers’ Compensation program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers’ compensation benefits to its members’ injured employees.

The Fund and its members are protected against higher-than-expected claims costs through the purchase of stop-loss coverage for any claim in excess of the fund’s self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2025, the Fund carries a discounted reserve of \$211,220,762 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2025, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

During the year ended August 31, 2025, 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, 2025, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

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

No settlements have exceeded coverage since the District joined the fund. In fiscal years 2025 and 2024, the District paid \$547,488 and \$459,475, respectively, to the fund for property, liability, workers' compensation, and unemployment protection. The District did not receive any dividends due to favorable losses in prior years.

**F. Commitments and Contingencies**

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable as of August 31, 2025 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 financial statements for such contingencies.

**G. New Accounting Standards**

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

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for the District's year ending August 31, 2026, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for the District's year ending August 31, 2026, and the impact has not yet been determined.

GASB Statement No 105, *Subsequent Events* – The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement will become effective for the District's year ending August 31, 2027, and the impact has not yet been determined.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT G-1**

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

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget
		Original	Final		Positive (Negative)
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 48,012,455	\$ 49,012,455	\$ 49,036,123	\$ 23,668
5800	State programs	2,465,529	2,336,677	2,399,057	62,380
5900	Federal programs	<u>315,000</u>	<u>135,000</u>	<u>113,554</u>	<u>(21,446)</u>
5020	Total revenues	<u>50,792,984</u>	<u>51,484,132</u>	<u>51,548,734</u>	<u>64,602</u>
<b>EXPENDITURES</b>					
Current:					
0011	Instruction	12,853,721	14,107,831	14,105,085	2,746
0012	Instructional resources and media services	430,862	484,862	483,071	1,791
0013	Curriculum and staff development	38,880	38,880	5,714	33,166
0021	Instructional leadership	437,651	475,051	473,904	1,147
0023	School leadership	1,703,364	1,841,959	1,840,213	1,746
0031	Guidance, counseling, and evaluation services	838,549	765,398	764,518	880
0033	Health services	306,245	306,245	299,295	6,950
0034	Student transportation	1,410,188	1,051,288	1,018,995	32,293
0035	Food Service	-	86,000	84,999	1,001
0036	Extracurricular activities	1,290,087	1,274,813	1,261,368	13,445
0041	General administration	1,052,900	1,200,900	1,199,862	1,038
0051	Facilities maintenance and operations	2,841,778	2,934,778	2,931,418	3,360
0052	Security and monitoring services	454,300	467,800	467,312	488
0053	Data processing services	611,467	602,467	600,775	1,692
0061	Community services	1,000	1,000	-	1,000
Debt service:					
0071	Principal on long-term debt	85,000	129,568	129,040	528
0072	Interest on long-term debt	2,500	7,932	7,932	-
Intergovernmental:					
Contracted instructional services					
0091	between schools	26,200,000	26,656,000	26,266,439	389,561
0099	Other intergovernmental charges	<u>540,000</u>	<u>540,000</u>	<u>517,982</u>	<u>22,018</u>
6030	Total expenditures	<u>51,098,492</u>	<u>52,972,772</u>	<u>52,457,922</u>	<u>514,850</u>
1100	<b>EXCESS (DEFICIENCY) OF REVENUE OVER EXPENDITURES</b>	<u>(305,508)</u>	<u>(1,488,640)</u>	<u>(909,188)</u>	<u>579,452</u>
<b>OTHER FINANCING SOURCES</b>					
7912	Sale of real or personal property	-	-	91,800	91,800
7913	Issuance of lease	-	-	<u>527,444</u>	<u>527,444</u>
7080	Total other financing sources	-	-	<u>619,244</u>	<u>619,244</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	<u>(305,508)</u>	<u>(1,488,640)</u>	<u>(289,944)</u>	<u>1,198,696</u>
0100	<b>FUND BALANCES, BEGINNING</b>	<u>18,390,938</u>	<u>18,390,938</u>	<u>18,390,938</u>	<u>-</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ 18,085,430</u>	<u>\$ 16,902,298</u>	<u>\$ 18,100,994</u>	<u>\$ 1,198,696</u>

The accompanying notes are an integral part of this schedule.

**LLANO INDEPENDENT SCHOOL DISTRICT**

NOTES TO REQUIRED BUDGETARY SCHEDULE

AUGUST 31, 2025

**Budgetary Information**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the National School Breakfast and Lunch Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds, and compares the final amended budget to actual revenue and expenditures. The District presented the General Fund budgetary comparison schedule as required supplementary information, and the National School Breakfast and Lunch and Debt Service Funds budgetary comparison schedules are presented as required TEA schedules.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget 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.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no outstanding end-of-year encumbrances.

**LLANO INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2025

Measurement period August 31	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
District's proportion of the net pension liability (asset)	0.011910%	0.012058%	0.014129%	0.010212%
District's proportionate share of the net pension liability (asset)	\$ 7,275,124	\$ 8,282,911	\$ 8,387,760	\$ 2,600,588
State's proportionate share of the net pension liability (asset) associated with the District	<u>10,399,558</u>	<u>11,589,251</u>	<u>8,926,994</u>	<u>4,917,232</u>
Total	<u>\$ 17,674,682</u>	<u>\$ 19,872,162</u>	<u>\$ 17,314,754</u>	<u>\$ 7,517,820</u>
District's covered payroll	\$ 16,319,294	\$ 15,443,221	\$ 15,188,033	\$ 13,878,475
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	44.58%	53.63%	55.23%	18.74%
Plan fiduciary net position as a percentage of the total pension liability	77.51%	73.15%	75.62%	88.79%

<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
0.010376%	0.011724%	0.011814%	0.011447%	0.011527%	0.012120%
\$ 5,556,907	\$ 6,094,708	\$ 6,502,536	\$ 3,660,291	\$ 4,355,799	\$ 4,284,188
<u>10,479,525</u>	<u>9,185,357</u>	<u>10,228,926</u>	<u>6,100,234</u>	<u>7,408,451</u>	<u>7,089,962</u>
<u>\$ 16,036,432</u>	<u>\$ 15,280,065</u>	<u>\$ 16,731,462</u>	<u>\$ 9,760,525</u>	<u>\$ 11,764,250</u>	<u>\$ 11,374,150</u>
\$ 13,739,192	\$ 12,838,644	\$ 12,739,267	\$ 12,302,834	\$ 11,981,046	\$ 11,576,060
40.45%	47.47%	51.04%	29.75%	36.36%	37.01%
75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

**LLANO INDEPENDENT SCHOOL DISTRICT**

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

FOR THE YEAR ENDED AUGUST 31, 2025

Fiscal year ended August 31	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Contractually required contribution	\$ 707,154	\$ 666,694	\$ 619,818	\$ 652,251
Contributions in relation to the contractually required contribution	<u>(707,154)</u>	<u>(666,694)</u>	<u>(619,818)</u>	<u>(652,251)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 17,095,002	\$ 16,319,294	\$ 15,443,221	\$ 15,188,033
Contribution as a percentage of covered payroll	4.14%	4.09%	4.01%	4.29%

2021	2020	2019	2018	2017	2016
\$ 435,787	\$ 428,096	\$ 417,217	\$ 397,773	\$ 375,182	\$ 366,759
<u>(435,787)</u>	<u>(428,096)</u>	<u>(417,217)</u>	<u>(397,773)</u>	<u>(375,182)</u>	<u>(366,759)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 13,878,475	\$ 13,739,192	\$ 12,838,644	\$ 12,739,267	\$ 12,302,834	\$ 11,981,046
3.14%	3.12%	3.25%	3.12%	3.05%	3.06%

**LLANO INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE  
OF THE NET OPEB LIABILITY  
TEACHER RETIREMENT SYSTEM

FOR THE YEAR ENDED AUGUST 31, 2025

Measurement period August 31	<u>2024</u>	<u>2023</u>	<u>2022</u>
District's proportion of the net OPEB liability (asset)	0.01768948%	0.01856146%	0.02140634%
District's proportionate share of the net OPEB liability (asset)	\$ 5,369,029	\$ 4,109,193	\$ 5,125,535
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>6,727,320</u>	<u>4,958,373</u>	<u>6,252,347</u>
Total	<u>\$ 12,096,349</u>	<u>\$ 9,067,566</u>	<u>\$ 11,377,882</u>
District's covered employee payroll	\$ 16,319,294	\$ 15,443,221	\$ 15,188,033
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered employee payroll	32.90%	26.61%	33.75%
Plan fiduciary net position as a percentage of the total OPEB liability	13.70%	14.94%	11.52%

Note: This schedule is required to have 10 years of information, but the information before 2017 is not available.

2021	2020	2019	2018	2017
0.01694782%	0.01740419%	0.01789655%	0.01758915%	0.01068988%
\$ 6,537,533	\$ 6,616,118	\$ 8,463,502	\$ 8,782,424	\$ 7,348,650
<u>8,758,838</u>	<u>8,890,477</u>	<u>11,246,098</u>	<u>10,651,750</u>	<u>9,400,451</u>
<u>\$ 15,296,371</u>	<u>\$ 15,506,595</u>	<u>\$ 19,709,600</u>	<u>\$ 19,434,174</u>	<u>\$ 16,749,101</u>
\$ 13,878,475	\$ 13,739,192	\$ 12,838,644	\$ 12,739,267	\$ 12,302,834
47.11%	48.16%	65.92%	68.94%	59.73%
6.18%	4.99%	2.66%	1.57%	0.91%

**LLANO INDEPENDENT SCHOOL DISTRICT**

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

FOR THE YEAR ENDED AUGUST 31, 2025

Fiscal year ended August 31	2025	2024	2023
Contractually required contribution	\$ 176,792	\$ 158,218	\$ 161,283
Contributions in relation to the contractually required contribution	(176,792)	(158,218)	(161,283)
Contribution deficiency (excess)	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 17,095,002	\$ 16,319,294	\$ 15,443,221
Contribution as a percentage of covered employee payroll	1.03%	0.97%	1.04%

Note: This schedule is required to have 10 years of information, but the information before 2018 is not available.

<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
\$ 175,289	\$ 132,381	\$ 137,299	\$ 127,287	\$ 121,680
<u>(175,289)</u>	<u>(132,381)</u>	<u>(137,299)</u>	<u>(127,287)</u>	<u>(121,680)</u>
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 15,188,033	\$ 13,878,475	\$ 13,739,192	\$ 12,838,644	\$ 12,739,267
1.15%	0.95%	1.00%	0.99%	0.96%

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## **COMBINING STATEMENTS**

**LLANO INDEPENDENT SCHOOL DISTRICT**

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

AUGUST 31, 2025

	Special Revenue Funds			
	211	224	225	226
	ESEA I, A Improving Basic Program	IDEA- Part B Formula	IDEA- Part B Preschool	IDEA- Part B Discretionary
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
Due from other governments	141,577	56,812	3,837	-
Inventories	-	-	-	-
Total assets	<u>141,577</u>	<u>56,812</u>	<u>3,837</u>	<u>-</u>
<b>LIABILITIES</b>				
Accounts payable	-	-	-	-
Payroll deductions and withholdings	3,568	2,044	199	-
Accrued wages	43,793	16,009	985	-
Due to other funds	94,216	38,759	2,653	-
Unearned revenues	-	-	-	-
Total liabilities	<u>141,577</u>	<u>56,812</u>	<u>3,837</u>	<u>-</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Inventories	-	-	-	-
Restricted for:				
Federal and state programs	-	-	-	-
Committed for campus activities	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities and fund balances	<u>\$ 141,577</u>	<u>\$ 56,812</u>	<u>\$ 3,837</u>	<u>\$ -</u>

Special Revenue Funds					
240	244	255	263	270	289
National Breakfast and Lunch Program	Vocational Ed Basic Grant	ESEA II, A Training and Recruiting	Title III, A English Lang. Acquisition	ESEA VI, B Rural & Low Income	ESEA, Title IV Part A
\$ 234,819	\$ -	\$ -	\$ -	\$ -	\$ -
172,702	-	39,666	2,516	6,947	-
30,305	-	-	-	-	-
<u>437,826</u>	<u>-</u>	<u>39,666</u>	<u>2,516</u>	<u>6,947</u>	<u>-</u>
98,301	-	5,030	-	-	-
734	-	775	-	-	-
54,305	-	456	-	-	-
-	-	33,405	2,516	6,947	-
11,477	-	-	-	-	-
<u>164,817</u>	<u>-</u>	<u>39,666</u>	<u>2,516</u>	<u>6,947</u>	<u>-</u>
30,305	-	-	-	-	-
242,704	-	-	-	-	-
-	-	-	-	-	-
<u>273,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 437,826</u>	<u>\$ -</u>	<u>\$ 39,666</u>	<u>\$ 2,516</u>	<u>\$ 6,947</u>	<u>\$ -</u>

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**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT H-1**

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS

AUGUST 31, 2025

	Special Revenue Funds			Total Nonmajor Governmental Funds
	385	410	461	
	Visually Impaired	Instructional Material Allotment	Campus Activity	
<b>ASSETS</b>				
Cash and cash equivalents	\$ -	\$ -	\$ 206,645	\$ 441,464
Due from other governments	-	25,355	-	449,412
Inventories	-	-	-	30,305
Total assets	<u>-</u>	<u>25,355</u>	<u>206,645</u>	<u>921,181</u>
<b>LIABILITIES</b>				
Accounts payable	-	-	-	103,331
Payroll deductions and withholdings	-	-	-	7,320
Accrued wages	-	-	-	115,548
Due to other funds	-	25,355	-	203,851
Unearned revenues	-	-	-	11,477
Total liabilities	<u>-</u>	<u>25,355</u>	<u>-</u>	<u>441,527</u>
<b>FUND BALANCES</b>				
Nonspendable:				
Inventories	-	-	-	30,305
Restricted for:				
Federal and state programs	-	-	-	242,704
Committed for campus activities	-	-	206,645	206,645
Total fund balances	<u>-</u>	<u>-</u>	<u>206,645</u>	<u>479,654</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 25,355</u>	<u>\$ 206,645</u>	<u>\$ 921,181</u>

**LLANO INDEPENDENT SCHOOL DISTRICT**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED AUGUST 31, 2025

	Special Revenue Funds			
	211	224	225	226
	ESEA I, A Improving Basic Program	IDEA- Part B Formula	IDEA- Part B Preschool	IDEA- Part B Discretionary
<b>REVENUES</b>				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
State programs	-	-	-	-
Federal programs	<u>681,911</u>	<u>444,518</u>	<u>15,203</u>	<u>95,683</u>
Total revenues	<u>681,911</u>	<u>444,518</u>	<u>15,203</u>	<u>95,683</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	661,780	137,745	15,203	60,000
Instruction resources and media services	-	-	-	-
Curriculum and instructional staff development	11,466	4,783	-	-
Instructional leadership	1,809	-	-	-
School leadership	-	-	-	-
Guidance, counseling and evaluation services	-	301,990	-	-
Health services	-	-	-	-
Student transportation	-	-	-	35,683
Food services	-	-	-	-
Extracurricular activities	-	-	-	-
Facilities maintenance and operations	-	-	-	-
Security and monitoring services	-	-	-	-
Community services	6,856	-	-	-
Capital outlay	-	-	-	-
Total expenditures	<u>681,911</u>	<u>444,518</u>	<u>15,203</u>	<u>95,683</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of lease	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES, BEGINNING</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds					
240	244	255	263	270	289
National Breakfast and Lunch Program	Vocational Ed Basic Grant	ESEA II, A Training and Recruiting	Title III, A English Lang. Acquisition	ESEA VI, B Rural & Low Income	ESEA IV, Part A Subpart 1
\$ 114,955	\$ -	\$ -	\$ -	\$ -	\$ -
23,254	-	-	-	-	-
<u>1,548,142</u>	<u>32,038</u>	<u>115,345</u>	<u>2,516</u>	<u>54,066</u>	<u>49,476</u>
<u>1,686,351</u>	<u>32,038</u>	<u>115,345</u>	<u>2,516</u>	<u>54,066</u>	<u>49,476</u>
-	31,408	18,122	2,516	10,514	3,898
-	-	-	-	-	-
-	630	85,413	-	31,384	2,800
-	-	-	-	-	-
-	-	7,788	-	-	495
-	-	4,022	-	-	600
-	-	-	-	-	-
-	-	-	-	12,168	410
1,763,441	-	-	-	-	-
-	-	-	-	-	-
22,834	-	-	-	-	410
-	-	-	-	-	24,611
-	-	-	-	-	-
-	-	-	-	-	16,252
<u>1,786,275</u>	<u>32,038</u>	<u>115,345</u>	<u>2,516</u>	<u>54,066</u>	<u>49,476</u>
<u>(99,924)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>17,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>17,009</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>(82,915)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>355,924</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 273,009</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT H-2**

**COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED AUGUST 31, 2025

	Special Revenue Funds			Total Nonmajor Governmental Funds
	385	410	461	
	Visually Impaired	Instructional Material Allotment	Campus Activity	
<b>REVENUES</b>				
Local and intermediate sources	\$ -	\$ -	\$ 256,893	\$ 371,848
State programs	900	86,401	-	110,555
Federal programs	-	-	-	3,038,898
Total revenues	<u>900</u>	<u>86,401</u>	<u>256,893</u>	<u>3,521,301</u>
<b>EXPENDITURES</b>				
Current:				
Instruction	900	86,401	21,833	1,050,320
Instruction resources and media services	-	-	7,838	7,838
Curriculum and instructional staff development	-	-	-	136,476
Instructional leadership	-	-	-	1,809
School leadership	-	-	6,211	14,494
Guidance, counseling and evaluation services	-	-	-	306,612
Health services	-	-	1,204	1,204
Student transportation	-	-	-	48,261
Food services	-	-	-	1,763,441
Extracurricular activities	-	-	183,848	183,848
Facilities maintenance and operations	-	-	-	23,244
Security and monitoring services	-	-	-	24,611
Community services	-	-	-	6,856
Capital outlay	-	-	-	16,252
Total expenditures	<u>900</u>	<u>86,401</u>	<u>220,934</u>	<u>3,585,266</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>-</u>	<u>-</u>	<u>35,959</u>	<u>(63,965)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of lease	-	-	-	17,009
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>17,009</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>-</u>	<u>35,959</u>	<u>(46,956)</u>
<b>FUND BALANCES, BEGINNING</b>	<u>-</u>	<u>-</u>	<u>170,686</u>	<u>526,610</u>
<b>FUND BALANCES, ENDING</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 206,645</u>	<u>\$ 479,654</u>

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT H-3**

**COMBINING STATEMENT OF FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS**

AUGUST 31, 2025

	823	827	828	829	
	Grenwelge Scholarship	Reynolds Scholarship	Edinger Scholarship	Mahon-Dahl Scholarship	Totals
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 333,818	\$ 2,874	\$ 28,114	\$ 123	\$ 364,929
Total assets	<u>333,818</u>	<u>2,874</u>	<u>28,114</u>	<u>123</u>	<u>364,929</u>
<b>NET POSITION</b>					
Restricted for scholarships	<u>333,818</u>	<u>2,874</u>	<u>28,114</u>	<u>123</u>	<u>364,929</u>
Total net position	<u>\$ 333,818</u>	<u>\$ 2,874</u>	<u>\$ 28,114</u>	<u>\$ 123</u>	<u>\$ 364,929</u>

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT H-4**

**COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
PRIVATE PURPOSE TRUST FUNDS**

FOR THE YEAR ENDED AUGUST 31, 2025

	823	827	828	829	
	Grenwelge Scholarship	Reynolds Scholarship	Edinger Scholarship	Mahon-Dahl Scholarship	Totals
<b>ADDITIONS</b>					
Local and intermediate sources	\$ 15,771	\$ 152	\$ 1,264	\$ 15	\$ 17,202
Total additions	<u>15,771</u>	<u>152</u>	<u>1,264</u>	<u>15</u>	<u>17,202</u>
<b>DEDUCTIONS</b>					
Other operating costs	<u>14,000</u>	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>17,200</u>
Total deductions	<u>14,000</u>	<u>3,200</u>	<u>-</u>	<u>-</u>	<u>17,200</u>
<b>CHANGE IN NET POSITION</b>	<u>1,771</u>	<u>(3,048)</u>	<u>1,264</u>	<u>15</u>	<u>2</u>
<b>NET POSITION, BEGINNING</b>	<u>332,047</u>	<u>5,922</u>	<u>26,850</u>	<u>108</u>	<u>364,927</u>
<b>NET POSITION, ENDING</b>	<u>\$ 333,818</u>	<u>\$ 2,874</u>	<u>\$ 28,114</u>	<u>\$ 123</u>	<u>\$ 364,929</u>

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## **REQUIRED TEA SCHEDULES**

**LLANO INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2025

Last Ten Years Ended August 31,	1		2	3	10
	Tax Rates		Debt Service	Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 09/01/24
	Maintenance				
2016 and prior years	Various		Various	Various	\$ 65,758
2017	1.040000		0.128000	\$ 3,305,053,168	11,311
2018	1.040000		0.128000	3,541,362,072	15,503
2019	1.040000		0.118000	3,782,850,086	20,037
2020	0.970000		0.118000	4,027,127,574	31,270
2021	0.911900		0.117400	4,370,434,065	45,278
2022	0.872000		0.117400	4,858,707,702	84,909
2023	0.854600		0.117400	5,795,636,118	230,979
2024	0.669200		0.117400	6,093,460,971	756,428
2025	0.666900		0.117400	7,022,426,649	-
1000 Totals					<u>\$ 1,261,473</u>

8000 - Taxes refunded

**EXHIBIT J-1**

20	31	32	40	50	99
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 08/31/25	Total Taxes Refunded under Section 26.1115 (c)
\$ -	\$ 1,165	\$ 164	\$ -	\$ 64,428	
-	358	44	-	10,909	
-	635	78	-	14,790	
-	2,019	229	-	17,789	
-	5,620	684	-	24,967	
-	9,820	1,264	(344)	33,850	
-	22,564	3,038	3,830	63,138	
-	88,751	12,193	(4,160)	125,875	
-	345,098	60,542	(130,123)	220,665	
<u>55,076,892</u>	<u>46,072,312</u>	<u>8,110,288</u>	<u>(281,130)</u>	<u>613,162</u>	
<u>\$ 55,076,892</u>	<u>\$ 46,548,342</u>	<u>\$ 8,188,524</u>	<u>\$ (411,927)</u>	<u>\$ 1,189,573</u>	
					\$ -

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-2**

SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
NATIONAL SCHOOL LUNCH AND BREAKFAST PROGRAM

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 150,000	\$ 110,000	\$ 114,955	\$ 4,955
5800	State programs	16,000	20,000	23,254	3,254
5900	Federal programs	<u>1,345,000</u>	<u>1,445,000</u>	<u>1,548,142</u>	<u>103,142</u>
5020	Total revenues	<u>1,511,000</u>	<u>1,575,000</u>	<u>1,686,351</u>	<u>111,351</u>
<b>EXPENDITURES</b>					
Current:					
0035	Food service	1,667,244	1,763,800	1,763,441	359
0051	Facilities maintenance and operations	<u>19,700</u>	<u>23,200</u>	<u>22,834</u>	<u>366</u>
6030	Total expenditures	<u>1,686,944</u>	<u>1,787,000</u>	<u>1,786,275</u>	<u>725</u>
1100	<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(175,944)</u>	<u>(212,000)</u>	<u>(99,924)</u>	<u>112,076</u>
<b>OTHER FINANCING SOURCES (USES)</b>					
7913	Issuance of lease	-	-	17,009	17,009
	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>17,009</u>	<u>17,009</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	<u>(175,944)</u>	<u>(212,000)</u>	<u>(82,915)</u>	<u>129,085</u>
0100	<b>FUND BALANCES, BEGINNING</b>	<u>355,924</u>	<u>355,924</u>	<u>355,924</u>	<u>-</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ 179,980</u>	<u>\$ 143,924</u>	<u>\$ 273,009</u>	<u>\$ 129,085</u>

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-3**

SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE - BUDGET TO ACTUAL  
DEBT SERVICE FUND

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
<b>REVENUES</b>					
5700	Local and intermediate sources	\$ 8,116,154	\$ 8,516,154	\$ 8,468,138	\$ (48,016)
5800	State program	<u>463,006</u>	<u>463,006</u>	<u>393,966</u>	<u>(69,040)</u>
5020	Total revenues	<u>8,579,160</u>	<u>8,979,160</u>	<u>8,862,104</u>	<u>(117,056)</u>
<b>EXPENDITURES</b>					
Debt service:					
0071	Principal on long-term debt	6,159,160	6,545,000	6,545,000	-
0072	Interest on long-term debt	2,400,000	2,215,969	2,215,969	-
0073	Bond issuance costs and fees	<u>20,000</u>	<u>18,191</u>	<u>4,942</u>	<u>13,249</u>
6030	Total expenditures	<u>8,579,160</u>	<u>8,779,160</u>	<u>8,765,911</u>	<u>13,249</u>
1200	<b>NET CHANGE IN FUND BALANCES</b>	<u>-</u>	<u>200,000</u>	<u>96,193</u>	<u>(103,807)</u>
0100	<b>FUND BALANCES, BEGINNING</b>	<u>2,492,829</u>	<u>2,492,829</u>	<u>2,492,829</u>	<u>-</u>
3000	<b>FUND BALANCES, ENDING</b>	<u>\$ 2,492,829</u>	<u>\$ 2,692,829</u>	<u>\$ 2,589,022</u>	<u>\$ (103,807)</u>

USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS  
 FOR THE YEAR ENDED AUGUST 31, 2025

**Section A: Compensatory Education Programs**

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.	\$ 1,986,924
AP4	Actual direct program expenditures for state compensatory education programs during the district’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$ 2,316,061

**Section B: Bilingual Education Programs**

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.	\$ 174,397
AP8	Actual direct program expenditures for bilingual education programs during the district’s fiscal year. (PIC 25)	\$ 150,653

## **COMPLIANCE SECTION**

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**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  
Llano Independent School District  
Llano, Texas

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 Llano Independent School District (the "District"), as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 26, 2026.

***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) as a basis for designing 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 District'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 or significant deficiencies may exist that were not identified.

## **Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 financial statements. 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 internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Waco, Texas  
January 26, 2026

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

Board of Trustees of  
Llano Independent School District  
Llano, Texas

**Report on Compliance for Each Major Federal Program**

***Opinion on Each Major Federal Program***

We have audited Llano Independent School District’s (the “District”) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended August 31, 2025. The 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, the District complied, in all material respects, with the 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, 2025.

***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 (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); 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 the District and to meet our other ethical responsibilities, in accordance with 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the 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 the District’s federal programs.

**OFFICE LOCATIONS**

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

## **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 the 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 GAAS, *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 the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with GAAS, *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 the 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 the 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 the 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**

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance 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.

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 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 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.

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

Waco, Texas  
January 26, 2026

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT K-1**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2025

Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	1 Assistance Listing Number	2a Pass-through Entity Identifying Number	3 Federal Expenditures
<b>U. S. DEPARTMENT OF AGRICULTURE</b>			
Passed through the Texas Education Agency			
School Breakfast Program (SBP)	10.553	71402401	\$ 49,759
School Breakfast Program (SBP)	10.553	71402501	<u>386,617</u>
Subtotal 10.553			<u>436,376</u>
National School Lunch Program (NSLP)	10.555	71302401	104,092
National School Lunch Program (NSLP)	10.555	71302501	<u>868,608</u>
Total Passed through the Texas Education Agency			<u>1,409,076</u>
Passed through the Texas Department of Agriculture			
NSLP - Commodities Non-cash Assistance	10.555	NT4XL1YGLGC5	90,880
Commodity Storage	10.555	NT4XL1YGLGC5	<u>6,186</u>
Subtotal 10.555			<u>1,069,766</u>
Total Child Nutrition Cluster			<u>1,506,142</u>
Equipment Grant	10.579	NT4XL1YGLGC5	<u>42,000</u>
Total Passed through the Texas Department of Agriculture			<u>139,066</u>
<b>TOTAL U. S. DEPARTMENT OF AGRICULTURE</b>			<u>1,548,142</u>
<b>U. S. DEPARTMENT OF EDUCATION</b>			
Passed through the Texas Education Agency			
Title I, Part A - Improving Basic Programs	84.010A	25610101150901	606,104
Title I, Part A - Improving Basic Programs	84.010A	26610101150901	<u>75,807</u>
Subtotal 84.010A			<u>681,911</u>
IDEA - Part B, Discretionary - High Cost Grant	84.027A	66002506	95,683
IDEA - Part B, Formula	84.027A	256600011509016000	419,383
IDEA - Part B, Formula	84.027A	266600011509016000	<u>25,135</u>
Subtotal 84.027			<u>540,201</u>
IDEA - Part B, Preschool	84.173A	256610011509016610	11,365
IDEA - Part B, Preschool	84.173A	266610011509016610	<u>3,838</u>
Subtotal 84.173			<u>15,203</u>
Total Special Education Cluster (IDEA)			<u>555,404</u>

The accompanying notes are an integral part of this schedule.

**LLANO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT K-1**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED AUGUST 31, 2025

Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	1 Assistance Listing Number	2a Pass-through Entity Identifying Number	3 Federal Expenditures
<b>U. S. DEPARTMENT OF EDUCATION</b>			
Passed through the Texas Education Agency			
Carl Perkins Basic Grant Formula	84.048A	25420006150901	\$ 33,422
Title II, Part A - Supporting Effective Instruction	84.367A	25694501150901	81,641
Title II, Part A - Supporting Effective Instruction	84.367A	26694501150901	<u>33,704</u>
Subtotal 84.367A			<u>115,345</u>
Title V, B, SP2, RLIS	84.358B	25696001150901	54,065
LEP Summer School	84.369A	69552402	1,363
Title IV, Part A, Subpart 1	84.424A	25680101150901	<u>48,113</u>
Total Passed through the Texas Education Agency			<u>1,489,623</u>
Passed through ESC Region 13			
Title III - Part A, Subpart 1, English Language Acquisition and Language Enhancement	84.365A	23671001227950	<u>2,516</u>
Total Passed through ESC Region 13			<u>2,516</u>
<b>TOTAL U. S. DEPARTMENT OF EDUCATION</b>			<u>1,492,139</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 3,040,281</u>

**LLANO INDEPENDENT SCHOOL DISTRICT**

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

AUGUST 31, 2025

**1. GENERAL**

The Schedule of Expenditures of Federal Awards (SEFA) presents the activity of all applicable federal award programs of Llano Independent School District. The District's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the SEFA.

**2. BASIS OF ACCOUNTING**

The SEFA is presented using the modified accrual basis of accounting. The District's significant accounting policies, including the modified accrual basis of accounting, are presented in Note 1 of the basic financial statements. The SEFA 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). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

**3. PASS-THROUGH EXPENDITURES**

None of the federal programs expended by the District were provided to subrecipients.

**4. INDIRECT COSTS**

The District did not elect to use a de minimis cost rate as described at 2 CFR §200.414(f)—Indirect (F&A) costs.

**5. RECONCILIATION OF FEDERAL REVENUES AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

The following is the reconciliation of federal revenues and the Schedule of Expenditures of Federal Awards for the year ended August 31, 2025:

Federal revenues per the Statement of Revenues,	\$ 3,152,452
Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	
Less:	
E-rate	8,100
SHARS	<u>104,070</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$ 3,040,282</u>

**LLANO INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**FOR THE YEAR ENDED AUGUST 31, 2025**

**Summary of Auditor's Results**

Financial Statements:

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted?

No

Federal Awards:

Internal control over major programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?

None

Identification of major programs:

Assistance Listing Numbers:

10.553 and 10.555

Name of federal program or cluster:

Child Nutrition Cluster

Dollar threshold used to distinguish between

Type A and Type B programs:

\$750,000

Auditee qualified as low-risk auditee?

Yes

**Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Auditing Standards**

None

**Findings and Questioned Costs for Federal Awards**

None

**LLANO INDEPENDENT SCHOOL DISTRICT**

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

FOR THE YEAR ENDED AUGUST 31, 2025

None.

**APPENDIX C**

**FORMS OF CO-BOND COUNSEL'S OPINION**

**AND**

**TAX COUNSEL'S OPINION**



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\_\_\_\_\_, 2026

WE HAVE ACTED as Co-Bond Counsel for LLANO INDEPENDENT SCHOOL DISTRICT (the “*District*”), in connection with the issuance of bonds (the “*Bonds*”) described as follows:

LLANO INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX REFUNDING BONDS, SERIES 2026, dated \_\_\_\_\_, 2026, in the principal amount of \$ \_\_\_\_\_ and maturing on August 25, 2026 and on February 15 in the years \_\_\_\_ through \_\_\_\_, inclusive, and in the years \_\_\_\_ and \_\_\_\_\_. The Bonds are issuable in fully-registered form only, in denominations of \$5,000 of the principal amount or integral multiples thereof, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds, in the bond order (the “*Bond Order*”) adopted by the Board of Trustees of the District authorizing their issuance and delegating the pricing of the Bonds and certain other matters to a “*Pricing Officer*” who approved and executed a Pricing Certificate, which completed the sale of the Bonds (the “*Pricing Certificate*”) and, together with the Bond Order, the “*Order*”). Capitalized terms used herein and not otherwise defined shall have the meanings so assigned in the Order.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion (the “*Opinion*”) with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity, we have participated in the preparation of, and have examined, a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the bonds that are being refunded with the proceeds of the Bonds (the “*Refunded Bonds*”), as described in the Order. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations, and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We also have examined executed Bond No. R-1 of this issue. We also have examined such portions of the Constitution and statutes of the State of Texas as we have deemed necessary for the purposes of rendering this Opinion.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED UPON SUCH EXAMINATION, it is our opinion that, under existing law:

(A) 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 District, enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions, and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with existing law; and

(B) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the District, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

OUR OPINION IS BASED ON EXISTING LAW AS OF THE DATE HEREOF, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement this Opinion to reflect any facts or circumstances that may thereafter come to our attention, or to reflect any changes in any law that may thereafter occur or become effective. Moreover, this Opinion is not a guarantee of result and represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above. We express no opinion as to any matters not specifically covered hereby.

Respectfully submitted,



**FBT  
Gibbons**

1100 Louisiana St., Suite 4300  
Houston, TX 77002  
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\_\_\_\_\_, 2026

WE HAVE ACTED AS SPECIAL TAX COUNSEL (“*Special Tax Counsel*”) to the LLANO INDEPENDENT SCHOOL DISTRICT (the “*District*”) in connection with the issuance by the District of its Unlimited Tax Refunding Bonds, Series 2026 in the aggregate principal amount of \$ \_\_\_\_\_ (the “*Bonds*”). The Bonds are authorized pursuant to a bond order Authorizing the Issuance of Llano Independent School District Unlimited Tax Refunding Bonds, Series 2026, adopted on June 22, 2026, by the Board of Trustees of the District (the “*Bond Order*”) and Delegating the Pricing of the Bonds and certain other matters to a “*Pricing Officer*,” who approved and executed a Pricing Certificate, which completed the sale of the Bonds (the “*Pricing Certificate*” and, together with the Bond Order, the “*Order*”).

AS SPECIAL TAX COUNSEL, we have reviewed (1) the applicable and pertinent laws of the United States of America, (2) the opinion of FBT Gibbons LLP and Powell Law Group, LLP as co-bond counsel to the District (the “*Bond Counsel*”), (3) customary certifications and opinion of officials of the Issuer, (4) the transcript of the bonds that are being refunded (the “*Refunded Bonds*”) with the proceeds of the Bonds, (5) the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds, (6) certificates executed by officers of the District relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer and the projects financed thereby and to certain other facts solely within the knowledge and control of the District (the “*Tax Certificate*”), (7) the Order and certain tax covenants therein, and (8) such other documents, opinions and matters to the extent we deemed necessary to render the opinion set forth herein. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates.

WE HAVE SERVED AS SPECIAL TAX COUNSEL for the District solely to pass upon the matters set forth in our opinion below for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the District. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds or the accuracy, adequacy, or completeness of any offering material relating to the Bonds. With respect to the validity of the Bonds, we are relying upon the opinion of Bond Counsel. We express no opinion concerning any effect on the following opinion which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that as of the date hereof, and assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order, including the tax covenants therein, and in reliance upon the representations and certifications of the District made in the Tax Certificate that:

Under existing federal statutes, decisions, regulations and rulings existing on this date, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as in effect on the date hereof (the “*Code*”), and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the alternative minimum tax imposed on certain corporations.

WE NOTE THAT the Bonds have been designated as “qualified tax-exempt obligations” under Section 265 of the Code.

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

OUR OPINION IS BASED ON EXISTING LAW AS OF THE DATE HEREOF, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement this Opinion to reflect any facts or circumstances that may thereafter come to our attention, or to reflect any changes in any law that may thereafter occur or become effective. Moreover, this Opinion is not a guarantee of result and represents our legal judgment based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above. We express no opinion as to any matters not specifically covered hereby.

Respectfully submitted,

FBT GIBBONS LLP

## 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 concluded on June 2, 2025. 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 called a first special session, which began on July 21, 2025, and ended on August 15, 2025. The Governor called a second special session, which began on August 15, 2025, and ended on September 4, 2025 (the regular session together with the special sessions may hereinafter be referred to as the “89<sup>th</sup> Legislative Session”). The TEA, the State Board of Education (the “SBOE”), and the Texas Permanent School Fund Corporation (the “PSF Corporation”) are in the process of monitoring the implementation of legislation signed by the Governor and make no representation regarding any actions taken by the Legislature in the 89<sup>th</sup> Legislative Session that may materially impact themselves, the Guarantee Program, the Act, and Texas school finance in general.

### 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, 2025, 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, 2025, 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, 2025, and for a description of the financial results of the PSF for the year ended August 31, 2025, the most recent year for which audited financial information regarding the Fund is available. The 2025 Annual Report speaks only as of its date and the PSF Corporation has not obligated itself to update the 2025 Annual Report or any other Annual Report. The PSF Corporation posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation’s Investment Policy Statement (the “IPS”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the PSF Corporation’s web site at <https://texaspsf.org> and with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities as required by Section 13(f), are available from the SEC at [www.sec.gov/edgar](http://www.sec.gov/edgar). A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation’s web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

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

The Texas Constitution and applicable statutes delegate to the SBOE and the PSF Corporation the authority and responsibility for investment of the PSF’s financial assets. The SBOE consists of 15 members who are elected by territorial districts in the State, generally, 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 internal and external legal 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 appropriated funding, budget structure, and riders are sufficient to fully support all operations of the PSF Corporation in state fiscal years 2026 and 2027. As described therein, the LAR is designed to provide the PSF Corporation with the ability to operate as a stand-alone state entity in the State budget while retaining the flexibility to fulfill its fiduciary duty and provide oversight and transparency to the Legislature and Governor.

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

The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a “total-return-based” approach that provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the

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

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

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

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

## Annual Distributions to the Available School Fund<sup>1</sup>

<u>Fiscal Year Ending</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u> <sup>2</sup>	<u>2024</u>	<u>2025</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156	\$2,156
PSF(SBOE) Distribution	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-	-
PSF(SLB) Distribution	-	-	-	300	600	600 <sup>3</sup>	415	115	-	-
Per Student Distribution	215	212	247	306	347	341	432	440	430	428

<sup>1</sup> In millions of dollars. Source: Annual Report for year ended August 31, 2025.

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

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

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

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

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

<sup>1</sup> Includes only distributions to the ASF authorized 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 and allows for the use of derivatives and other leverage. The IPS provides that the Fund's investment objectives are as follows:

- Generate continuous distributions for the benefit of public schools in Texas;
- Maintain purchasing power, after spending, inflation, and student population growth, in order to maintain intergenerational equity with respect to distributions;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support distributions and BGP obligations; and
- Strive to 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, effective January 1, 2026 (which is subject to change from time to time):

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Range<sup>1</sup></b>
Cash Equivalent	3.0%	n/a
Core Bonds	9.0%	+/- 5.0%
Non-Core Bonds (High Yield)	3.0%	+/- 5.0%
Non-Core Bonds (Bank Loans)	3.0%	+/- 5.0%
Large Cap U.S. Equity	15.0%	+/- 5.0%
Small/Mid-Cap U.S. Equity	3.0%	+/- 5.0%
Non-U.S. Developed Equity	8.0%	+/- 5.0%
Absolute Return	6.0%	+/- 5.0%
Private Debt (Liquid Substitute)	9.5%	+/- 5.0%
Private Equity (Liquid Substitute)	20.0%	+/- 10.0%
Real Estate	10.5%	+/- 5.0%
Natural Resources	4.0%	+/- 5.0%
Infrastructure	6.0%	+/- 5.0%

<sup>1</sup> Range reflect threshold approved by the Board. Subtracted results will not go below zero.

The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2024 and 2025, as set forth in the Annual Report for the 2025 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.

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## Comparative Investment Schedule – PSF(CORP)

Fair Value (in millions) August 31, 2025 and 2024

<u>ASSET CLASS</u>	August 31, <u>2025</u>	August 31, <u>2024</u>	Amount of Increase (Decrease)	Percent Change
<b>EQUITY</b>				
Domestic Small Cap	\$3,732.4	\$ 3,651.3	\$81.1	2.2%
Domestic Large Cap	<u>7,860.0</u>	<u>8,084.6</u>	<u>(224.6)</u>	<u>-2.7%</u>
Total Domestic Equity	11,592.4	11,735.9	(143.5)	-1.2%
International Equity	<u>5,093.7</u>	<u>4,131.1</u>	<u>962.6</u>	<u>23.3%</u>
<b>TOTAL EQUITY</b>	<b>16,686.1</b>	<b>15,867.0</b>	<b>819.1</b>	<b>5.2%</b>
<b>FIXED INCOME</b>				
Domestic Fixed Income	-	-	-	-
US Treasuries	-	-	-	-
Core Bonds	5,464.4	8,151.6	(2,687.2)	-33.0%
Bank Loans	3,908.4	2,564.1	1,344.3	52.4%
High Yield Bonds	1,569.2	2,699.5	(1,130.3)	-41.9%
Emerging Market Debt	-	-	-	-
<b>TOTAL FIXED INCOME</b>	<b>10,942.0</b>	<b>13,415.2</b>	<b>(2,473.2)</b>	<b>-18.4%</b>
<b>ALTERNATIVE INVESTMENTS</b>				
Absolute Return	3,247.4	3,106.0	141.4	4.6%
Real Estate	6,300.8	6,101.0	199.8	3.3%
Private Equity	12,170.5	8,958.8	3,211.7	35.9%
Emerging Manager Program	-	-	-	-
Real Return	-	-	-	-
Private Credit	3,884.3	2,257.9	1,626.4	72.0%
Real Assets	<u>5,525.2</u>	<u>4,648.1</u>	<u>877.1</u>	<u>18.9%</u>
<b>TOT ALT INVESTMENTS</b>	<b>31,128.2</b>	<b>25,071.8</b>	<b>6,056.4</b>	<b>24.2%</b>
UNALLOCATED CASH	<u>1,335.0</u>	<u>2,583.2</u>	<u>(1,248.2)</u>	<u>-48.3%</u>
<b>TOTAL PSF(CORP) INVESTMENTS</b>	<b>\$ 60,091.3</b>	<b>\$ 56,937.2</b>	<b>\$ 3,154.1</b>	<b>5.5%</b>

Source: Annual Report for year ended August 31, 2025.

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The table below sets forth the investments of the PSF(SLB) for the year ended August 31, 2025.

### Investment Schedule - PSF(SLB)<sup>1</sup>

Fair Value (in millions) August 31, 2025

	<u>As of</u> <u>8-31-25</u>
Investment Type	
Investments in Real Assets	
Sovereign Lands	\$ 279.84
Discretionary Internal Investments	989.22
Other Lands	153.17
Minerals <sup>(2), (3)</sup>	<u>4,872.77</u> <sup>(6)</sup>
Total Investments <sup>(4)</sup>	\$6,294.99
Cash in State Treasury <sup>(5)</sup>	575.70
Total Investments & Cash in State Treasury	\$ 6,870.70

<sup>1</sup> Unaudited figures from Table 5 in the FY 2025 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

<sup>2</sup> Historical Cost of investments at August 31, 2025 was: Sovereign Lands \$838,676.44; Discretionary Internal Investments \$830,739,719.64; Other Lands \$37,306,005.32; and Minerals \$13,437,552.03.

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

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

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

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

The asset allocation of the Fund's financial assets portfolio is subject to change by the PSF Corporation from time to time based upon a number of factors, including recommendations to the PSF Corporation made by internal investment staff and external consultants. Fund performance may also be affected by factors other than asset allocation, including, without limitation, the general performance of the securities markets and other capital markets in the United States and abroad, which may be affected by different levels of economic activity; decisions of political officeholders; significant adverse weather events; development of hostilities in and among nations; cybersecurity threats and events; changes in international trade policies or practices; application of the Prudent Person Standard, which may eliminate certain investment opportunities for the Fund; management fees paid to external managers and embedded management fees for some fund investments; and PSF investment or 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 2026 fiscal year, the ratio is 8.17%. At February 23, 2026, there were 182 active open-enrollment charter schools in the State and there were 1,027 charter school campuses authorized under such charters, though as of such date, 41 of such campuses are not currently serving students for various reasons; therefore, there are 986 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

CDBGP Rules. Such financial investigation must establish that an applying charter district has a historical debt service coverage ratio, based on annual debt service, of at least 1.1 for the most recently completed fiscal year, and a projected debt service coverage ratio, based on projected revenues and expenses and maximum annual debt service, of at least 1.2. The failure of an open-enrollment charter holder to comply with the Act or the applicable regulations, including by making any material misrepresentations in the charter holder's application for charter district designation or guarantee under the Charter District Bond Guarantee Program, constitutes a material violation of the open-enrollment charter holder's charter.

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

### **Capacity Limits for the Guarantee Program**

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

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

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

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of December 31, 2025 the cost value of the Guarantee Program was \$51,913,224,643 (unaudited), thereby producing an IRS Limit of \$259,566,123,215 in principal amount of guaranteed bonds outstanding.

As of December 31, 2025, the estimated State Capacity Limit is \$181,696,286,251, 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 December 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 December 31, 2025, the Charter District Reserve Fund contained \$153,914,605, which represented approximately 2.61% 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 Ratings, 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**

<b>Permanent School Fund Valuations</b>		
Fiscal Year Ended 8/31	Book Value <sup>(1)</sup>	Market Value <sup>(1)</sup>
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	47,047,688,784	62,766,382,537
2025 <sup>(2)</sup>	50,832,583,937	66,549,781,438

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

<sup>(2)</sup> At August 31, 2025, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.3 million, and

\$830.7 million, respectively, and market values of approximately \$4,872.7 million, \$279.8 million, \$153.1 million, and \$989.2 million, respectively.

<b>Permanent School Fund Guaranteed Bonds</b>	
<u>At 8/31</u>	<u>Principal Amount<sup>(1)</sup></u>
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603
2025	143,940,955,098 <sup>(2)</sup>

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

<sup>(2)</sup> At August 31, 2025 (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 \$230,761,751,555, of which \$86,820,796,457 represents interest to be paid. As shown in the table above, at August 31, 2025, there were \$143,940,955,098 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$181,696,286,251 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2025, 7.86% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2025, the amount of outstanding bond guarantees represented 79.16% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2025 values are based on unaudited data, which is subject to adjustment.

<b>Permanent School Fund Guaranteed Bonds by Category<sup>(1)</sup></b>						
<u>Fiscal Year Ended 8/31</u>	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>	<u>No. of Issues</u>	<u>Principal Amount (\$)</u>
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	3,330	121,046,871,603	103	4,769,110,000	3,433	125,815,981,603
2025 <sup>(2)</sup>	3,444	138,140,381,098	113	5,800,574,000	3,557	143,940,955,098

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

<sup>(2)</sup> At December 31, 2025 (based on unaudited data, which is subject to adjustment), there were \$143,822,038,077 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,456 school district issues, aggregating \$137,938,824,077 in principal amount and 114 charter district issues, aggregating \$5,883,214,000 in principal amount. At December 31, 2025 the projected guarantee capacity available was \$32,174,623,697 (based on unaudited data, which is subject to adjustment).

## Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2025

The following discussion is derived from the Annual Report for the year ended August 31, 2025, 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 2025, the PSF(CORP) net position was \$60.6 billion. During the year, the PSF(CORP) continued updating and implementing the long-term strategic asset allocation, diversifying the investment mix to strengthen the Fund. The asset allocation aims to pursue the objectives of the Fund at an acceptable risk level. 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, 2025, net of fees, were 8.20%, 7.95%, and 7.40%, 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, 2025.

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 2025 Annual Report which is included by reference herein.

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\* The Private Credit asset class was renamed Private Debt, beginning in October 2024.

**PSF Returns Fiscal Year Ended 8-31-2025<sup>1</sup>**

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return<sup>2</sup></u>
Total PSF(CORP) Portfolio	8.20	7.78
Domestic Large Cap Equities	14.50	15.88
Domestic Small/Mid Cap Equities	7.64	5.80
International Equities	16.16	14.89
Private Credit	6.87	9.26
Core Bonds	4.02	3.14
Absolute Return	14.98	6.90
Real Estate	0.14	0.97
Private Equity	8.17	8.61
High Yield	8.18	8.26
Natural Resources	2.31	0.39
Infrastructure	15.06	8.79
Bank Loans	7.76	7.36
Short Term Investment Portfolio	6.06	4.51

<sup>1</sup> Time weighted rates of return adjusted for cash flows for the PSF(CORP) investment assets. Does not include SLB managed real estate or real assets. Returns are net of fees. Source: Annual Report for year ended August 31, 2025.

<sup>2</sup> Benchmarks are as set forth in the Annual Report for year ended August 31, 2025.

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 2025 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 2025, \$2.2 billion was distributed to the ASF, \$600 million of which was distributed by the PSF(CORP) on behalf of the SLB.

**Other Events and Disclosures**

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

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

As of August 31, 2025, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

### **PSF Continuing Disclosure Undertaking**

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

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

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

### **Annual Reports**

The PSF Corporation, on behalf of the TEA, and the TEA will annually provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Guarantee Program and the PSF of the general type included in this offering document under 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](http://www.emma.msrb.org).

### **Limitations and Amendments**

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

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

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

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

### **Compliance with Prior Undertakings**

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

### **SEC Exemptive Relief**

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed

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

