

OFFICIAL STATEMENT DATED MAY 14, 2024

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: S&P UNENHANCED: "BBB+", S&P PSF
GUARANTEED: "AAA"
(See "RATINGS" and "APPENDIX I - THE PERMANENT
SCHOOL GUARANTEE PROGRAM")

In the opinion of Hunton Andrews Kurth LLP, Bond Counsel, under current law and subject to conditions described in the Section herein "TAX MATTERS FOR THE BONDS," interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum income tax, and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. A holder may be subject to other federal tax consequences as described in the Section herein "TAX MATTERS FOR THE BONDS."



\$212,440,000
ARLINGTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(HARMONY PUBLIC SCHOOLS)
SERIES 2024



Dated: June 1, 2024 – Interest accrues from date of delivery

Due: as shown on inside cover

The Arlington Higher Education Finance Corporation (the "Issuer"), a nonprofit corporation created and existing under Chapters 53 and 53A of the Texas Education Code, as amended from time to time (the "Issuer Act"), is issuing its \$212,440,000 Education Revenue Bonds (Harmony Public Schools), Series 2024 (the "Bonds." The Bonds will be dated June 1, 2024, will be in authorized principal denominations of \$5,000 and integral multiples thereof, and will mature on February 15 of the years as shown on the inside cover page. The Bonds will accrue interest from their date of delivery payable semi-annually on August 15 and February 15 of each year, commencing August 15, 2024, until maturity or earlier redemption.

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of June 1, 2024 (the "Bond Indenture") between the Issuer and Regions Bank, Houston, Texas, as trustee (the "Bond Trustee"). The proceeds of the Bonds will be loaned by the Issuer to Harmony Public Schools, a Texas nonprofit corporation ("Harmony") pursuant to the terms of a Loan Agreement dated as of June 1, 2024 (the "Loan Agreement").

The Bonds are special, limited obligations of the Issuer payable solely from (i) payments to be made by Harmony pursuant to the Loan Agreement, (ii) a tax-exempt promissory note (the "Series 2024 Master Note") in an aggregate amount equal to the principal amount of the Bonds delivered to the Issuer pursuant to the Loan Agreement and the Master Trust Indenture and Security Agreement, dated as of May 1, 2007, as supplemented by Supplemental Master Trust Indenture No. 35 dated as of June 1, 2024 (as supplemented, the "Master Indenture"), between Harmony and Regions Bank, Houston, Texas, as master trustee (the "Master Trustee"), which Series 2024 Master Note will be entitled to the benefit of the Master Indenture, (iii) the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) and (iv) in certain circumstances, out of amounts secured by the exercise of remedies provided in the Loan Agreement, the Bond Indenture, and the Master Indenture. The Series 2024 Master Note constitutes additional indebtedness under the Master Indenture and is issued on parity with certain other promissory notes issued by Harmony (the "Prior Master Notes" and, together with the Series 2024 Master Note and any additional promissory notes entitled to the benefit of the Master Indenture, the "Master Notes"). Harmony previously executed the Deeds of Trust, Leasehold Mortgages and Security Agreements (as defined herein), and will execute certain supplements to the Deeds of Trust, adding the Series 2024 Master Note. See "HARMONY PUBLIC SCHOOLS" and "PLAN OF FINANCE" herein. See "SECURITY FOR THE BONDS" and "APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS."

An application has been filed and Harmony has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. (See "APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The Bonds are subject to optional redemption, mandatory sinking fund redemption, mandatory redemption upon a determination of taxability and extraordinary optional redemption prior to maturity, as described herein. See "THE BONDS — Redemption Provisions."

Harmony will issue the Bonds for the purpose of: (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain "educational facilities" (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (ii) funding capitalized interest, and (iii) paying the costs of issuing the Bonds. See "PLAN OF FINANCE." Harmony currently operates 61 charter schools with plans to add 16 additional schools by the 2027-28 school year (collectively, the "Charter Schools"), all pursuant to seven open-enrollment charter contracts with the Texas State Board of Education. See "PLAN OF FINANCE" and "APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS." Harmony may not charge tuition and has no taxing authority for the Charter Schools.

THE BONDS ARE NOT OBLIGATIONS OF THE CITY OF ARLINGTON, TEXAS (THE "CITY"), THE STATE OF TEXAS (THE "STATE") OR ANY ENTITY OTHER THAN THE ISSUER. NONE OF THE STATE, THE CITY, NOR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, THE BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATION OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

The Bonds will be issued as registered bonds in book-entry only form in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Purchases of beneficial interests in the Bonds will be made in book-entry only form and purchasers will not receive physical certificates representing the ownership interest in the Bonds purchased by them. See "BOOK-ENTRY ONLY SYSTEM."

This cover page contains certain information for quick reference only. It is not a summary of this issue. Investors must read this entire Official Statement to obtain information essential to the making of an informed investment decision and should pay particular attention to the material under the caption "RISK FACTORS."

The Bonds are offered when, as and if issued by the Issuer and received and accepted by the underwriters listed below (the "Underwriters") and subject to the approval of certain matters by the Attorney General of the State and an opinion as to legality by Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel and counsel to Harmony. Certain legal matters will be passed upon by Locke Lord LLP, Houston, Texas, as counsel to the Issuer; and by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriters. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about **June 11, 2024**.

Robert W. Baird & Co.

PNC Capital Markets LLC

RBC Capital Markets

MATURITY SCHEDULE
ARLINGTON HIGHER EDUCATION FINANCE CORPORATION

\$212,440,000 EDUCATION REVENUE BONDS
(HARMONY PUBLIC SCHOOLS)
SERIES 2024

\$67,265,000 Serial Bonds

<u>February 15⁽¹⁾</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Yield ⁽²⁾</u>	<u>CUSIP⁽³⁾</u>
2026	\$1,000,000	5.000%	3.370%	041807GD4
2027	2,000,000	5.000%	3.290%	041807GE2
2028	4,040,000	5.000%	3.190%	041807GF9
2029	4,235,000	5.000%	3.120%	041807GG7
2030	4,450,000	5.000%	3.150%	041807GH5
2031	4,675,000	5.000%	3.240%	041807GJ1
2032	4,910,000	5.000%	3.240%	041807GK8
2033	5,155,000	5.000%	3.200% ⁽⁴⁾	041807GL6
2034	5,410,000	5.000%	3.200% ⁽⁴⁾	041807GM4
2035	5,680,000	5.000%	3.240% ⁽⁴⁾	041807GN2
2036	5,965,000	5.000%	3.290% ⁽⁴⁾	041807GP7
2037	6,265,000	5.000%	3.340% ⁽⁴⁾	041807GQ5
2038	6,575,000	5.000%	3.430% ⁽⁴⁾	041807GR3
2039	6,905,000	5.000%	3.510% ⁽⁴⁾	041807GS1

\$145,175,000 Term Bonds

\$39,270,000 Term Bond Due February 15, 2044⁽¹⁾ Interest Rate 4.000% Yield 4.200%⁽²⁾ CUSIP⁽³⁾ 041807GT9

\$47,780,000 Term Bond Due February 15, 2049⁽¹⁾ Interest Rate 4.000% Yield 4.300%⁽²⁾ CUSIP⁽³⁾ 041807GU6

\$58,125,000 Term Bond Due February 15, 2054⁽¹⁾ Interest Rate 4.000% Yield 4.350%⁽²⁾ CUSIP⁽³⁾ 041807GV4

⁽¹⁾ The Bonds maturing on or after February 15, 2033, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 2032, and on any date thereafter, at the option of Harmony at a redemption price of par, plus accrued interest to the date of redemption. See “**THE BONDS – Redemption Provisions - Optional Redemption**,” herein. The Bonds maturing on August 15 in the years 2044, 2049 and 2054 are additionally subject to mandatory sinking fund redemption prior to maturity. See “**THE BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption**,” herein.

⁽²⁾ The initial yields at which the Bond are prices are established by and are the sole responsibility of the Underwriters and may be changed at any time at the discretion of the Underwriters.

⁽³⁾ CUSIP[®] is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence, 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 Global Services. CUSIP numbers have been assigned by an independent company not affiliated with the Issuer, Harmony or the Underwriter and are included solely for the convenience of the holders of the Bonds. None of the Issuer, Harmony or the Underwriters are responsible for the selection or uses of these CUSIP numbers, and no representation is made as to their correctness on the Bonds or as indicated above. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Bonds.

⁽⁴⁾ Yield shown to first optional redemption date of February 15, 2032.

USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the Issuer or the Underwriters 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 representation must not be relied upon as having been authorized by the Issuer or the Underwriters.

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

References to or descriptions of financing documents, resolutions, contracts, and other related documents made in this Official Statement are subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Issuer or from Robert W. Baird & Co. Inc., 210 University Blvd., 8th Floor, Denver, CO 80206.

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.

In connection with the offering of the Bonds, the Underwriters may over-allot or effect transactions which stabilize or maintain the market price of the Bonds at a level above that which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

No dealer, broker, salesperson or other person has been authorized by the Issuer, Harmony, the Master Trustee, the Bond Trustee or the Underwriters 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 any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy and there shall not 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 Bonds have not been registered with the United States Securities and Exchange Commission (the "SEC") in reliance upon an exemption from the Securities Act of 1933, as amended, and the Master Indenture and the Bond Indenture have not been qualified under the Trust Indenture Act of 1939, as amended, in reliance upon exemptions contained in such acts. The registration or qualification of the Bonds in accordance with applicable provisions of securities laws of the states in which the Bonds have been registered or qualified, if any, and the exemption from registration or qualification in other states cannot be regarded as a recommendation thereof. Neither these states nor any of their agencies have passed upon the merits of the Bonds or the accuracy or completeness of this Official Statement. Any representation to the contrary may be a criminal offense.

Except for any information provided by Regions Bank, Houston, Texas, concerning the Master Trustee and Bond Trustee, Regions Bank, Houston, Texas has no responsibility for any information in this Official Statement. Regions Bank, Houston, Texas in its capacity as Master Trustee and Bond Trustee, assumes no responsibility for the accuracy or completeness of the information concerning the Issuer or Harmony or their respective affiliates or any other party contained in this document or the related documents or for any failure by the Issuer or Harmony or any other party to disclose events that may have occurred and may affect the significance or accuracy of such information.

Neither the Issuer nor the Underwriters make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

THE INFORMATION SET FORTH HEREIN HAS BEEN OBTAINED FROM SOURCES WHICH ARE BELIEVED TO BE RELIABLE; HOWEVER, SUCH INFORMATION IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS BY, AND IS NOT TO BE RELIED UPON AS, OR CONSTRUED AS A PROMISE OR REPRESENTATION BY, THE ISSUER OR THE UNDERWRITERS. ALL SUMMARIES HEREIN OF DOCUMENTS AND AGREEMENTS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO SUCH DOCUMENTS AND AGREEMENTS, AND ALL SUMMARIES HEREIN OF THE BONDS ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THE FORMS THEREOF INCLUDED IN THE BOND INDENTURE AND THE PROVISIONS WITH RESPECT THERETO INCLUDED IN THE AFORESAID DOCUMENTS AND AGREEMENTS.

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

THIS OFFICIAL STATEMENT, INCLUDING THE APPENDICES HERETO, CONTAINS STATEMENTS WHICH SHOULD BE CONSIDERED "FORWARD-LOOKING STATEMENTS," MEANING THEY REFER TO POSSIBLE FUTURE EVENTS OR CONDITIONS. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE WORDS SUCH AS "PLAN," "EXPECT," "ESTIMATE," "BUDGET" OR SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS THAT MAY CAUSE ACTUAL RESULTS,

PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. Harmony DOES NOT EXPECT OR INTEND TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED, OCCUR. THE FINANCIAL PROJECTIONS OF HARMONY CONTAINED IN APPENDIX B ATTACHED TO THIS OFFICIAL STATEMENT ARE NOT HISTORICAL STATEMENTS OF FINANCIAL PERFORMANCE OF HARMONY, BUT ARE FORWARD-LOOKING PROJECTIONS OF FUTURE, PROJECTED FINANCIAL PERFORMANCE OF HARMONY.

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 final Official Statement.

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ARLINGTON HIGHER EDUCATION FINANCE CORPORATION

**\$212,440,000 Education Revenue Bonds
(Harmony Public Schools)
Series 2024**

INTRODUCTION

The purpose of this Official Statement (which includes the cover hereof and the appendices hereto) of the Arlington Higher Education Finance Corporation (the “*Issuer*”) is to furnish information concerning Harmony Public Schools (“*Harmony*”), and the Issuer’s \$212,440,000 Education Revenue Bonds (Harmony Public Schools) Series 2024 (the “*Bonds*”).

The following introductory material is only a brief description of and is qualified by the more complete information contained throughout this Official Statement. A full review should be made of the entire Official Statement and the documents summarized or described herein.

Purpose of the Issue..... Harmony will issue the Bonds for the purpose of: (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (ii) funding capitalized interest, and (iii) paying the costs of issuing the Bonds.

The Issuer..... The Issuer was established by the City of Arlington, Texas for the specific and limited purpose of issuing revenue bonds to finance or refinance “educational facilities” and “housing facilities” (as such terms are defined in Chapters 53 and 53A, Texas Education Code, as amended (collectively, the “*Issuer Act*”)) and facilities which are incidental, subordinate or related thereto or appropriate in connection therewith. The Issuer has no material assets. Other than legal counsel, the Issuer has not engaged any consultant or other professional. The Issuer has no taxing power.

Harmony Public Schools Harmony Public Schools (“*Harmony*”) is a nonprofit corporation duly organized and existing under the laws of the State and is an organization described in Section 501(c)(3) of the Code. Harmony was incorporated in 1999, and was formed to provide open-enrollment charter schools operating in the State. Harmony currently operates 61 charter schools with plans to add 16 additional schools by the 2027-28 school year (collectively, the “*Charter Schools*”). The Charter Schools operate pursuant to seven open-enrollment charter contracts between Harmony and the Texas State Board of Education (the “*State Board of Education*”) under Chapter 12 of the Texas Education Code, Section 12.001 et seq. (the “*Charter Schools Act*”). Harmony accepts students for grades Pre-Kindergarten through 12th grade and, as of December 31, 2023, had a total enrollment of 41,483 students for the 2023-24 school year. Harmony’s fiscal year runs from July 1 through June 30 (a “*Fiscal Year*”).

Security..... The Bonds are special, limited obligations of the Issuer payable solely from (i) payments to be made by Harmony pursuant to the Loan Agreement, (ii) a tax-exempt promissory note (the “*Series 2024 Master Note*”) in an aggregate amount equal to the principal amount of the Bonds

delivered to the Issuer pursuant to the Loan Agreement and the Master Trust Indenture and Security Agreement, dated as of May 1, 2007, as supplemented by Supplemental Master Trust Indenture No. 35 dated as of June 1, 2024 (as supplemented, the “*Master Indenture*”), between Harmony and Regions Bank, Houston, Texas, as master trustee (the “*Master Trustee*”), which Series 2024 Master Note will be entitled to the benefit of the Master Indenture, (iii) the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) and (iv) in certain circumstances, out of amounts secured by the exercise of remedies provided in the Loan Agreement, the Bond Indenture, and the Master Indenture.

The Series 2024 Master Note constitutes additional indebtedness under the Master Indenture and is issued on parity with certain other promissory notes issued by Harmony (the “*Prior Master Notes*” and any additional promissory notes entitled to the benefit of the Master Indenture, the “*Master Notes*”). Harmony previously executed the Deeds of Trust, Leasehold Mortgages and Security Agreements (as defined herein), and will execute certain supplements to the Deeds of Trust, adding the Series 2024 Master Note. See “**HARMONY PUBLIC SCHOOLS**” and “**PLAN OF FINANCE**” herein. Lastly, Harmony has executed a Deposit Account Control Agreement, providing a perfected security interest in its deposit account in favor of the Master Trustee. See “**SECURITY FOR THE BONDS**” herein.

Financial Covenants Debt Service Coverage. Harmony has agreed to achieve a Debt Service Coverage Ratio of at least 110% for each Fiscal Year until the Bonds are paid in full.

Liquidity. Harmony has covenanted to maintain operating reserves in an amount equal to at least forty five (45) days for Fiscal Year ended 2021 and each Fiscal Year thereafter as calculated as of the end of each Fiscal Year (the “*Liquidity Requirement*”) as evidenced by Harmony’s audited financial statements for each such Fiscal Year; provided that, interest payments on any Debt during such Fiscal Year shall be included in Expenses and funds held in any Debt Service Fund to pay interest shall be treated as a part of the operating reserves of Harmony, both solely for the purpose of calculating the Liquidity Requirement.

Limited Obligations of the Issuer The Bonds do not constitute the debt or indebtedness of the Issuer within the meaning of any provision or limitation of the constitution or statutes of the State of Texas (the “*State*”) and shall never constitute or give rise to a pecuniary liability of the Issuer or the State or a charge against the general credit or taxing power of the Issuer or the State. The Issuer has no taxing power.

The Bond Trustee Regions Bank, Houston, Texas, in each of its capacities, including but not limited to Bond Trustee, Master Trustee, registrar, paying agent and transfer agent, has not participated in the preparation of this Official Statement and assumes no responsibility for its contents.

Risk Factors Prospective purchasers are advised to read this entire Official Statement and the Appendices attached hereto in their entirety, particularly the section “**RISK FACTORS**” herein, for a discussion of certain risk

factors, which should be considered in connection with an investment in the Bonds.

Payment Provisions	The Bonds mature and bear interest (computed on the basis of a 360-day year of twelve 30-day months) at the rates set forth on the inside cover page hereof. Interest on the Bonds is payable semiannually on August 15 and February 15 commencing on August 15, 2024.
Registration and Denominations.....	The Bonds will be dated June 1, 2024, will be in authorized principal denominations of \$5,000 and integral multiples thereof (“ <i>Authorized Denominations</i> ”).
Permanent School Fund Guarantee	An application has been filed and Harmony has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See “ APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM ” herein.
Ratings.....	S&P Global Ratings (“ <i>S&P</i> ”) has assigned the rating of “AAA” to the Bonds based on the Permanent School Fund Guarantee. The underlying unenhanced rating of the Bonds is “BBB+” by S&P. See “ RATINGS ” herein.
Exchange and Transfer	While the Bonds remain in book-entry-only form, transfer of ownership by Beneficial Owners (as defined by the rules of The Depository Trust Company, New York, New York (“ <i>DTC</i> ”), as further described herein) may be made as described in “ BOOK-ENTRY ONLY SYSTEM. ”
Tax Status.....	In the opinion of Hunton Andrews Kurth LLP, Bond Counsel, under current law and subject to conditions described in the Section herein “ TAX MATTERS FOR THE BONDS, ” interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum income tax, and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. A holder may be subject to other federal tax consequences as described in the Section herein “ TAX MATTERS FOR THE BONDS. ”
Delivery Information.....	The Bonds are offered when, as, and if issued by the Issuer and accepted by Robert W. Baird & Co., RBC Capital Markets, LLC and PNC Capital Markets, LLC, as underwriters for the Bonds (the “ <i>Underwriters</i> ”), subject to prior sale and the approving legal opinions of the Attorney General of the State of Texas and Bond Counsel and certain other conditions. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about June 11, 2024.
Financial Statements	Harmony’s audited financial statements for the 2023, 2022 and 2021 Fiscal Years are attached as APPENDIX C hereto.

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ARLINGTON HIGHER EDUCATION FINANCE CORPORATION

\$212,440,000 EDUCATION REVENUE BONDS (HARMONY PUBLIC SCHOOLS) SERIES 2024

INTRODUCTION

General

The purpose of this Official Statement is to provide certain information concerning the issuance and sale by the Arlington Higher Education Finance Corporation (the “*Issuer*”) of its \$212,440,000 Education Revenue Bonds (Harmony Public Schools), Series 2024 (the “*Bonds*”).

The Bonds are being issued pursuant to a Trust Indenture and Security Agreement dated as of June 1, 2024 (the “*Bond Indenture*”) between the Issuer and Regions Bank, Houston, Texas, as trustee (the “*Bond Trustee*”). The proceeds of the Bonds will be loaned by the Issuer to Harmony Public Schools, a Texas nonprofit corporation (“*Harmony*”) pursuant to the terms of a Loan Agreement dated as of June 1, 2024 (the “*Loan Agreement*”).

The Bonds are special, limited obligations of the Issuer payable solely from (i) payments to be made by Harmony pursuant to the Loan Agreement, (ii) a tax-exempt promissory note (the “*Series 2024 Master Note*”) in an aggregate amount equal to the principal amount of the Bonds delivered to the Issuer pursuant to the Loan Agreement and the Master Trust Indenture and Security Agreement, dated as of May 1, 2007, as supplemented by Supplemental Master Trust Indenture No. 30 dated as of August 1, 2021 (as supplemented, the “*Master Indenture*”), between Harmony and Regions Bank, Houston, Texas, as master trustee (the “*Master Trustee*”), which Series 2024 Master Note will be entitled to the benefit of the Master Indenture, (iii) the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) and (iv) in certain circumstances, out of amounts secured by the exercise of remedies provided in the Loan Agreement, the Bond Indenture, and the Master Indenture.

The Series 2024 Master Note constitutes additional indebtedness under the Master Indenture and is issued on parity with certain other promissory notes issued by Harmony (the “*Prior Master Notes*” and, together with the Series 2024 Master Note and any additional promissory notes entitled to the benefit of the Master Indenture, the “*Master Notes*”). Harmony previously executed the Deeds of Trust, Leasehold Mortgages and Security Agreements (as defined herein), and will execute certain supplements to the Deeds of Trust, encumbering certain of Harmony’s campuses in favor of the Master Trustee for the benefit of the holders of the Master Notes, except as further described herein. See “**Harmony,**” “**PLAN OF FINANCE,**” “**SECURITY FOR THE BONDS**” and “**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS.**” The Bonds will be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. See “**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.**”

The offering of the Bonds is made only by way of this Official Statement, which supersedes any other information or materials used in connection with the offer or sale of the Bonds. This Official Statement speaks only as of its date, and the information contained herein is subject to change. Capitalized terms used but not defined in this Official Statement have the meanings provided in the Bond Indenture, the Master Indenture and the Loan Agreement, as applicable. Excerpts from those documents are attached hereto in **APPENDIX F, G and H.**

Forward-Looking Statements

This Official Statement contains statements relating to future results that are forward-looking statements of the type defined in the Private Litigation Reform Act of 1995. When used in this Official Statement, the words “estimate,” “expect,” “project,” “intend,” “anticipate,” “believe,” “may,” “will,” “continue” and similar expressions identify forward-looking statements. Any forward-looking statement is subject to uncertainty and risks that could cause actual results to differ, possibly materially, from those contemplated in such forward-looking statements. Inevitably, some assumptions used to develop forward-looking statements will not be realized or unanticipated events and circumstances may occur. Therefore, investors should be aware that there are likely to be differences between forward-looking statements and actual results, and that those differences could be material.

THE ISSUER

The Issuer was established by the City of Arlington, Texas for the specific and limited purpose of issuing revenue bonds to finance or refinance “educational facilities” and “housing facilities” (as such terms are defined in Chapters 53 and 53A, Texas Education Code, as amended (collectively, the “*Issuer Act*”)) and facilities which are incidental, subordinate or related thereto or appropriate in connection therewith, all in accordance with and pursuant to Sections 53.35(b) and 53A.35(b) of the Issuer Act. The Issuer has no material assets. Other than legal counsel, the Issuer has not engaged any consultant or other professional. THE ISSUER HAS NO TAXING POWER. The Issuer is receiving a \$25,000 a fee in connection with the issuance of the Bonds, after provisions have been made for expenses of the Issuer.

Except for the issuance of the Bonds, the Issuer is not in any manner related to or affiliated with Harmony. The Issuer has issued the Bonds and loaned the proceeds to Harmony pursuant to the Bond Indenture solely to carry out the Issuer’s statutory purposes. Harmony has agreed to indemnify the Issuer for certain matters under the Bond Indenture.

The directors of the Issuer are not personally liable in any way for any act or omission committed or suffered in the performance of the functions of the Issuer.

The Issuer has limited recourse liability on the Bonds, and all payments to be made on the Bonds shall be provided for entirely from funds of Harmony or other assets pledged as part of the Trust Estate.

The Issuer has no obligation to review, control or oversee the activities of the Bond Trustee or Harmony or the compliance by either of them with any covenants or provisions of any related documents, including (without limitation) any covenants that relate to the excludability from gross income of interest on the Bonds.

NEITHER THE ISSUER NOR THE CITY OF ARLINGTON HAS ASSUMED ANY RESPONSIBILITY FOR THE MATTERS CONTAINED HEREIN EXCEPT, IN THE CASE OF THE ISSUER, SOLELY AS TO THE MATTERS SET FORTH IN THIS SECTION, AND IN THE SECTION “LEGAL MATTERS – PENDING AND THREATENED LITIGATION – NO PROCEEDINGS AGAINST ISSUER.” ALL FINDINGS AND DETERMINATIONS BY THE ISSUER AND THE CITY, RESPECTIVELY, ARE AND HAVE BEEN MADE BY EACH FOR ITS OWN INTERNAL USES AND PURPOSES. NOTWITHSTANDING ITS APPROVAL OF THE BONDS FOR PURPOSES OF SECTION 147(F) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE “CODE”), THE CITY DOES NOT ENDORSE IN ANY MANNER, DIRECTLY OR INDIRECTLY, GUARANTEE OR PROMISE TO PAY THE BONDS FROM ANY SOURCE OF FUNDS OF THE CITY OR ARLINGTON OR GUARANTEE, WARRANT OR ENDORSE THE CREDITWORTHINESS OR CREDIT STANDING OF HARMONY, OR IN ANY MANNER GUARANTEE, WARRANT, OR ENDORSE THE INVESTMENT QUALITY OR VALUE OF THE BONDS. THE BONDS ARE PAYABLE SOLELY AS DESCRIBED IN THIS LIMITED OFFERING MEMORANDUM, THE BOND INDENTURE SAND ARE NOT IN ANY MANNER PAYABLE WHOLLY OR PARTIALLY FROM ANY FUNDS OR PROPERTIES OTHERWISE BELONGING TO THE ISSUER. BY ITS ISSUANCE OF THE BONDS, THE ISSUER DOES NOT IN ANY MANNER, DIRECTLY OR INDIRECTLY, GUARANTEE, WARRANT OR ENDORSE THE CREDITWORTHINESS OR CREDIT STANDING OF HARMONY OR THE INVESTMENT QUALITY OR VALUE OF THE BONDS.

NONE OF THE CITY OF ARLINGTON, THE ISSUER, THE STATE OF TEXAS (THE “STATE”), OR ANY STATE AGENCY, POLITICAL CORPORATION, SUBDIVISION OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OF ARLINGTON, THE STATE, OR ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. HOWEVER, HARMONY HAS APPLIED FOR AND RECEIVED CONDITIONAL APPROVAL FROM THE TEXAS EDUCATION AGENCY FOR THE BONDS TO BE GUARANTEED UNDER THE BOND GUARANTEE PROGRAM OF THE PERMANENT SCHOOL FUND

**OF THE STATE. SEE “APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”
THE ISSUER HAS NO TAXING POWER.**

HARMONY PUBLIC SCHOOLS

Harmony Public Schools (“*Harmony*”) is a nonprofit corporation duly organized and existing under the laws of the State and is an organization described in Section 501(c)(3) of the Code. Harmony was incorporated in 1999, and was formed to provide open-enrollment charter schools operating in the State. Harmony currently operates 61 charter schools with plans to add 16 additional schools by the 2027-28 school year (collectively, the “*Charter Schools*”). The Charter Schools operate pursuant to seven open-enrollment charter contracts between Harmony and the Texas State Board of Education (the “*State Board of Education*”) under Chapter 12 of the Texas Education Code, Section 12.001 et seq. (the “*Charter Schools Act*”). Harmony accepts students for grades Pre-Kindergarten through 12th grade and, as of December 31, 2023, had a total enrollment of 41,483 students for the 2023-24 school year. Harmony’s fiscal year runs from July 1 through June 30 (a “*Fiscal Year*”). The table below present certain basic information concerning the Charter Schools currently in operation or expected to be in operation as indicated.

TABLE 1: CHARTER SCHOOLS				
CHARTER NAME/CAMPUS NAME	GRADES OFFERED⁽¹⁾	CAMPUS ENROLLMENT⁽¹⁾	YEAR OPENED⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME)⁽¹⁾
Harmony Public Schools (Houston South) (101-846)				
1. Harmony Science Academy – Houston	9-12	716	2000-01	57.32%
2. Harmony School of Innovation – Houston	6-8	496	2005-06	69.42%
3. Harmony School of Ingenuity – Houston	6-12	763	2009-10	72.94%
4. Harmony School of Science – Houston ⁽⁴⁾	K-8	CLOSED	2010-11	CLOSED
5. Harmony School of Fine Arts and Technology – Houston	K-8	755	2010-11	64.42%
6. Harmony School of Exploration – Houston	PK-5	701	2013-14	74.00%
7. Harmony Virtual ⁽⁴⁾	K-12	240	2022-23	52.92%
Harmony Public Schools (Houston North) (101-858)				
1. Harmony School of Excellence – Houston	K-8	1104	2006-07	59.32%
2. Harmony School of Endeavor - Houston	K-8	529	2009-10	87.41%
3. Harmony Science Academy – Bryan	PK-8	389	2007-08	68.12%
4. Harmony School of Enrichment – Houston	K-5	679	2017-18	62.63%
5. Harmony School of Technology - Houston	6-8	700	2006-07	65.19%
6. Harmony School of Advancement High School – Houston	9-12	792	2010-11	67.97%
7. Harmony School of Discovery – Houston	6-12	857	2010-11	
8. Harmony School of Achievement – Houston	K-5	667	2015-16	73.78%
9. Harmony Science Academy - Cypress	K-5	664	2019-20	68.37%
10. Harmony School of Excellence - Katy	PK-6 ⁽⁵⁾	752	2022-23	68.36%
11. Harmony Science Academy – Bridge Land	PK-5	N/A	2025-26	N/A
12. Harmony Science Academy – City Place	PK-7	N/A	2025-26	N/A
Harmony Public Schools (Houston West) (101-862)				
1. Harmony Science Academy – Sugar Land	K-5	756	2008-09	64.29%
2. Harmony School of Innovation – Sugar Land ⁽³⁾	6-12	858	2011-12	52.28%
3. Harmony Science Academy – Katy	PK-7	1342	2011-12	49.25%
4. Harmony Science Academy – Beaumont	K-12 ⁽⁷⁾	671	2007-08	72.56%
5. Harmony School of Innovation - Katy	8-12	786	2016-17	50.19%
6. Harmony School of Excellence – Sugar Land	K-8	1443	2017-18	62.35%
Harmony Public Schools (North Texas) (161-807)				
1. Harmony Science Academy – Waco	PK-5	565	2007-08	88.22%
2. Harmony Science Academy – Dallas	K-12	1070	2007-08	86.30%
3. Harmony Science Academy – Garland	PK-6	748	2010-11	70.01%
4. Harmony School of Innovation – Garland	7-12	614	2014-15	58.67%
5. Harmony School of Innovation – Dallas	6-12	502	2012-13	50.30%

**TABLE 1:
CHARTER SCHOOLS**

CHARTER NAME/CAMPUS NAME	GRADES OFFERED ⁽¹⁾	CAMPUS ENROLLMENT ⁽¹⁾	YEAR OPENED ⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME) ⁽¹⁾
6. Harmony Science Academy – Fort Worth	K-5 ⁽⁸⁾	640	2006-07	59.53%
7. Harmony Science Academy – Grand Prairie	PK-8	489	2008-09	51.52%
8. Harmony Science Academy – Euless	6-12	622	2009-10	50.96%
9. Harmony School of Excellence – Dallas	6-12	603	2010-11	67.76%
10. Harmony School of Innovation – Fort Worth	6-12	1049	2012-13	53.20%
11. Harmony School of Innovation – Euless	K-5	696	2013-14	54.82%
12. Harmony Science Academy – Carrollton	6-12	550	2015-16	50.73%
13. Harmony School of Innovation – Carrollton	PK-5	436	2010-11	60.41%
14. Harmony School of Innovation – Waco	6-12	613	2017-18	75.78%
15. Harmony Science Academy – Plano	PK-5	599	2017-18	55.87%
16. Harmony School of Innovation – Grand Prairie	PK-5	524	2018-19	75.72%
Harmony Public Schools (Central Texas) (227-816)				
1. Harmony Science Academy – Austin	PK-8	698	2001-02	96.30%
2. Harmony Science Academy – Pflugerville	6-12	798	2008-09	67.20%
3. Harmony School of Excellence – Austin	6-12	557	2009-10	74.15%
4. Harmony School of Innovation – Austin	PK-5	343	2014-15	73.61%
5. Harmony School of Science – Austin	PK-5	461	2006-07	55.36%
6. Harmony School of Endeavor – Austin	PK-12	961	2011-12	30.82%
7. Harmony Science Academy – Cedar Park	PK-5	704	2017-18	22.93%
8. Harmony Science Academy - Leander	PK-7 ⁽⁶⁾	N/A	2025-26	N/A
Harmony Public Schools (West Texas) (071-806)				
1. Harmony Science Academy – El Paso	6-12	1005	2006-07	72.38%
2. Harmony School of Innovation – El Paso	PK-12	1371	2009-10	76.33%
3. Harmony Science Academy – Lubbock	PK-8	622	2007-08	80.19%
4. Harmony Science Academy – Odessa	K-8	544	2010-11	67.53%
5. Harmony School of Excellence – El Paso	K-5	666	2016-17	76.88%
6. Harmony School of Science – El Paso	PK-12	1127	2020-21	70.38%
7. Harmony Science Academy - Midland	PK-2 ⁽⁶⁾	N/A	2024-25	N/A
Harmony Public Schools (South Texas) (015-828)				
1. Harmony Science Academy – San Antonio	6-12	1,483	2006-07	39.93%
2. Harmony School of Innovation – San Antonio	PK-8	409	2010-11	57.11%
3. Harmony Science Academy – Laredo	6-8	674	2008-09	89.07%
4. Harmony School of Innovation – Laredo	K-5	667	2014-15	57.11%
5. Harmony School of Excellence – Laredo	9-12	684	2017-18	89.43%
6. Harmony Science Academy – Brownsville	PK-8	508	2008-09	91.23%
7. Harmony School of Innovation – Brownsville	6-12	556	2017-18	80.68%
8. Harmony School of Excellence – San Antonio	PK-5	316	2015-16	83.44%
9. Harmony School of Science - San Antonio	PK-6	502	2022-23	42.03%
TOTAL ENROLLMENT		41,483		

Source: Harmony.

⁽¹⁾ As of December 31, 2023.

⁽²⁾ The year opened reflects the year in which Harmony began operating.

⁽³⁾ Harmony School of Innovation -Sugarland currently houses grades 9-12 at 13738 Old Richmond Rd., Sugar Land, Texas and grades 6-8 at 13522 W. Airport Blvd., Sugar Land, Texas.

⁽⁴⁾ Harmony School of Science – Houston was relocated to 1428 Eldridge, Sugar Land, TX 77478 after Hurricane Harvey and several other floods caused interruption in school operation. It is currently being used by Harmony Virtual Academy staff. Harmony Virtual is completely virtual for students.

⁽⁵⁾ Adding middle school grades for the 2024-25 school year at 6300 Peek Road, Katy, TX.

⁽⁶⁾ Additional grades to be added in future years.

⁽⁷⁾ Adding middle school and high school grades for the 2024-25 school year at 6490 Phelan Blvd., Beaumont, TX.

⁽⁸⁾ Adding 6th grade for the 2024-25 school year.

Harmony’s Board of Directors is the governing body for all of the Charter Schools. For more information regarding Harmony and the Charter Schools, see generally “**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS.**”

PLAN OF FINANCE

Harmony will issue the Bonds for the purpose of: (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (ii) funding capitalized interest, and (iii) paying the costs of issuing the Bonds (the “Project”).

USE OF BOND PROCEEDS			
Campus Name	Location	Bond Proceed Use	Estimated Use of Proceeds
Harmony School of Science – El Paso	1730 Joe Battle Blvd, El Paso, TX 79928	Ground Up Construction	\$19,853,009.00
Harmony School of Excellence – Katy	6300 Peek Rd, Katy, TX 77449	Ground Up Construction	\$24,953,016.81
Harmony Science Academy – Beaumont	6490 Phelan Blvd. Beaumont, TX 77706	Land Acquisition & Ground Up Construction	\$24,103,719.00
Harmony Science Academy - Fort Worth	7900 S Hulen St, Fort Worth, TX 76133	Ground Up Construction	\$25,600,243.00
Harmony Science Academy - Leander	3250 Hero Way, Leander, TX 78641	Land Acquisition & Ground Up Construction	\$36,797,302.00
Harmony Science Academy – Bridge Land	12800 Creeklane Village Dr, Cypress, TX 77433	Land Acquisition	\$7,319,658.00
		Ground Up Construction	\$20,500,000.00
Harmony Science Academy – City Place	2600 Spring Stuebner Rd. Spring, TX 77389	Land Acquisition	\$7,575,458.00
		Ground Up Construction	\$18,346,151.50
Existing Campus Capital Projects and FF&E	District Wide	FF&E and other needed improvements	\$15,355,475.00
Total			\$200,404,032.31

To the extent any of the Projects listed above were financed by Harmony’s existing \$200,000,000 line of credit (the “*Line of Credit*”), proceeds of the Bonds will be used to repay the existing balance on the Line of Credit. The Line of Credit will then be available for any Project overages and any other capital needs of Harmony.

Prior Financings

Below is a list of the long-term outstanding debt obligations of Harmony as of the Closing Date.

DEBT SUMMARY⁽¹⁾				
TYPE OF DEBT	ORIGINAL AMOUNT	OUTSTANDING AMOUNT	SECURED BY ADJUSTED REVENUES	SECURED BY THE DEEDS OF TRUST, LEASEHOLD MORTGAGES AND SECURITY AGREEMENTS
Series 2010Q Master Note/Bonds	\$39,910,000	\$39,910,000	YES	YES
Series 2011Q Master Note/Bonds	5,085,000	5,085,000	YES	YES
Series 2014A Master Note/Bonds	101,555,000	85,965,000	YES	NO
Series 2014Q Master Note/Bonds	8,880,000	8,880,000	YES	NO
Series 2015 Master Note/ Bonds	106,745,000	102,965,000	YES	NO
Series 2016A Master Note/ Bonds	55,405,000	50,105,000	YES	NO
Series 2017 Master Note/Bonds	40,540,000	37,870,000	YES	YES
Series 2021A Master Note/Bonds	147,025,000	147,025,000	YES	YES
Series 2021B Master Note/Bonds	4,350,000	4,350,000	YES	YES
Series 2021C Master Note/Bonds	22,170,000	19,875,000	YES	YES
Series 2024 Master Note/Bonds	212,440,000	212,440,000	YES	YES
A&R LOC Master Note dated 3.30.2023	<u>200,000,000</u>	<u>58,189,057⁽²⁾</u>	YES	YES
TOTAL	\$944,105,000	\$750,874,057		

⁽¹⁾ See also “**APPENDIX C – FINANCIAL STATEMENTS**” to the Official Statement. Does not exclude payments that will be made by reserves or REPO or SLGS Interests on QSCB Sinking Funds.

⁽²⁾ Current amount, may increase if Harmony chooses to draw on the line of credit for ongoing projects between the date of this Official Statement and the closing of the Bonds. See “**PLAN OF FINANCE – Future Financing.**”

Harmony has previously issued eleven (11) Prior Master Notes related to the following outstanding debt: (i) Arlington Higher Education Finance Corporation \$147,025,000 Education Revenue Bonds (Harmony Public Schools) Series 2021A, (ii) Arlington Higher Education Finance Corporation \$4,350,000 Education Revenue Bonds (Harmony Public Schools) Taxable Series 2021B, (iii) Arlington Higher Education Finance Corporation \$22,170,000 Education Revenue Refunding Bonds (Harmony Public Schools) Series 2021C, (iv) Arlington Higher Education Finance Corporation \$40,540,000 Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2017A, (v) Arlington Higher Education Finance Corporation \$55,405,000 Education Revenue Bonds (Harmony Public Schools) Series 2016A, (vi) Arlington Higher Education Finance Corporation \$106,745,000 Education Revenue Bonds (Harmony Public Schools) Series 2015, (vii) Texas Public Finance Authority Charter School Finance Corporation \$8,880,000 Taxable Education Revenue Bonds (Harmony Public Schools) Series 2014Q (Qualified School Construction Bonds – Direct Pay), (viii) City of Houston Higher Education Finance Corporation \$101,555,000 Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2014A, (ix) City of Houston Higher Education Finance Corporation \$5,085,000 Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2011Q (Qualified School Construction Bonds – Direct Pay), (x) \$39,910,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010Q (Qualified School Construction Bonds – Direct Pay), and (xi) a revolving line of credit in an amount not to exceed \$200,000,000 at any time. As set forth above, four of Harmony’s outstanding Master Notes are not secured by the Deeds of Trust, Leasehold Mortgages and Security Agreements. The remaining master Notes and the Bonds are secured by the Deeds of Trust, Leasehold Mortgages and Security Agreements. See “**APPENDIX B - HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS – TABLE 2.**”

For the current debt service requirements on the Master Notes see “**DEBT SERVICE REQUIREMENTS**” herein.

The Foundation

Harmony Education Foundation f/k/a Charter School Solutions (“HEF”) is a Texas nonprofit corporation organized on April 10, 2015. HEF has been determined by the Internal Revenue Service to be an organization described under Section 501(c)(3) of the Code and is exempt from federal income taxation under Section 501(a) of the Code. The specific purpose of HEF is to support Harmony and other charter schools and educational organizations located in Arizona, Arkansas, Kansas, New Mexico, Mississippi, Missouri, Louisiana, Oklahoma, Tennessee, and Texas, in order to (i) promote education by developing school models, educational services, and products for the purposes of replicating the Harmony model; (ii) facilitate charter school campus development projects, including designing, financing, and leasing the developments; (iii) facilitate the attainment of higher education by providing college tuition assistance in the form of scholarships and grants for charter school graduates; and (iv) foster and promote scientific advancement and exploration by conducting and overseeing the operation of STEM education and science fairs, including the International Sustainable World (Energy, Engineering, and Environment) Project (“I-SWEEP”), a collaborative and competitive integration science fair event open to high school students from around the world with a goal of creating a more sustainable world for tomorrow.

HEF owns several properties where Charter Schools are located (the “HEF Properties”). See “**APPENDIX B - HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS – TABLE 2.**” herein. These properties are leased to Harmony. The Lease Payments are subordinate to any debt issued by Harmony under its Master Indenture, including the Bonds. HEF has issued the following bonds secured by the HEF Properties and its rental payments from Harmony: (i) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Harmony Education Foundation—Harmony Public Schools Project), Series 2021A, in the aggregate principal amount of \$14,955,000 of which \$14,620,000 remains outstanding; (ii) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Harmony Education Foundation—Harmony Public Schools Project), Taxable Series 2021B, in the aggregate principal amount of \$420,000 of which \$0 remains outstanding; (iii) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Series 2018A, in the aggregate principal amount of \$33,365,000 of which \$33,365,000 remains outstanding; (iv) the Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Taxable Series 2018B, in the aggregate principal amount of \$955,000 of which \$0 remains outstanding; (v) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Series 2016A, in the aggregate principal amount of \$42,365,000 of which \$37,430,000 remains outstanding; and (vi) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Taxable Series 2016B, in the aggregate principal amount of \$920,000 of which \$0 remains outstanding (collectively, the “HEF Bonds”).

Future Financings

Harmony’s leadership presents a growth plan with opening five to seven schools per year for the next five years. Each of these proposed schools within the growth plan is subject to approval by the Board of Directors and the Texas Education Agency. Some of these projects are currently in beginning phases and those costs are carried on the line of credit and cannot be financed with the Bonds. Additionally, Harmony would need to receive charter enrollment increases beyond the current aggregate enrollment cap of 66,500, which are subject to approval by the Texas Education Agency. Harmony’s current plan is to expand to approximately 47,000 students in 77 schools by the 2027-28 school year.

SOURCES AND USES OF FUNDS

The following table sets forth anticipated sources and uses of funds in connection with the plan of finance described above:

Sources of Funds	Total
Par Amount	\$212,400,000.00
Original Issue Premium	338,232.10
Total Sources of Funds	<u>\$212,778,232.10</u>
Uses of Funds	
Project Fund	\$200,404,032.31
Capitalized Interest	5,669,891.38
Deposit to Charter Bond Guaranty Reserve Fund	4,418,075.42
Costs of Issuance ⁽¹⁾	2,286,232.99
Total Uses of Funds	<u>\$212,778,232.10</u>

⁽¹⁾ Includes Underwriters' discount, legal fees, printing fees, rounding amount and other costs of issuance.

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DEBT SERVICE REQUIREMENTS

Set forth in the following table are the aggregate debt service requirements relating to the Bonds and the Outstanding Prior Master Notes after the Closing Date.

Fiscal Year Ending June 30	Outstanding Debt Service ⁽¹⁾⁽²⁾	<u>The Bonds</u>		Aggregate Debt Service ⁽³⁾
		<u>Principal</u>	<u>Interest⁽³⁾</u>	
2024	\$35,795,522	-	-	\$35,795,522
2025	35,780,695	-	3,313,351	41,996,087
2026	35,784,377	\$1,000,000	7,125,486	45,954,627
2027	35,667,323	2,000,000	9,120,250	46,787,573
2028	33,705,077	4,040,000	9,020,250	46,765,327
2029	33,750,421	4,235,000	8,818,250	46,803,671
2030	33,768,947	4,450,000	8,606,500	46,825,447
2031	33,805,957	4,675,000	8,384,000	46,864,957
2032	33,842,447	4,910,000	8,150,250	46,902,697
2033	33,874,483	5,155,000	7,904,750	46,934,233
2034	33,898,132	5,410,000	7,647,000	46,955,132
2035	33,934,340	5,680,000	7,376,500	46,990,840
2036	33,973,411	5,965,000	7,092,500	47,030,911
2037	31,965,950	6,265,000	6,794,250	45,025,200
2038	29,485,950	6,575,000	6,481,000	42,541,950
2039	29,045,800	6,905,000	6,152,250	42,103,050
2040	29,058,100	7,250,000	5,807,000	42,115,100
2041	23,293,450	7,540,000	5,517,000	36,350,450
2042	18,688,500	7,840,000	5,215,400	31,743,900
2043	17,174,650	8,160,000	4,901,800	30,236,450
2044	17,176,350	8,480,000	4,575,400	30,231,750
2045	14,192,700	8,825,000	4,236,200	27,253,900
2046	14,192,300	9,175,000	3,883,200	27,250,500
2047	10,639,750	9,540,000	3,516,200	23,695,950
2048	8,529,288	9,925,000	3,134,600	21,588,888
2049	8,526,538	10,315,000	2,737,600	21,579,138
2050	8,525,100	10,730,000	2,325,000	21,580,100
2051	8,524,750	11,160,000	1,895,800	21,580,550
2052	-	11,610,000	1,449,400	13,059,400
2053	-	12,070,000	985,000	13,055,000
2054	-	12,555,000	502,200	13,057,200
Totals	<u>\$716,600,308</u>	<u>\$212,440,000</u>	<u>\$161,668,386</u>	<u>\$1,090,716,694</u>

Notes & Assumptions:

⁽¹⁾ Based on official statements and audited financial statements for Harmony. Excludes Harmony Education Foundation and other capital leases which are not secured by the Master Indenture.

⁽²⁾ Includes annual Sinking Fund payments for Harmony's Series 2010Q Bonds, Series 2011Q Bonds, Series 2014Q Bonds.

⁽³⁾ Net of capitalized interest.

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RISK FACTORS

This Official Statement contains summaries of pertinent portions of the Bonds, the Loan Agreement, the Master Indenture, the Bond Indenture, the Continuing Disclosure Agreement and other relevant documents. Such summaries and references are qualified in their entirety by reference to the full text of such documents. The following discussion of some of the risk factors associated with the Bonds is not, and is not intended to be, exhaustive, and such risks are not necessarily presented in the order of their magnitude.

Enforceability and Constitutionality of the Permanent School Fund Guarantee

The Texas Constitution provides that the Legislature by law may provide for using the Permanent School Fund to guarantee bonds issued by school districts. In 2013, the Texas Legislature enacted a law providing a method for Texas charter schools to be designated as “charter districts” and to avail themselves of the guarantee of the Permanent School Fund. Harmony has applied for and received conditional approval from the TEA for the Bonds to be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. The guarantee of charter school bonds by the Permanent School Fund has not been reviewed for enforceability or constitutionality by any court of law, and no legal opinions from a court of law have been delivered with respect thereto. Although both the Attorney General of the State of Texas and Bond Counsel will deliver an opinion with respect to the validity of the Bonds, neither party will opine with respect to the enforceability of, or constitutionality of, the Permanent School Fund guarantee of the Bonds. Additionally, no other party, including the TEA, will give any opinions with respect to the enforceability or constitutionality of the guarantee of the Bonds.

Sufficiency of Revenues

The Bonds are payable solely from certain payments, revenues and other amounts derived by the Issuer pursuant to the Loan Agreement and the Series 2024 Master Note and are secured only by such revenues and a pledge of certain funds and accounts created under the Bond Indenture. Based on present circumstances, and based on its projections regarding enrollment, Harmony believes it will generate sufficient revenues for payment of debt service on the Bonds. However, Harmony’s charter contract may be revoked, or the basis of the assumptions used by Harmony to formulate its beliefs may otherwise change. No representation or assurance can be made that Harmony will continue to generate sufficient revenues to make payments under the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of Harmony.

Dependence on State Payments that are Subject to Annual Appropriation and Political Factors

State charter schools such as the Charter Schools operated by Harmony may not charge tuition and have no taxing authority. Payments from the State that Harmony receives for educating students comprise the primary source of revenue generated by Harmony (more than 76% for Harmony’s Fiscal Year ending June 30, 2023). The amount of such State payments Harmony receives is based on a variety of factors, including enrollment at the Charter Schools. The overall amount of education aid provided by the State in any year is also subject to appropriation by the State Legislature. The Legislature may base its decisions about appropriations on many factors, including the State’s economic performance. Further, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding, and such factors are subject to change. As a result, the Legislature may not appropriate funds, or may not appropriate funds in a sufficient amount, for Harmony to generate sufficient revenue to meet its operating expenses and to make payments under the Master Notes sufficient to pay debt service on the Bonds and other bonds that could be issued for the benefit of Harmony. No liability would accrue to the State in such event, and the State would not be obligated or liable for any future payments or any damages. If the State were to withhold such State payments for any reason, even for a reason that is ultimately determined to be invalid or unlawful, Harmony could be forced to cease operations.

Operating History; Projections

Harmony’s ability to make payments under the Master Notes representing debt service payments on the Bonds and other bonds issued for the benefit of Harmony depends on its receipt of payments from the State. See “APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — PROJECTED

REVENUES AND EXPENDITURES.” The projections of revenues and expenses contained in **APPENDIX B** herein were prepared by Harmony. No feasibility studies have been conducted with respect to operations of Harmony pertinent to the Bonds. The projections prepared by Harmony are “forward-looking statements” and are subject to the general qualifications and limitations described under “**INTRODUCTION — Forward-Looking Statements**” with respect to such statements. The Underwriters have not independently verified such projections, and makes no representation and gives no assurances that such projections or the assumptions underlying them, are complete or correct. Further, the projections relate only to a limited number of fiscal years and consequently do not cover the entire period that the Bonds will be outstanding.

The projections are derived from the actual operations of Harmony and from assumptions made by Harmony about its future student enrollment and expenses. The basis for such projections is the applications for admission for Harmony’s grades currently in operation, the addition of additional grades and the physical capacity of schools under renovation to be expanded with proceeds of the Bonds. There can be no assurance that the actual enrollment, revenues and expenses for Harmony will be consistent with the assumptions underlying the projections contained herein. Actual operating results may be affected by many factors, including, but not limited to, increased costs, lower than anticipated revenues (as a result of difficulty with or failure of Harmony’s growth strategy, insufficient enrollment, reduced payments from the State, or otherwise), employee relations, changes in taxes, changes in applicable government regulations, changes in demographic trends, factors associated with education, competition for students and changes in local or general economic conditions. See “**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS**” to review certain of the projections and to consider the various factors that could cause actual results to differ significantly from projected results. Refer to “**INTRODUCTION — Forward-Looking Statements,**” above, for qualifications and limitations applicable to forward-looking statements.

NO GUARANTEE CAN BE MADE THAT THE PROJECTED INFORMATION CONTAINED HEREIN WILL CORRESPOND WITH THE RESULTS ACTUALLY ACHIEVED IN THE FUTURE BECAUSE THERE CAN BE NO ASSURANCE THAT ACTUAL EVENTS WILL CORRESPOND WITH THE ASSUMPTIONS MADE BY HARMONY. ACTUAL OPERATING RESULTS MAY BE AFFECTED BY MANY FACTORS, INCLUDING, BUT NOT LIMITED TO, DIFFICULTY WITH OR FAILURE OF HARMONY’S GROWTH STRATEGY, INCREASED COSTS, LOWER THAN ANTICIPATED REVENUES (AS A RESULT OF INSUFFICIENT ENROLLMENT, REDUCED PAYMENTS FROM THE STATE OR OTHERWISE), EMPLOYEE RELATIONS, CHANGES IN TAX LAWS, CHANGES IN APPLICABLE GOVERNMENT REGULATIONS, CHANGES IN DEMOGRAPHIC TRENDS, FACTORS ASSOCIATED WITH EDUCATION, COMPETITION FOR STUDENTS AND CHANGES IN LOCAL OR GENERAL ECONOMIC CONDITIONS.

THE PROJECTIONS ARE FROM HARMONY, AND NEITHER THE ISSUER, THE FINANCIAL ADVISOR NOR THE UNDERWRITERS HAVE COMMISSIONED AN INDEPENDENT FEASIBILITY ANALYSIS OF ANY OF THE PROJECTED STUDENT ATTENDANCE FIGURES UPON WHICH HARMONY’S PROJECTIONS ARE BASED. NO INDEPENDENT CONFIRMATION OF HARMONY’S PROJECTIONS HAS BEEN MADE, AND WHILE HARMONY BELIEVES ITS PROJECTIONS ARE REASONABLE, SUCH GROWTH MAY OR MAY NOT OCCUR AND MAY BE AFFECTED BY A VARIETY OF FACTORS. SEE “**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — Projected Revenues and Expenditures.**”

Competition for Students

Potential purchasers should be aware that Harmony faces constant competition for students and there can be no assurance that Harmony will continue to attract and retain the number of students that are needed to generate revenues sufficient to pay the Master Notes and thus to make payment of debt service on the Bonds and any subsequent bonds issues for the benefit of Harmony.

Nonrenewal or Revocation of Charter

Harmony opened its initial school as an open-enrollment charter school on May 19, 2000. Harmony currently holds seven open-enrollment charters granted by the TEA. Although all of Harmony’s charters have been renewed through at least July 31, 2025 (and some through as late as July 31, 2033), there can be no assurance that

Harmony's charters will continue to be renewed. See "**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — CHARTER CONTRACTS.**"

Under Texas law, the Commissioner of Education (the "*Commissioner*") may revoke the charter of, or modify the governance of the holder of a charter, of an open-enrollment charter school, or reconstitute the governing body of the charter holder, if the Commissioner determines that the charter holder: (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter; (ii) failed to satisfy generally accepted accounting standards of fiscal management; (iii) failed to protect the health, safety, or welfare of the students enrolled at the school; (iv) failed to comply with any applicable law or rule, (v) failed to satisfy the performance framework standards adopted under Section 12.1181 of the Texas Education Code, or (vi) is imminently insolvent as determined by the Commissioner in accordance with Commissioner Rule.

The Commissioner is required to revoke the charter of an open-enrollment charter school if for the three preceding school years (i) the charter holder has been assigned an unacceptable performance rating ("*Accountability Rating*") under Subchapter C, Chapter 39 of the Texas Education Code; (ii) the charter holder has been assigned a financial accountability performance rating ("*FIRST Rating*") under Subchapter D, Chapter 39 of the Texas Education Code indicating performance lower than satisfactory; or (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii).

Under State law, the Commissioner is required to deny renewal of the charter of an open-enrollment charter school at the end of the term of a charter school if: (i) the charter holder has been assigned the lowest performance rating as its Accountability Rating for any three of the five preceding school years; (ii) the charter holder has been assigned a FIRST Rating that is lower than satisfactory for any three of the five preceding school years; (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii) for any three of the five preceding school years; or (iv) any campus operating under the charter has been assigned the lowest performance rating as its Accountability Rating for the three preceding school years and such campus has not been closed.

There can be no assurance that any charter school operated by Harmony will be able to satisfy the academic and/or financial accountability standards in the future. A failure to meet such requirements could result in the revocation of one or more of Harmony's charters or the required closure of campuses and could result in the inability of Harmony to pay the Master Notes and thus to make payment of debt service on the Bonds and other bonds issued for the benefit of Harmony.

Related procedures provide an opportunity for a hearing for the charter holder and parents, which must be held at the charter school's facility. See "**APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW — GENERAL — CHARTER REVISION, REVOCATION AND NON-RENEWAL**" and "**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — Charter Contracts— Revocation, Non-Renewal, Expiration or Amendment of Charter.**" If Harmony's charter contracts are revoked or if the charter contracts are not renewed in the future, Harmony could be forced to cease operations.

Construction Risks

Harmony will use a portion of the proceeds of the Bonds to finance construction of the Project. Harmony expects to obtain all necessary approvals, consents, certificates and permits as needed in order to complete such construction in a timely manner. Any failure by Harmony to obtain such approvals, consents, certificates and permits could result in a delay with respect to completion of construction, and any such delay could adversely affect Harmony's operations and its ability to generate revenues sufficient to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of Harmony. The risks associated with any such delay are heightened by the fact that Harmony is relying on the new facilities and the expanded classroom space to accommodate its projected increased enrollment in the near term. See "**APPENDIX B — "HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS."**"

If plans regarding the new construction component of the Project result in construction costs that exceed the amount available to pay such costs, Harmony's construction plans would have to be modified to lower construction

costs, and there is a risk that the construction component would not be completed or would not be completed as planned.

Reliance on Appraisals

As of the date of this Official Statement, appraisals within the last six months have not been obtained for the properties financed with the proceeds of the Bonds. There can be no assurances that Harmony has paid fair market value for any of the properties financed with the proceeds of the Bonds. There can also be no assurances that the value of the pledged properties to the Master Notes is greater than or equal to the outstanding Master Notes under the Master Trust Indenture as of the date of issuance of the Bonds.

Reliance on Phase I Reports

As of the date of this Official Statement, Phase I environmental assessments within the last six months have not been obtained for the properties financed with the proceeds of the Bonds. Harmony has previously received Phase I environmental assessments on the existing properties. There can be no assurances that Harmony will have made an “all appropriate inquiry” sufficient enough to establish or preserve the innocent landowner defense to the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA). Notwithstanding the foregoing, provided certain conditions are satisfied, the Issuer, Master Trustee and bond holders may still be able to establish and preserve the secured creditor exemption/defense to CERCLA.

Factors Associated with Education in General

There are a number of factors affecting schools in general, including the Charter Schools, which could have an adverse effect on Harmony’s financial position and the ability of Harmony to generate sufficient revenues to pay the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of Harmony. These factors include, but are not limited to, Harmony’s ability to successfully execute its growth strategy; Harmony’s ability to attract and retain a sufficient number of students; changes to Harmony’s reputation, the faculty or student body, either generally or with respect to certain academic or extracurricular areas; increasing costs of compliance with federal or State regulatory laws or regulations, including, without limitation, laws or regulations concerning environmental quality, work safety and accommodating persons with disabilities; increasing operating costs of Harmony; changes in existing statutes pertaining to the powers of Harmony and legislation or regulations which may affect funding; and disruption of any operations by real or perceived threats against Harmony, its employees or the students. Harmony cannot assess or predict the ultimate effect of these factors on its operations or financial results of operations.

Failure to Provide Ongoing Disclosure

In connection with the issuance of the Bonds, Harmony will enter into a Continuing Disclosure Agreement, pursuant to Rule 15c2-12. Failure to comply with the Continuing Disclosure Agreement or Rule 15c2-12 may adversely affect the liquidity for the Bonds and their market price in the secondary market. See “**CONTINUING DISCLOSURE AGREEMENT**” and “**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT.**”

State Financial Difficulties

Charter schools depend on revenues from the State for a large portion of their operating budgets. The availability of State funds for public education is a function of legal provisions affecting school district revenues and expenditures, the condition of the State economy and the biennial budget process. Decreases in State revenues may adversely affect education appropriations made by the Legislature. The Legislature bases its decisions about appropriations on many factors, including the State’s economic performance, and, because some public officials, their constituents, commentators and others have viewed charter schools as controversial, political factors may also come to bear on charter school funding. See “**RISK FACTORS — Dependence on State Payments that are Subject to Annual Appropriation and Political Factors**” above.

Any future decreases in State revenues or increases in State expenditures may adversely affect education appropriations made by the Legislature. Neither Harmony nor any other party to the bond transaction can predict how State revenues or State education funding will vary over the entire term of the Bonds.

No parties to the bond transaction take any responsibility for informing owners of the Bonds about any such changes. Information about the financial condition of the State, as well as its budget and spending for education, is available and regularly updated on various State-maintained websites. Such information is prepared by the respective State entity maintaining each such website and not by any of the parties to this transaction. The parties to the bond transaction take no responsibility for the accuracy, completeness or timeliness of such information and no such information is incorporated herein by these references.

Reputational Risk

Generally

Harmony is subject to financial and other risks, which risks may differ from those of other private, charter or public schools. For example, changes in the reputation of Harmony, and/or the any individual school, any third-party service providers, affiliates, and/or Harmony's leadership, faculty or student body, either generally or with respect to certain academic or extra-curricular areas, may affect Harmony's ability to attract students to projected enrollment levels, and may affect Harmony's ability to attract quality teachers and staff at competitive salaries. In addition, litigation brought against Harmony or any of the other parties listed above by parents, civil authorities, students or former or potential employees may have a materially adverse impact on the reputation of Harmony. There can be no assurance that these or other factors will not adversely affect Harmony's ability to generate adequate funds from the operation of its schools to pay all Lease Payments when due.

Negative Publicity

Since 2009, certain internet web sites and blogs have suggested that Harmony, and other charter schools, are affiliated with the "Gülen Movement," a transnational civic society movement inspired by the teachings of Turkish Islamic theologian Fethullah Gülen. His works are studied by many national and international scholars of various religions, including Islam, Judaism, and Christianity. There are a number of institutes operated by universities that study Mr. Gülen's life and his works, including the Gülen Institute at the University of Houston. In March 2016, a video documentary about charter schools and the Gülen Movement entitled "Killing Ed, A Documentary Film About Charter Schools, Corruption, and the Gülen Movement in America" was screened in New York City. Publicity surrounding charter schools and the Gülen Movement has tended to allege conspiracies and attempt to cast charter schools in a negative light.

Harmony has no association with the Gülen Movement. Harmony does not believe that any negative publicity based on these unfounded allegations will adversely affect its enrollment or operations. Since the inception of such negative publicity in 2009, Harmony has not experienced any decline in enrollment or any adverse effects on its operations. However, there can be no assurance that these or other factors will not adversely affect Harmony's ability to generate adequate funds from the operation of its schools to pay all Lease Payments when due.

Infectious Disease Outbreak – COVID-19

On May 10, 2023, the President of the United States signed into law a bill that ended the national emergency declaration resulting from COVID-19, a respiratory disease caused by a strain of the coronavirus and on May 5, 2023, the World Health Organization declared the outbreak of COVID-19 over as a global health emergency. The outbreak of COVID-19 was characterized as a pandemic by the World Health Organization for over three years (the "Pandemic").

For the 2019-2020 school year, TEA informed Texas charter districts that COVID-19 related school closings and/or absenteeism would not impact ADA calculations and school funding so long as a charter district commits to support students instructionally while they are at home. In addition to providing educational resources online when classes were suspended, Harmony delivered online instruction through the end of the school year. As such, after taking into account the allocation by the state of certain CARES Act funding, Harmony did not experience a reduction in State funding for the 2019-2020 school year as a result of the school closures.

The TEA advised charter districts that for the 2020-2021 school year district funding would return to being based on “Average Daily Attendance” (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as “ADA”) calculations requiring attendance to be taken. However, the TEA crafted an approach for determining ADA during the pandemic that provides charter districts with several options for determining daily attendance. These include remote synchronous instruction, remote asynchronous instruction, on campus instruction, and the Texas Virtual Schools Network. To stabilize funding expectations, charter districts that met certain criteria established by the TEA were provided with various hold harmless protections throughout the 2020-2021 school year that applied if a district’s ADA was less than certain ADA projections made by the TEA. The TEA provided the highest level of funding that resulted from either the hold harmless attendance counts (as a group, inclusive of all settings) or the district’s actual attendance counts (as a group, inclusive of all settings) for the entire 2020-2021 school year, encompassing all portions of the school year for which a district would have been eligible for a hold harmless adjustment. For the 2020-21 school year, Harmony experienced no decline in attendance from the end of the prior year.

For the 2021-22 school year, the Governor announced that virtual learning would not be allowed for public schools in Texas. The Governor has also prohibited mandating masks on public school campuses. After the start of the 2021-22 school year, public schools were reporting high enrollment but lower overall attendance due to COVID-19 and the Delta Variant resurgence. In response, the Texas Legislature passed SB 15 which grants districts and charter schools the ability to establish and/or continue full-time virtual learning programs for up to 10% of a district’s students. The legislation requires school districts which offered remote learning to have at least a “C” Accountability Rating from the TEA. Districts also unable to require a teacher who is teaching in-class to also teach students online at the same time.

For a discussion of the impact of the Pandemic on the PSF, see “**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – Infectious Disease Outbreak**”.

Risk of Catastrophic Loss

In the event a natural or man-made disaster, such as a hurricane, fire, earthquake, tornado, or war, destroyed one or more of Harmony’s schools (or significant outlying improvements), the revenues of Harmony could be drastically reduced. Moreover, the market value of the property pledged under the Deeds of Trust, Leasehold Mortgages and Security Agreements could also be drastically reduced.

The Houston area sustained widespread rain and flood damages as a result of Hurricane Harvey’s landfall along the Texas Gulf Coast on August 25, 2017, causing historic levels of rainfall during the succeeding four days. Harmony had one campus flooded and received reports of roof leaks and property damages from other Harmony campuses located in the Houston area and nearby cities during Hurricane Harvey.

Harmony School of Science – Houston located at 5435 S. Braeswood Boulevard was the only Harmony campus flooded during Hurricane Harvey. The flood waters rose up to 4 feet high in the building. The school immediately did water mitigation, emergency repairs and replacements and was back in operation on September 11, 2017 together with the other Harmony campuses in the area without any further delay. This property is located in High Hazard Flood Zone; thus it has flood insurance. Harmony received \$500,000 for building and \$275,000 for contents from the flood insurance. All flood related repairs and replacements were covered with these funds. In 2023, several North Texas facilities were damaged by weather in the amount of \$85,985 and such damage has since been repaired.

While the Bonds are outstanding, Harmony has agreed to insure or cause insurance to be carried for its buildings and contents, including the schools (during both the period of construction and the period subsequent to completion of the Project), against such losses and in such amounts as is customary for persons engaged in the same business as Harmony and operating facilities similar to its buildings and other facilities, including the Project. Harmony has additionally covenanted in the Loan Agreement and the Master Indenture to provide builder’s all risk extended coverage insurance (during construction, reconstruction, remodeling or repair), coverage for buildings and contents, and general liability, comprehensive professional liability, workers’ compensation and business interruption insurance. In the event that insurance proceeds from damage or destruction, or condemnation awards, with respect to the Project, the Loan Agreement requires transfer of such amounts to the Related Trustee to be held in trust and applied

solely to the Related Trustee in accordance with the Bond Indenture to which such insurance or condemnation proceeds relate for use pursuant to such Bond Indenture and the Loan Documents for the Project. Nevertheless, there can be no assurance that a casualty loss will be covered by insurance (certain casualties are excepted), that the insurance company will fulfill its obligation to provide insurance proceeds, that insurance proceeds to rebuild the affected school will be sufficient, or that a sufficient number of students would wish to attend the school following reconstruction. Even if insurance proceeds are available and Harmony has rebuilt the Project, there could be a lengthy period of time during which there would be little or no revenues produced by operation of the affected school.

Value of Land and Improvements

Under the Deeds of Trust, Harmony has granted to the Master Trustee a first lien on and security interest certain properties of Harmony and will grant to the Master Trustee a first lien on certain properties purchased with the proceeds of the Bonds. SEE “**HARMONY PUBLIC SCHOOLS**” and “**PLAN OF FINANCE**” herein.

There is no guarantee that the foreclosure value of the Land and/or Improvements will be adequate in the event of any foreclosure to pay defaulted and accelerated debt service on the Bonds. Additionally, the value of the land and improvements may be less than comparable commercial properties in the area, especially in light of the special nature of the Land and Improvements and their limited use.

Value of Facilities May Fluctuate

The value of Harmony’s educational facilities at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in this transaction. At any time there may be a difference between the actual market value of Harmony’s educational facilities subject to the Deeds of Trust, Leasehold Mortgages and Security Agreements and the principal amount of Master Notes outstanding under the Master Indenture, and that difference may be material and adverse to owners of the Bonds. In particular, it cannot be determined with certainty what the value of the property subject to the Deeds of Trust, Leasehold Mortgages and Security Agreements would be in the event of foreclosure under the Deeds of Trust, Leasehold Mortgages and Security Agreements. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated Harmony’s facilities, which are intended for use as educational facilities, to suggest that their values would remain stable or would increase if the general values of property in the community were to decline.

Foreclosure Deficiency and Delays; No Assurance Regarding Subsequent Tenant

If revenues produced by Harmony are insufficient to make payments on the Master Notes representing debt service on the Bonds and to make payments on Master Notes, the Master Trustee may exercise its right to foreclose pursuant to the Deeds of Trust, Leasehold Mortgages and Security Agreements. There can be no assurance that the value of Harmony’s educational facilities will be sufficient to meet all remaining debt service requirements with respect to the Master Notes at the time of any foreclosure. See “**RISK FACTORS – Value of Facilities May Fluctuate,**” above. In addition, the time necessary to institute and complete foreclosure proceedings would likely substantially delay receipt of funds from a foreclosure.

Inability to Liquidate or Delay in Liquidating the Project

An event of default gives the Master Trustee the right to sell the land and improvements pursuant to a sale under the Deeds of Trust, Leasehold Mortgages and Security Agreements. The land and improvements are intended to be used solely for educational purposes of Harmony. Because of such use, a potential purchaser of the Bonds should not anticipate that a sale of the land and improvements could be accomplished rapidly or at all. Any sale of the land and improvements may require compliance with the laws of the State applicable thereto. Such compliance may be difficult, time-consuming, and/or expensive. Any delays in the ability of the Master Trustee to sell the land and improvements will result in delays in the payment of the Bonds.

Since the land and improvements is specifically constructed for use as a school facility, it may not be readily adaptable to other uses. As a result, in the event of a sale of the land and improvements, the number of uses that could be made of the property, and the number of entities that would be interested in purchasing the land and improvements,

could be limited, and the sale price could thus negatively be affected. The location of the land and improvements may also limit the number of potential purchasers. The ability of the Master Trustee to sell the land and improvements to third parties, thereby liquidating the investment, would be limited as a result of the nature of the land and improvements. For these reasons, no assurance can be made that the amount realized upon any sale of the land and improvements will be fully sufficient to pay and discharge the Bonds. In particular, there can be no representation that the cost of the property included in the land and improvements constitutes a realizable amount upon any forced sale thereof.

Damage, Destruction or Condemnation

Although Harmony will be required to obtain certain insurance against damage or destruction as set forth in the Master Indenture, there can be no assurance that any portion of the properties pledged to the Deeds of Trust, Leasehold Mortgages and Security Agreements will not suffer losses for which insurance cannot be or has not been obtained or that the amount of any such loss, or the period during which Harmony, as a result of damage or destruction to properties pledged to the Deeds of Trust, Leasehold Mortgages and Security Agreements, cannot generate revenues, will not exceed the coverage of such insurance policies.

If the properties pledged to the Deeds of Trust, Leasehold Mortgages and Security Agreements, or any portion thereof, is damaged or destroyed, or is taken in a condemnation proceeding, the proceeds of insurance or any such condemnation award for the properties pledged to the Deeds of Trust, Leasehold Mortgages and Security Agreements, or any portion thereof, must be applied restore or rebuild the applicable property or to redeem the Bonds. There can be no assurance that the amount of revenues available to restore or rebuild the property, or any portion thereof, or to redeem Bonds will be sufficient for that purpose, or that any remaining portion of the property will generate revenues sufficient to pay the to pay debt service on the Bonds remaining outstanding.

Value of Property May Fluctuate

The value of Harmony's educational facilities at any given time will be directly affected by market and financial conditions which are not in the control of the parties involved in this transaction. At any time there may be a difference between the actual market value of Harmony's educational facilities subject to the Deeds of Trust, Leasehold Mortgages and Security Agreements and the principal amount of Master Notes outstanding under the Master Indenture, and that difference may be material and adverse to owners of the Bonds. In particular, it cannot be determined with certainty what the value of the property subject to the Deeds of Trust, Leasehold Mortgages and Security Agreements would be in the event of foreclosure under the Deeds of Trust, Leasehold Mortgages and Security Agreements. Real property values can fluctuate substantially depending on a variety of factors. There is nothing associated Harmony's facilities, which are intended for use as educational facilities, to suggest that their values would remain stable or would increase if the general values of property in the community were to decline.

Future Changes to Charter School Laws

The law applicable to charter schools in the State has frequently changed, including changes to the school funding system and relating to revocation and non-renewal and the respective rights of the parties. See "**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS**" and "**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**" below. The law affecting charter schools is subject to additional changes. Changes to applicable law by the State Legislature could be adverse to the financial interests of Harmony and could adversely affect the ability of Harmony to generate sufficient revenues to pay the Master Notes and to pay debt service on the Bonds and other bonds issued for the benefit of Harmony. There can be no assurance that the Legislature will not change such laws in the future in a manner which is adverse to the interests of the registered owners of the Bonds. Adverse State budget considerations could increase the likelihood that the State Legislature would change the laws governing charter schools, and in particular charter school funding provisions. Further, State budget considerations may adversely affect appropriations for charter school funding. See "**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**" and "**CURRENT PUBLIC SCHOOL FINANCE LITIGATION**" herein.

Changes in the School Finance System

Because Texas charter schools are ultimately funded from the same sources as Texas public school districts, changes in the system of school finance could significantly affect how charter schools are funded. Neither the Issuer nor Harmony can make any representation or prediction concerning how or if the State Legislature may change the current public school finance system, and how those changes may affect the funding or operations of charter schools. See “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**” and “**CURRENT PUBLIC SCHOOL FINANCE LITIGATION**” herein.

Since 1989, State funding of education has been challenged on constitutional grounds requiring the Texas Legislature to enact several funding programs, each of which differed in the manner in which State and local funds have been allocated to school districts. On June 13, 2016, the current school funding program was ruled constitutional by the Texas Supreme Court. The Issuer, Harmony and the parties cannot predict and provide no assurance regarding: (i) whether the Texas Legislature will act to change the current Texas school funding program; (ii) what effect any such legislative changes would have on the existing Texas school funding program, including the distribution of funds under the current school funding system; and (iii) what effect any action or inaction by the Texas Legislature relating to the current Texas school funding program will have on the ability to receive, continue to receive or timely receive the money that is the primary source of payment for the Bonds. See “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING**” and “**CURRENT PUBLIC SCHOOL FINANCE LITIGATION**” herein.

Acceleration

Pursuant to the rules of the TEA governing the Permanent School Fund Guarantee Program, the Bonds may not be accelerated as a remedy upon an event of default under the Bond Indenture. However, the Master Notes are subject to acceleration upon an event of default under the Master Indenture.

Key Personnel

Harmony’s curriculum, educational philosophy and operations depend on the vision and commitment of a few, key personnel who comprise the senior leadership of Harmony. See “**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — Senior Management.**” Loss of such Key Directors/Managers, and Harmony’s inability to find comparable qualified replacements, could adversely affect Harmony’s enrollment, operations and/or financial results. For more information regarding these individuals and other of Harmony’s key personnel, see “**APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — SENIOR LEADERSHIP.**”

Limited Obligations

The Bonds are special, limited obligations of the Issuer payable solely from revenues to be derived by the Issuer under their respective the Loan Agreement, the Series 2024 Master Note, all money and investments held for the credit of the funds and accounts established by or under their respective the Bond Indenture (except the Rebate Funds), and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement and the Master Indenture. See “**SECURITY FOR THE BONDS.**”

The Bonds will never be payable out of any funds of the Issuer except with such revenues and in such amounts described above. NONE OF THE STATE OF TEXAS, ANY STATE AGENCY OR ANY POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF ARLINGTON, IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF ARLINGTON, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS. HOWEVER, THE BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATION OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

Pledge of State Revenues

The Master Indenture provides that all of Harmony's Adjusted Revenues will be deposited into one or more deposit accounts pledged to the Master Trustee pursuant to Deposit Account Control Agreements (unless such Adjusted Revenues or portion thereof are required to be deposited to the Revenue Fund). Upon the occurrence of an Event of Default under the Master Indenture, the Master Trustee is entitled, at the direction of the holders of not less than 25% in principal amount of the Master Notes Outstanding to (i) issue a Notice of Exclusive Control under the Deposit Account Control Agreements and (ii) collect and receive all of the Harmony's Adjusted Revenues to be applied as specified in the Master Indenture. While the Holders of not less than 25% in principal amount of Master Notes Outstanding are entitled to direct the Master Trustee in the exercise of remedies following an Event of Default, such percentage may be composed wholly or partially of the holders of Master Notes other than the Series 2024 Master Note.

If an Event of Default has occurred under the Master Indenture, Harmony covenants and agrees in the Master Indenture that, without demand by the Master Trustee, it will deliver or cause to be delivered to the Master Trustee all of its Adjusted Revenues, including amounts subject to the Deposit Account Control Agreement for which a Notice of Exclusive Control has been delivered, for credit to the Revenue Fund. If Harmony were to fail to deliver such Adjusted Revenues, either before or after an Event of Default, the only remedy available to the Master Trustee and/or Bondholders would be a suit against Harmony to enforce the provisions of the Master Indenture.

Damage or Destruction of the Facilities

The Master Indenture requires that Harmony's educational facilities be insured against certain risks. See **"APPENDIX F — FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF THE SUPPLEMENTAL MASTER INDENTURE"** and **"APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — Insurance Coverage."** There can be no assurance that the amount of such insurance required to be obtained or actually obtained will be adequate, or that the cause of any damage or destruction to Harmony's educational facilities will be as a result of a risk which is insured. Further, there can be no assurance with respect to the ongoing creditworthiness of the insurance companies from which Harmony obtains insurance policies.

Federal Accountability Measures

Title I of the Elementary and Secondary Education Act of 1965, as reauthorized by the Every Student Succeeds Act ("*ESSA*") of 2015, requires each state to submit a plan outlining its statewide accountability system to the U.S. Department of Education (the "*USDOE*"). The plan submitted by the State was approved by USDOE in March 2018 (the "*Texas Plan*").

Under the Texas Plan, the TEA will maintain rigorous, yet achievable goals for all student groups; create stronger alignment between all State and federal program areas; shift the proficiency level for students from the "Approaches" label on STAAR to the "Meets" label; and better align federal funding with priorities within TEA's strategic plan. Certain information regarding State assessments, including accountability and transparency metrics, is set forth in **APPENDIX B — "HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS — Student Performance and Accountability Ratings."**

Any failure of Harmony to meet the applicable requirements of ESSA or the Texas Plan may have a material adverse effect on the ability of Harmony to generate revenues sufficient to make payments under the Master Notes representing debt service on the Bonds and other bonds issued for the benefit of Harmony. Various other sections of this Official Statement discuss Harmony's performance under the State's current accountability system. See **"APPENDIX B — HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS - Charter Contract," "— Student Performance and Accountability Ratings";** see also **"RISK FACTORS — Nonrenewal or Revocation of Charter."**

On March 27, 2020 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Assessment requirements in section 1111(b)(2) for the school year 2019-2020.
- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) that are based on data from the 2019-2020 school year.
- Report card provisions related to assessments and accountability in section 1111(h) based on data from the 2019-2020 school year. These include:
 - Section 1111(h)(1)(C)(i) (accountability system description);
 - Section 1111(h)(1)(C)(ii) (assessment results);
 - Section 1111(h)(1)(C)(iii)(I) (other academic indicator results);
 - Section 1111(h)(1)(C)(iv) (English language proficiency results);
 - Section 1111(h)(1)(C)(v) (school quality or student success indicator results);
 - Section 1111(h)(1)(C)(vi) (progress toward meeting long-term goals and measurements of interim progress);
 - Section 1111(h)(1)(C)(vii) (percentage of students assessed and not assessed);
 - Section 1111(h)(1)(C)(xi) (number and percentage of students with the most significant cognitive disabilities taking an alternate assessment); and
 - Section 1111(h)(2)(C) with respect to all waived requirements in section 1111(h)(1)(C) as well as 1111(h)(2)(C)(i)-(ii) (information showing how students in a school district and each school, respectively, achieved on the academic assessments compared to students in the State and school district).

On April 6, 2021, the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) for the 2020-2021 school year.
- Report card provisions related to accountability in section 1111(h) based on data from the 2020-2021 school year. These include:
 - Section 1111(h)(1)(C)(i)(I)-(IV) and (VI) (Accountability system description, other than the list of comprehensive, targeted, and additional targeted support and improvement schools).
 - Section 1111(h)(1)(C)(iii)(I) (Other Academic indicator results for schools that are not high schools).
 - Section 1111(h)(1)(C)(v) (School Quality or Student Success indicator results).
 - Section 1111(h)(1)(C)(vi) (Progress toward meeting long-term goals and measurements of interim progress).
 - Section 1111(h)(2)(C) with respect, at the local educational agency (LEA) and school levels, to all waived requirements in section 1111(h)(1)(C).

On April 22, 2022, the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Alternate Academic Achievement Assessments under 1111(d)(2)(D)(i)(I) for the 2020-2021 school year.

No additional waivers have been made.

Environmental Regulation

Harmony's properties are and will be subject to various federal, State and local laws and regulations governing health and the environment. In general, these laws and regulations could result in liability for remediating adverse environmental conditions on or relating to such properties, whether arising from pre-existing conditions or conditions arising as a result of activities conducted in connection with the ownership of and operations at the properties. Costs incurred with respect to environmental remediation or liability could adversely affect Harmony's financial condition and its ability to generate revenues sufficient to pay debt service on the Master Notes and thus debt service on the Bonds and other bonds issued for the benefit of Harmony. Excessive costs in connection with

any such environmental remediation or any such liability to third parties could also make it difficult to successfully re-let such facilities.

As of the date of this Official Statement, Phase I environmental assessments dated in the last six months have not been obtained for the properties financed with the proceeds of the Bonds.

Potential Effects of Bankruptcy

As is true with many entities which issue debt, there is a risk that the Issuer may file for bankruptcy and afford itself the protection of the federal Bankruptcy Code. In that case, the Issuer would receive the benefit of the automatic stay and creditors, such as the registered owners of the Bonds, would not be able to pursue their remedies against it without the permission of the Bankruptcy Court. The Issuer would also have the right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While the relevant law on this point is not clear, it may be possible for the Issuer to be forced into involuntary bankruptcy by one or more creditors. A bankruptcy filing by or against the Issuer could adversely affect the receipt of principal of and interest on the Bonds.

Similarly, there is a risk that Harmony may file for bankruptcy and afford itself the protection of the federal Bankruptcy Code. In that case, Harmony would receive the benefit of the automatic stay and creditors, such as the registered owners of the Bonds, would not be able to pursue their remedies against it without the permission of the Bankruptcy Court. Harmony would also have the right to reorganize and adjust its debts with the approval of the Bankruptcy Court. While Harmony is a nonprofit corporation, the schools are part of the public school system. Consequently, it is not clear whether Harmony would properly file as a corporate debtor or under Chapter Nine of the United States Bankruptcy Code, which Chapter governs government subdivisions. So long as Harmony is a nonprofit corporation, it cannot be forced into involuntary bankruptcy by one or more creditors even if it is properly characterized as a corporate debtor. A bankruptcy filing by, or Harmony could adversely affect the receipt of principal of and interest on the Bonds.

Certain Matters Relating to Enforceability of the Master Indenture

The obligations of Harmony under the Master Notes will be limited to the same extent as the obligations of debtors typically are affected by bankruptcy, insolvency and the application of general principles of creditors' rights and as additionally described above.

The obligations described herein of Harmony to make payments of debt service on Master Notes issued under the Master Indenture (including transfers in connection with voluntary dissolution or liquidation) may not be enforceable to the extent enforceability may be limited by applicable bankruptcy, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights and by general equitable principles.

Limitation on Security

The lien granted under the Deeds of Trust, Leasehold Mortgages and Security Agreements provides limited security. Property that is subject to the Deeds of Trust, Leasehold Mortgages and Security Agreements consists of educational facilities. Consequently, it could be difficult to find a buyer or lessee for the property, and, upon default, the Master Trustee may not obtain an amount equal to the aggregate liabilities of Harmony (including liabilities in respect of the Bonds then outstanding) from the sale or lease of the property, whether pursuant to a judgment against Harmony or otherwise.

The effectiveness of the security interest in Harmony's Adjusted Revenues granted in the Master Indenture may be limited by a number of factors, including: (i) federal bankruptcy laws which would, among other things, preclude enforceability of the security interest as to revenues arising subsequent to the commencement of bankruptcy proceedings and limit such enforceability as to revenues arising prior to such commencement to the extent a security interest therein would constitute a voidable preference or fraudulent conveyance, (ii) rights of third parties in cash, securities and instruments arising in favor of the United States of America or any agency thereof, (iii) present or future prohibitions against assignment in any federal statutes or regulations, (iv) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction and rights of donors of property, (v) claims that might obtain priority if continuation statements or

financing statement amendments are not filed in accordance with applicable laws, (vi) the rights of holders of prior perfected security interests in equipment and other goods owned by Harmony and in the proceeds of sale of such property, and (vii) statutory liens. Accordingly, such security interest is expected to provide only limited value upon an event of default.

Cybersecurity

Harmony relies on a technological environment to conduct its operations and potentially faces multiple cybersecurity threats including, but not limited to, hacking, phishing, viruses, malware and other attacks on its computing and other digital networks and systems (collectively, “*Systems Technology*”). Harmony employs a layered approach to cybersecurity in terms of technology and tools. This means having various security controls in place to protect separate entryways. For example, deploying a web application firewall, endpoint protections, and secure email gateways, rather than relying only on traditional perimeter defenses. While these solutions are all part of a layered security approach, it actually goes well beyond deploying layers of different security tools. Harmony also leverages people and processes to have effective security reflexes. When combined into a single, integrated framework, an overlapping strategy based on security tools, people, and processes will yield the most effective defenses. While Harmony trains every employee on basic cyber hygiene using Texas Department of Information Resources approved training courses, the IT team receives advanced cybersecurity training and participates in the table-top exercises that improve security reflexes of the essential personnel dealing with IT infrastructure on a daily basis. Harmony follows the Texas Cyber Security Framework where it ensures that the IT team has strategies in place to proactively prevent and to respond quickly and effectively in the event of a cybersecurity incident and receives state and federal support to mitigate cybersecurity risks. As a recipient and provider of personal, private, or sensitive information, Harmony may be the target of cybersecurity incidents that could result in adverse consequences to Harmony and its Systems Technology, requiring a response action to mitigate the consequences. Cybersecurity incidents could result from unintentional events, or from deliberate attacks by unauthorized entities or individuals attempting to gain access to Harmony’s Systems Technology for the purposes of misappropriating assets or information or causing operational disruption and damage. Cybersecurity breaches could cause material disruption to harmony’s finances or operations. The costs of remedying any such damage or obtaining insurance related thereto, or protecting against future attacks could be substantial, and insurance (if any can be obtained) may not be adequate to cover such losses or other resultant costs and expenses. Further, cybersecurity breaches could expose Harmony to material litigation and other legal risks, which could cause Harmony to incur material costs related to such legal claims or proceedings.

Climate Change

The State is susceptible to the effects of extreme weather events and natural disasters, including floods, droughts, wind events, low temperature events, rain events, earthquakes, hurricanes and tornadoes, which could result in negative economic impacts on the Charter Schools. Such effects can be exacerbated by a longer-term shift in the climate over several decades (commonly referred to as climate change), including increasing global temperatures and rising sea levels. The occurrence of such extreme weather events could damage Harmony, or the local infrastructure that provides essential services to Harmony. The economic impacts resulting from such extreme weather events could include a loss of property values, a decline in revenue base, and escalated recovery costs. While Harmony has not experienced any serious flooding in the past five years, no assurances can be given that a future extreme weather event driven by climate change will not adversely affect the operations of Harmony.

The Houston area sustained widespread rain and flood damages as a result of Hurricane Harvey’s landfall along the Texas Gulf Coast on August 25, 2017, causing historic levels of rainfall during the succeeding four days. Harmony had one campus flooded and received reports of roof leaks and property damages from other Harmony campuses located in the Houston area and nearby cities during Hurricane Harvey.

Harmony School of Science – Houston located at 5435 S. Braeswood Boulevard was the only Harmony campus flooded during Hurricane Harvey. The flood waters rose up to 4 feet high in the building. The school immediately did water mitigation, emergency repairs and replacements and was back in operation on September 11, 2017 together with the other Harmony campuses in the area without any further delay. This property is located in High Hazard Flood Zone; thus it has flood insurance. Harmony received \$500,000 for building and \$275,000 for contents from the flood insurance. All flood related repairs and replacements were covered with these funds. In 2023, several North Texas facilities were damaged by weather in the amount of \$85,985 and such damage has since been repaired.

Campus Security

Schools are generally subject to risks related to campus security, including, but not limited to bullying, abuse, and, in extreme cases, physical violence. While Harmony’s management believes that its facilities are secure, instances of breaches of campus security in the future may have a material adverse effect on Harmony’s operations and reputation, and may result in litigation, any of which could adversely affect Harmony’s financial condition and its ability to pay debt service on the Bonds.

Additional Debt

The Master Indenture permits the issuance of additional Debt on a parity with the Master Notes if certain conditions are met, which could reduce the amount of revenues available to pay debt service on the Bonds. See “**SECURITY FOR THE BONDS – Master Notes and the Master Indenture – Additional Debt**” and “**APPENDIX F – FINAL FORM OF THE MASTER INDENTURE, AND SUBSTANTIALLY FINAL FORMS OF THE SUPPLEMENTAL MASTER INDENTURE, THE BOND INDENTURE AND THE LOAN AGREEMENT – MASTER INDENTURE.**” Harmony currently has eleven (11) Prior Master Notes outstanding under the Master Indenture. See “**PLAN OF FINANCE – Prior Financings**” herein. Harmony may issue additional debt on a parity with the Master Notes in the next 12 months. See “**APPENDIX B – HARMONY PUBLIC SCHOOLS, INC – Future Financings.**” The issuance of additional Debt and bonds may adversely affect the investment security of the Bonds.

Enforcement of Remedies

The remedies available to registered owners of the Bonds upon an Event of Default depend in many respects upon judicial actions which are often subject to discretion and delay. Under existing constitutional and statutory law and judicial decisions, the remedies provided in the Bond Indenture, the Loan Agreement and the Master Indenture may not be readily available, may be limited, and may prove to be expensive, time-consuming and difficult to enforce. Further, as noted above, the Bonds are special and limited obligations of the Issuer and the existence of any remedy does not guarantee sufficient assets of Harmony pledged to payment of the Master Notes to secure such payment. See “– **Special, Limited Obligations**” above. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the sovereign powers of the State and the constitutional powers of the United States of America, bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally.

Remedies with respect to foreclosure under the Deeds of Trust, Leasehold Mortgages and Security Agreements for the benefit of the beneficiaries thereof may be further limited by State constitutional and statutory limitations on foreclosure, including the right of redemption of foreclosed property granted to debtors under the Texas Constitution.

TEA’s Rights Under the Financing Documents

As a condition for guarantee of the Bonds under the Charter School Bond Guarantee Program of the Permanent School Fund of the State of Texas, the TEA requires certain provisions in the financing documents granting TEA certain rights to consents, notices and to control certain procedures, including, without limitation, the right to control proceedings, without the consent of bondholders, following an event of default under the financing documents. Reference is made to the provisions of the financing documents for a more complete description of TEA’s rights thereunder. See “**APPENDIX G - SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE.**”

Charter Schools in General

Nationally, charter schools in general have come under some criticism as having failed to meet certain objectives in educating students to a success level above students in traditional public school systems. Proponents of charter schools have indicated that comparisons used in such critiques often fail to measure performances between similarly situated schools, or fail to acknowledge the time that will be required for a charter school system to develop historically significant data. The politically sensitive issues surrounding the development of charter schools will

continue to garner public attention, and any development of a national sense that charter schools do not present a fiscally responsible alternative could adversely affect the willingness of states, including Texas, to fund charter school operations, to take legislative or regulatory action adverse to charter schools, or to approve or renew charter contracts.

Litigation

Schools are often the subject of litigation. Actions alleging wrongful conduct that seek punitive damages often are filed against education providers such as Harmony. Litigation may also arise from the corporate and business activities of Harmony, such as employee-related matters. As with educator's professional liability, many of these risks are covered by insurance, but some are not. For example, some business disputes and worker's compensation claims are not covered by insurance or other sources and, in whole or in part, may be a liability of Harmony if determined or settled adversely. Although Harmony maintains insurance policies covering educator's professional and general liability, management of Harmony is unable to predict the availability, cost or adequacy of such insurance in the future. There is no known litigation pending or threatened against Harmony as of the date of this Official Statement. Additionally, management of Harmony has no knowledge of any litigation threatened against Harmony, (i) which in any way questions or affects the validity of the Bonds, or any proceedings or transactions relating to their issuance, sale and delivery, or (ii) which would, if adversely determined, cause any material adverse change in the financial conditions of Harmony.

Tax-Exempt Status of the Bonds

The Code imposes a number of requirements that must be satisfied in order for interest on state and local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds, limitations on the investment earnings of bond proceeds prior to expenditure, a requirement that certain investment earnings on bond proceeds be paid periodically to the United States, and a requirement that issuers file an information report with the Internal Revenue Service (the "IRS"). Harmony has agreed that it will comply with all such requirements. Failure to comply with the requirements stated in the Code and related regulations, rulings, and policies may result in the treatment of the interest on the Bonds as taxable. Such adverse treatment may be retroactive to the date of issuance. See "**TAX MATTERS FOR THE BONDS.**"

In December 1999, as a part of a larger reorganization of the IRS, the IRS commenced operation of its Tax-Exempt and Government Entities Division (the "*TE/GE Division*") as the successor to its Employee Plans and Exempt Organizations division. The TE/GE Division has a subdivision that is specifically devoted to tax-exempt bond compliance. The number of tax-exempt bond examinations has increased significantly under the TE/GE Division. Harmony has not sought to obtain a private letter ruling from the IRS with respect to the Bonds, and the opinion of Bond Counsel is not binding on the IRS. There is no assurance that any IRS examination of the Bonds will not adversely affect the market value of the Bonds. See "**TAX MATTERS FOR THE BONDS.**"

If a Determination of Taxability (as defined in the Bond Indenture) were to occur, the Bonds would be subject to mandatory redemption, as a whole and not in part, at a redemption price equal to 100% of the principal amount thereof plus accrued interest to the redemption date not more than 120 days following receipt of notice by the Bond Trustee of such determination, subject to certain conditions and notice requirements. See "**THE BONDS — Redemption Provisions — Mandatory Redemption Upon Determination of Taxability.**"

Proposed Tax Legislation

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Bonds from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Bonds. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation,

regulations or litigation, and its impact on their individual situations. Bond Counsel expresses no opinion regarding any pending or proposed federal or State legislation, regulations or litigation and its impact.

Tax-Exempt Status of Harmony

The tax-exempt status of the Bonds presently depends upon maintenance by Harmony of its status as an organization described in Section 501(c)(3) of the Code. The maintenance of this status depends on compliance with general rules regarding the organization and operation of tax-exempt entities, including operation for charitable and educational purposes and avoidance of transactions that may cause earnings or assets to inure to the benefit of private individuals, such as the private benefit and inurement rules.

Tax-exempt organizations are subject to scrutiny from and face the potential for sanctions and monetary penalties imposed by the IRS. One primary penalty available to the IRS under the Code with respect to a tax-exempt entity engaged in inurement or unlawful private benefit is the revocation of tax-exempt status. Although the IRS has not frequently revoked the 501(c)(3) tax-exempt status of nonprofit organizations, it could do so in the future. Loss of tax-exempt status by Harmony could result in loss of tax exemption of the Bonds and defaults in covenants regarding the Bonds and other obligations would likely be triggered. Loss of tax-exempt status by Harmony could also result in substantial tax liabilities on its income. For these reasons, loss of tax-exempt status of Harmony could have material adverse consequences on the financial condition of Harmony.

With increasing frequency, the IRS has imposed substantial monetary penalties and future charity or public benefit obligations on tax-exempt entities in lieu of revoking tax-exempt status, as well as requiring that certain transactions be altered, terminated, or avoided in the future and/or requiring governance or management changes. These penalties and obligations typically are imposed on the tax-exempt organization pursuant to a “closing agreement,” a contractual agreement pursuant to which a taxpayer and the IRS agree to settle a disputed matter. Given the exemption risks involved in certain transactions, Harmony may be at risk for incurring monetary and other liabilities imposed by the IRS. These liabilities could be materially adverse.

Less onerous sanctions, referred to generally as “intermediate sanctions,” have been enacted that focus enforcement on private persons who transact business with an exempt organization rather than the exempt organization itself, but these sanctions do not replace the other remedies available to the IRS, as mentioned above.

Harmony may be audited by the IRS. Because of the complexity of the tax laws and the presence of issues about which reasonable persons can differ, an IRS audit could result in additional taxes, interest, and penalties. An IRS audit ultimately could affect the tax-exempt status of Harmony, as well as the exclusion from gross income for federal income tax purposes of the interest on the Bonds and any other tax-exempt debt issued for benefit of Harmony.

Risk of Failure to Comply with Certain Covenants

Failure of the Issuer to comply with certain covenants contained in the Bond Indenture or of Harmony with certain covenants in the Loan Agreement on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “**TAX MATTERS FOR THE BONDS.**”

State and Local Tax Exemption

The State has not been as active as the IRS in scrutinizing the tax-exempt status of nonprofit organizations. It is possible that legislation may be proposed to strengthen the role of the Attorney General of the State in supervising nonprofit organizations. It is likely that the loss by Harmony of federal tax exemption also would trigger a challenge to the State or local tax exemption of Harmony. Depending on the circumstances, such event could be adverse and material.

It is not possible to predict the scope or effect of future legislative or regulatory actions with respect to taxation of nonprofit corporations. There can also be no assurance that future change of circumstances or changes in

the laws and regulations of federal, State, or local governments will not materially adversely affect the operations and financial conditions of Harmony by requiring Harmony to pay income or local property taxes.

Unrelated Business Income

The IRS and State, county, and local tax authorities may undertake audits and reviews of the operations of tax-exempt organizations with respect to the generation of unrelated business taxable income (“*UBTI*”). Harmony may participate in activities that generate UBTI. An investigation or audit could lead to a challenge that could result in taxes, interest, and penalties with respect to UBTI and, in some cases, ultimately could affect the tax-exempt status of Harmony as well as the exclusion from gross income for federal income tax purposes of the interest payable on the Bonds.

Secondary Market

There is no guarantee that a secondary trading market will develop for the Bonds. Consequently, prospective purchasers should be prepared to hold their Bonds to maturity or prior redemption. Subject to applicable securities laws and prevailing market conditions, the Underwriters intend, but are not obligated, to make a market in the Bonds.

Risk of Loss from Nonpresentment upon Redemption

The rights of the registered owners of the Bonds to receive interest will terminate on the date, if any, on which the Bonds are to be redeemed pursuant to a call for redemption, notice of which has been given under the terms of the Bond Indenture.

Risk of Amendment

Most of the provisions of the Master Indenture may be amended with the consent of the holders of a majority in principal amount of Outstanding Master Notes. If Master Notes are issued in an amount greater than the previously Outstanding Master Notes, such new Master Notes could cause the Master Indenture to be amended in material ways. Additionally, such amendment could result if the underwriter for the new bonds were to vote such bonds to direct the related bond trustee to vote such new Master Notes to amend the Master Indenture prior to the distribution of the new bonds to the purchasers.

THE BONDS

Description

The Bonds will be issued in the aggregate principal amounts, will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover page of this Official Statement. Interest on the Bonds will accrue from the date of delivery and will be calculated on the basis of a 360-day year of twelve 30-day months payable on August 15, 2024, and on each February 15 and August 15 thereafter until the earlier of maturity or redemption.

The Bonds will be initially issued in book-entry only form, as discussed under “**BOOK-ENTRY ONLY SYSTEM**” herein, but may be subsequently issued in fully registered form only, without coupons, and in any case, will be issued in denominations of \$5,000 or any integral multiples thereof.

The principal of, premium, if any, and interest on the Bonds are payable in lawful money of the United States of America. Amounts due on the Bonds will be paid by check mailed to the owner thereof at its address as it appears on the bond registration books on the first day of the calendar month in which such payment date occurs (the “*Record Date*”). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds, all payments of principal, premium, if any, and interest on Bonds will be paid by wire transfer (at the risk and expense of such registered owner) in immediately available funds to an account in the United States designated by such registered owner upon 15 days prior written notice to the Bond Trustee. Notwithstanding the foregoing, while the Bonds are held in book-entry-only form, interest, principal, and redemption premium, if any, will be paid through The Depository Trust Company (“*DTC*”) as described under “**BOOK-ENTRY ONLY SYSTEM.**”

Permanent School Fund Guarantee

An application has been filed and Harmony has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. As discussed under the heading “**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**” herein, the Bonds will be guaranteed under the Bond Guarantee Program of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund; provided, however, that the Bonds are not subject to acceleration. In the event Harmony causes the Issuer to defease any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee.

As a condition for guarantee of the Bonds under the Charter School Bond Guarantee Program, the TEA requires certain provisions in the financing documents granting TEA certain rights to consents, notices and to control certain procedures, including, without limitation, the right to control proceedings, without the consent of bondholders, following an event of default under the financing documents. Reference is made to the provisions of the financing documents for a more complete description of TEA’s rights thereunder. See “**APPENDIX G– SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE.**”

Redemption Provisions

The Bonds. The Bonds are subject to redemption as described below:

Optional Redemption. The Bonds maturing on or after February 15, 20__, are subject to optional redemption prior to scheduled maturity, in whole or in part, on February 15, 20__, and on any date thereafter, at the option of Harmony at a redemption price of par, plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on February 15 in the years 2044, 2049 and 2054 are subject to mandatory sinking fund redemption in part prior to maturity with funds from the applicable Debt Service Fund at a redemption price equal to the principal amount thereof plus interest accrued thereon to the redemption date, on the dates, and in the principal amounts shown in the following schedules:

Bonds Maturing February 15, 2044

<u>Principal Amount</u>	<u>Redemption Date</u>
\$7,250,000	February 15, 2040
7,540,000	February 15, 2041
7,840,000	February 15, 2042
8,160,000	February 15, 2043
8,480,000	February 15, 2044*

Bonds Maturing February 15, 2049

<u>Principal Amount</u>	<u>Redemption Date</u>
\$8,825,000	February 15, 2045
9,175,000	February 15, 2046
9,540,000	February 15, 2047
9,925,000	February 15, 2048
10,315,000	February 15, 2049*

Bonds Maturing February 15, 2054

<u>Principal Amount</u>	<u>Redemption Date</u>
\$10,730,000	February 15, 2050
11,160,000	February 15, 2051
11,610,000	February 15, 2052
12,070,000	February 15, 2053
12,555,000	February 15, 2054*

*Final maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory redemptions is required to be reduced by the principal amount of any Bonds of the same maturity date which, at least 60 days prior to the mandatory sinking fund redemption date (i) have been purchased and delivered to the Bond Trustee for cancellation, (ii) have been purchased and canceled by the Bond Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (iii) have been redeemed pursuant to the optional redemption provision described above.

Mandatory Redemption Upon Determination of Taxability. The Bonds will be redeemed in whole prior to maturity on a date selected by Harmony which is not more than 120 days following the occurrence of a Determination of Taxability at a redemption price equal to 100% of the principal amount thereof plus interest to the redemption date.

“*Determination of Taxability,*” as used herein, means a determination that the interest income on any of the Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation (“*exempt interest*”) under Section 103 of the Code (in the case of a private activity bond, for a reason other than a registered owner is or a former registered owner was a substantial user within the meaning of Section 147 of the Code), which determination will be deemed to have been made upon the first to occur of any of the following: (i) the date on which the Bond Trustee is notified by or on behalf of the Issuer that a change in law or regulation has become effective or that the Internal Revenue Service has issued any public or private ruling, or technical advice memorandum or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Bonds does not qualify as such exempt interest; or (ii) the date on which Harmony receives notice from the Bond Trustee in writing that the Bond Trustee has been notified by the Internal Revenue Service, or has been advised by the Issuer, Harmony or any owner or former owner of a Bond that the Internal Revenue Service has issued a final determination (after the Issuer has exhausted all administrative appeal remedies and has determined not to pursue any remedies in a court of competent jurisdiction) which asserts that the interest on any of the Bonds does not qualify as such exempt interest.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon the request of Harmony, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed, or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the respective the Loan Agreement, the Project is not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Construction Fund established pursuant to the Bond Indenture to the Debt Service Fund established pursuant to respective the Bond Indenture which, together with an amount required to be paid by Harmony pursuant to the respective the Loan Agreement, will be sufficient to pay the Bonds in full, or (ii) in part, after reconstruction, repair, or replacement of the Project in accordance with the terms of respective the Loan Agreement, from excess insurance or condemnation proceeds transferred from the respective Construction Fund established pursuant to respective the Bond Indenture to the respective Debt Service Fund established pursuant to the respective the Bond Indenture for such purpose.

Redemption in Part. If less than all of the Bonds of a stated maturity are called for redemption, the particular Bonds or portions thereof to be redeemed will be redeemed by the Bond Trustee in accordance with the written direction of Harmony; *provided, however,* that portions of the Bonds will be redeemed in Authorized Denominations;

and *provided further*, that no redemption will result in an outstanding Bond being held in less than an Authorized Denomination.

In case part, but not all, of a Bond is selected for redemption, the owner thereof or his attorney or legal representative must present and surrender the Bond to the Bond Trustee for payment of the redemption price, and the Issuer will cause to be executed, authenticated, and delivered to or upon the order of such owner or his attorney or legal representative, without charge therefor, in exchange for the unredeemed portion of the principal amount of such Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

Notice of Redemption. At least 30 days prior to the date fixed for any redemption of the Bonds, but not more than 60 days prior to any redemption date, the Bond Trustee will cause a written notice of such redemption to be mailed by first class mail, postage prepaid, to the holders of the Bonds to be redeemed, at such holder's address appearing on the bond registration books on the date such notice is mailed by the Bond Trustee. Any redemption may be conditioned upon the occurrence of events occurring after the mailing of the notice of redemption. Any notice mailed as provided herein will be conclusively presumed to have been given, irrespective of whether or not received. By the date fixed for any such redemption, due provision is required to be made with the Bond Trustee and the Paying Agent for the payment of the redemption price, premium, if any, and interest accrued thereon. If such written notice of redemption is made, due provision for payment of the redemption price is made, and all conditions to the redemption have been fulfilled, all as provided above and in the Bond Indenture, the Bonds which are to be redeemed will become due and payable at the redemption price and after such date will cease to bear interest. Such Bonds will not be regarded as being Outstanding except for the right of the Owner to receive the redemption price out of the funds provided for such payment. If any Bond is not paid upon the surrender thereof for redemption, such Bond will continue to be Outstanding under the Bond Indenture and will continue to bear interest until paid at the interest rate borne by such Bond.

Defeasance. The Bonds may be discharged, or advance refunded in advance of their optional redemption date in any manner now or hereafter permitted by law. Upon any discharge, defeasance or refunding of all or a portion of the Bonds, such Bonds shall no longer be regarded to be outstanding or unpaid; *provided, however*, the Issuer will remain obligated for all payments, including the contribution of additional money or securities to any defeasance escrow or trust account, if necessary to provide sufficient amounts to satisfy the payment obligations (but only from the sources described herein). The Permanent School Fund Guarantee will terminate with respect to the Bonds defeased in the manner provided above.

SECURITY FOR THE BONDS

General

The Bonds are special, limited obligations of the Issuer payable solely from revenues to be derived from the Loan Agreement, the Series 2024 Master Note, the money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Funds thereunder); and in certain events out of amounts secured through the exercise of the remedies provided in the Bond Indenture, the Loan Agreement and the Master Indenture.

NONE OF THE STATE OF TEXAS, ANY STATE AGENCY OR ANY POLITICAL SUBDIVISION OF THE STATE, INCLUDING THE CITY OF ARLINGTON, IS OBLIGATED TO PAY THE PRINCIPAL OF OR INTEREST ON THE BONDS AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OR ANY STATE AGENCY OR POLITICAL SUBDIVISION OF THE STATE, INCLUDING CITY OF ARLINGTON, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THE BONDS.

Master Notes and the Master Indenture

General

To evidence its obligations under the Loan Agreement, Harmony will execute and deliver to the Bond Trustee, as the assignee of the Issuer, the Series 2024 Master Note in principal amount equal to the principal amount of the Bonds. Payments under the Series 2024 Master Note are scheduled to be made at the times and in the amounts

required to pay debt service on the Bonds and will be credited against the Loan Payments required to be made by Harmony under the Loan Agreement.

The Series 2024 Master Note is duly authorized promissory notes of Harmony issued pursuant to and secured by the Master Indenture. Under the Master Indenture, all of the Master Notes are equally and ratably secured by the pledge and assignment of a security interest in the Trust Estate. See “**APPENDIX F — FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF THE SUPPLEMENTAL MASTER INDENTURE.**”

Under the Master Indenture the Trust Estate consists of:

- (i) all Adjusted Revenues (defined below) of Harmony except items which by their terms or by reason of applicable law would be void or voidable if granted by Harmony, or which cannot be granted without the consent of other parties whose consent is not secured, or without subjecting the Master Trustee to liability not otherwise contemplated by the provisions of the Master Indenture, or which otherwise may not be lawfully and effectively granted, pledged, and assigned by Harmony;
- (ii) all money and securities, if any, at any time held by the Master Trustee in the Revenue Fund and any other fund or account established under the terms of the Master Indenture, or held by other banks or fiduciary institutions which are collaterally assigned to the Master Trustee as security for the Master Notes including the depository account specified in the Deposit Account Control Agreement and all securities, financial assets and securities entitlements and, with respect to book-entry securities, in the applicable Federal Book Entry Regulations, carried in or credited to such fund or account;
- (iii) all accounts, bank accounts, general intangibles, contract rights and related rights of Harmony, whether now owned or hereafter assigned or arising and wherever located;
- (iv) any and all other property of every kind and nature conveyed, pledged, assigned or transferred as additional security under the Master Indenture by Harmony or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including, without limitation, funds of Harmony held by the Master Trustee as security for the Master Notes;
- (v) the lien of any Deeds of Trust, Leasehold Mortgages and Security Agreements;
- (vi) all proceeds of the foregoing.

In addition, the Trust Estate under the Master Indenture includes all goods, documents, instruments, tangible and electronic chattel paper, letter of credit rights, investment property, accounts, deposit accounts, general tangibles (including payment intangibles and software), money and other items of personal property, including proceeds (as each such term is defined in the UCC) which constitute any of the property described in the paragraphs above.

“*Adjusted Revenues*” means, for any period of calculation, the total of all operating and non-operating revenues of Harmony, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income of Harmony for such period; provided, however, Adjusted Revenues exclude (i) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Debt, or Related Bonds, (ii) any gains or losses resulting from the early extinguishment of Debt, the sale, exchange or other disposition of property not in the ordinary course of business, or the reappraisal, reevaluation or write-up of assets, or any other extraordinary gains or losses, (iii) gifts, grants (excluding grants from the State), bequests or donations and income thereon restricted as to use by the donor or grantor for a purpose inconsistent with the payment of debt service on Debt or related bonds or Master Notes (i.e. unrelated to the purposes for which such obligations were issued), (iv) net unrealized gain (losses) on investments and financial products agreements and (v) proceeds of borrowing.

Revenue Fund

The Master Indenture provides for the creation of a Revenue Fund, which contains a principal account and an interest account. Upon an Event of Default under the Master Indenture, Harmony is required to deposit to the Revenue Fund, within five business days of receipt, all of its Adjusted Revenues, including without limitation, amounts subject to the Deposit Account Control Agreement for which a notice of exclusive control has been delivered (except as otherwise provided in the Master Indenture), as well as any insurance and condemnation proceeds, beginning on the first day of such Event of Default until no payment default exists. The Master Indenture provides that the Master Trustee shall immediately withdraw and pay or deposit from the amounts on deposit in the Revenue Fund the following amounts in the order of priority indicated:

FIRST: to the Master Trustee any fees or expenses that are then due and payable;

SECOND: equally and ratably to the Holder of each instrument evidencing a Senior Master Note on which there has been a payment default, an amount equal to all defaulted principal of (or premium, if any), interest and obligations on such Senior Master Note;

THIRD: a transfer to the Interest Account of an amount necessary to accumulate in equal monthly installments the interest on the Master Notes due and payable on the next Interest Payment Date; provided, however, that to the extent available, each transfer made on the fifth Business Day before the end of the month immediately preceding each Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest due on the Master Notes on the next succeeding Interest Payment Date. There shall be paid from the Interest Account equally and ratably to the Holder of each instrument evidencing a Master Notes the amount of interest on each Senior Master Note as such interest becomes due;

FOURTH: a transfer to the Principal Account of the amount necessary to accumulate in equal monthly installments the principal of the Master Notes maturing or subject to mandatory sinking fund redemption on the next Interest Payment Date taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Interest Payment Date granted pursuant to other provisions of the Master Indenture; provided, however, that to the extent available, the transfer made on the fifth Business Day before the end of the month immediately preceding such Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption on such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Senior Master Note the amount of principal payments due on each Master Notes, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;

FIFTH: to the Holder of any Senior Master Note entitled to maintain a reserve fund for the payment of such Senior Master Note, an amount sufficient to cause the balance on deposit in such reserve fund to equal the required balance in twelve (12) equal monthly installments or as otherwise in such amounts required by the applicable related bond documents; and

SIXTH: to Harmony, the amount specified in a Request as the amount of ordinary and necessary expenses of Harmony for its operations for the following month.

Any balance remaining in the Revenue Fund on the day following the end of the month in which all Events of Default under the Master Indenture have been cured or waived will be paid to Harmony upon request for deposit in a deposit account of Harmony that is subject to a Deposit Account Control Agreement to be used for any lawful purpose.

Additional Debt

Under the Master Indenture, Additional Debt payable from the Adjusted Revenues of Harmony may be delivered pursuant to the Master Indenture to pay the costs associated with such additional Debt and/or for the purpose of refunding any Outstanding Debt if the following conditions have been met:

- (1) Delivery of an Officer's Certificate stating that the Master Indenture is in effect and no Event of Default is then existing under the Master Indenture or any Debt Outstanding or any agreement entered into in conjunction with such Debt;
- (2) Such Debt shall be secured on a parity with respect to the Trust Estate; provided, however, that the terms of any Supplemental Master Indenture may expressly relinquish any right to any of the collateral provided in the Trust Estate (in which case it shall only be entitled to its pro rata share of the collateral which has not been relinquished), and shall be payable by Harmony solely from the Trust Estate and other amounts paid out of moneys attributable to the proceeds derived from the sale of the additional parity Debt or to income from the temporary investment thereof;
- (3) Sufficient funds must be evidenced as follows:
 - (A) Historical Coverage on Outstanding Debt. Delivery of an Officer's Certificate stating that, for either Harmony's most recently completed Fiscal Year or for any consecutive 12 months out of the most recent 18 months immediately preceding the issuance of the additional Debt, the Available Revenues equal at least 1.20 times the Maximum Annual Debt Service Requirements on all Debt then Outstanding; and
 - (B) Projected Coverage for Additional Debt. An Independent Management Consultant selected by Harmony and approved by each Bond Insurer provides a written report setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.00x the Maximum Annual Debt Service for all Debt then Outstanding, including the proposed additional Debt, in the fiscal year immediately following the completion of the project (if any) being financed;
- (4) Alternate Coverage for Additional Debt. In lieu of the requirements described above, Harmony may deliver an Officer's Certificate stating that, based on the audited results of the operations for the most recently completed Fiscal Year, the Available Revenues equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;
- (5) So long as the Trust Estate contains the lien of the Deeds of Trust upon any real property of Harmony, Harmony shall obtain and provide to the Master Trustee an endorsement of the title insurance policy, if permitted by the laws of the State, issued in connection with the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt which is secured by the Deeds of Trust.

For the purpose of calculating Maximum Annual Debt Service in paragraphs (3) and (4) above, the principal and interest payable upon final maturity for any outstanding Debt for which a reserve fund has been established shall be reduced by the amounts held in such reserve fund(s).

If additional Debt is being issued for the purpose of refunding any Outstanding Debt, the reports required by clauses (3) and (4) above to be delivered shall not apply so long as both the total and Maximum Annual Debt Service Requirements on all Outstanding Debt after issuance of the additional Debt will not exceed both the total and the Maximum Annual Debt Service Requirements on all Outstanding Debt prior to the issuance of such additional Debt.

In the event such additional Debt is being issued or incurred for the purpose of completing any Project (as that term is defined from time to time in connection with the issuance of additional Debt) for which additional Debt is issued or incurred, such additional Debt may be issued in amounts not to exceed 10% of the principal amount of

the Debt last issued for such project upon delivery of an Officer's Certificate that such additional Debt is required to fund the costs of completion; provided that such additional Debt must comply with any applicable requirements imposed by the Related Bond Indenture and Related Loan Documents.

The Series 2024 Master Note constitutes additional indebtedness under the Master Indenture, and is issued on parity with all Prior Master Notes.

Notwithstanding the foregoing restrictions on issuance of additional Debt, Harmony reserves the right to incur indebtedness subordinate to the obligations of Harmony under the Master Indenture and may grant liens on the participating campuses, Adjusted Revenues or other assets of Harmony securing such subordinate Debt, so long as the same are subordinate to the Deeds of Trust, Leasehold Mortgages and Security Agreements and obligations under the Master Indenture.

Harmony further reserves the right to incur Debt that is not secured by a lien on either Available Revenues or Adjusted Revenues. Such Debt may be secured by a lien on all or any portion of the assets financed therewith.

Debt Service Coverage Ratio Covenant

Pursuant to the Loan Agreement, Harmony shall maintain Available Revenues that are equal to at least one hundred ten percent (110%) of the Annual Debt Service Requirements of Harmony as of end of each the Fiscal Year of Harmony until the Bonds are paid in full.

Harmony will deliver to the Master Trustee, within 180 days after the end of each Fiscal Year, a certificate executed by the Authorized Representative of Harmony stating the percentage of Available Revenues to Annual Debt Service Requirements for such Fiscal Year just ended. Such certificate shall detail the calculation of such percentage and the name and contact information of Harmony's Independent Management Consultant (if applicable, below).

If Harmony does not maintain Available Revenues for any Fiscal Year at the required percentage of the Annual Debt Service Requirements during such Fiscal Year, Harmony will, at its sole expense, retain an Independent Management Consultant within thirty (30) days to review and analyze the operations and administration of Harmony, inspect the Project, and perform such other review and analysis as necessary. The Independent Management Consultant shall deliver its report within forty-five (45) days of its retention to Harmony and Harmony shall deliver such report to the Master Trustee. Such report shall make such recommendations as to the operation and administration of Harmony as such Independent Management Consultant deems appropriate, including any recommendation as to a revision of the methods of operation thereof. If the debt service coverage ratio falls below 1.0x the Annual Debt Service Requirements of Harmony, it shall constitute a default under the Master Indenture

Liquidity Covenant

Pursuant to the Loan Agreement, Harmony shall maintain operating reserves in an amount equal to at least forty five (45) days for fiscal year ending June 30, 2024 and each fiscal year thereafter as calculated as of the end of each Fiscal Year (the "*Liquidity Requirement*") as evidenced by Harmony's audited financial statements for each such Fiscal Year; provided that, interest payments on any Debt during such Fiscal Year shall be included in Expenses and funds held in any Debt Service Fund to pay interest shall be treated as a part of the operating reserves of Harmony, both solely for the purpose of calculating the Liquidity Requirement. Such operating reserves shall not be funded with Bond Proceeds. Harmony's operating reserves shall be tested annually, commencing June 30, 2024. Funds held in satisfaction of the Liquidity Requirement may be used for any lawful purpose. The foregoing is subject to the qualification that if applicable state or federal laws or regulations, or the rules and regulations of agencies having jurisdiction, shall not permit Harmony to maintain such balance, then Harmony shall, in conformity with the then prevailing laws, rules or regulations, maintain a balance equal to the maximum permissible level.

Harmony will deliver to the Master Trustee, within 180 days after the end of each Fiscal Year (commencing with the Fiscal Year ending June 30, 2024), a certificate executed by the Authorized Representative of Harmony stating the Liquidity Requirement balance for such Fiscal Year just ended. Such certificate shall detail the balance

calculation and the name and contact information of Harmony’s Independent Management Consultant (if applicable, below).

If Harmony does not maintain the required operating reserves for such Fiscal Year, Harmony will, at its sole expense, retain an Independent Management Consultant within thirty (30) days to review and analyze the operations and administration of Harmony, inspect the Project, and perform such other review and analysis as necessary. The Independent Management Consultant shall deliver its report within forty-five (45) days of its retention to Harmony and Harmony shall deliver such report to the Master Trustee. Such report shall make such recommendations as to the operation and administration of Harmony as such Independent Management Consultant deems appropriate, including any recommendation as to a revision of the methods of operation thereof.

Management Consultant means a firm of Independent professional management consultants, or an Independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation. Harmony will publish a material event notice with the name of any Management Consultant and, if a majority of the Holders of all Related Bonds do not send written objections to such consultant to the Master Trustee within 15-days, then such Management Consultant will be deemed acceptable to the Holders of any Related Bonds.

The Bond Indenture

General

Under the Bond Indenture, the Issuer will grant to the Bond Trustee for the equal and ratable benefit of the holders of the Bonds, all of the Issuer’s right, title, and interest in and to, among other things, the following: (i) the Loan Agreement, including all amounts payable thereunder, including but not limited to the Loan Payments thereunder, Series 2024 Master Note, any and all security granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Loan Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding certain amounts agreed to be paid by Harmony noted in such Loan Agreement (the “*Issuer’s Unassigned Rights*”), (ii) all money and investments held for the credit of the funds and accounts established by or under the Bond Indenture (except the Rebate Fund) as described in such Bond Indenture, and (iii) any and all property that may by delivery or by writing of any kind, be subjected to the lien and security interest of the Bond Indenture by the Issuer or by anyone on its behalf, subject to the limitations provided in the Bond Indenture.

See “**APPENDIX G– SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE.**”

Debt Service Funds

The Bond Indenture establishes a Debt Service Fund for the Bonds. The money deposited into the Debt Service Fund, together with all investments thereof and investment income therefrom, will be held in trust and applied solely as provided in the Bond Indenture. On the date of issuance of the Bonds, the Bond Trustee is required to deposit into the Debt Service Fund any accrued interest and additional proceeds on such Bonds as may be set forth in an order of the Issuer, for the purpose of paying a portion of the interest coming due on such Bonds on the interest payment date therefor. The Bond Trustee is required to deposit to the credit of the Debt Service Fund immediately upon receipt: (i) amounts due and payable by Harmony pursuant to the terms of the Loan Agreement, Series 2024 Master Note, (ii) any other amounts required by the Bond Indenture, including transfers from the Debt Service Reserve Fund, and (iii) any other amounts delivered to the Bond Trustee for deposit thereto. On each Interest Payment Date, the Bond Trustee will withdraw money first from the Debt Service Fund to pay the principal and interest due on the Bonds.

The Loan Agreement

The Bonds are payable from and secured in part by a pledge and assignment to the Bond Trustee of the Issuer's rights under the Loan Agreement and the rights of the Issuer to receive loan payments thereunder (excluding certain fees and expenses and certain indemnity payments payable to the Issuer). Pursuant to the Loan Agreement, Harmony agrees to make Loan Payments sufficient to provide funds to make required payments of principal, premium, if any, and interest on the Bonds in full.

See “**APPENDIX H — SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT.**”

Deeds of Trust, Leasehold Mortgages and Security Agreements

In connection with the issuance of the Bonds, Borrower will issue a Forty-Seventh Supplement to Deed of Trust and Security Agreement, which supplements (i) a Deed of Trust and Security Agreement (With Assignment of Leases and Rents), dated as of June 1, 2007, (ii) a Deed of Trust and Security Agreement (With Assignment of Leases and Rents), dated as of May 1, 2008, and (iii) a Deed of Trust and Security Agreement (With Assignment of Leases and Rents), dated as of August 1, 2008 (collectively, as supplemented, the “*Deeds of Trust*”). Pursuant to the Deeds of Trust, Harmony has conveyed in favor of the Master Trustee for the benefit of the holders of the Master Notes (other than the holders of the Prior Master Notes set forth in “**DEBT SUMMARY**” table herein) the real property, buildings and improvements, fixtures, equipment and supplies, among other things, subject to the Deeds of Trust. Additionally, Harmony has granted a security interest generally in the personal property utilized with respect to the properties subject to the Deeds of Trust. The Master Notes entitled to the benefit of the Deeds of Trust are listed in “**DEBT SUMMARY**” table herein.

As additional security for the holders of the Master Notes, Harmony has executed certain Leasehold Deed of Trust, Security Agreement, Fixture Filing and Assignment of Rents (collectively, the “*Leasehold Mortgages*”) covering Harmony's leasehold estates with respect to its Harmony School of Science – Austin and Harmony Science Academy – El Paso campuses. Pursuant to the Leasehold Mortgages, Harmony has conveyed to the mortgage trustee the leasehold estates subject to the Leasehold Mortgages, the fixtures and equipment located on the properties, certain personal property, the rents, and certain proceeds. The Master Notes entitled to the benefit of the Leasehold Mortgages are listed in “**DEBT SUMMARY**” table herein. See “**APPENDIX B - HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS – TABLE 2.**”

Finally, as additional security for the Master Notes, Harmony has executed certain Security Agreements granting a security interest to the Master Trustee in the leasehold improvements, fixtures, equipment and supplies, and certain other personal property pursuant to certain security agreements in favor of the Master Trustee (collectively, the “*Security Agreements*”). The Master Notes entitled to the benefit of the Security Agreements are listed in “**DEBT SUMMARY**” table herein. See “**HARMONY PUBLIC SCHOOLS**” and “**APPENDIX B - HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS – TABLE 2**” herein for the list of pledge properties.

STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS

Overview

The following language is a summary of the system of State funding for traditional school districts in the State (the “*Finance System*”) as it is currently structured, and not for open-enrollment charter schools. However, it is necessary to understand the Finance System in order to understand the system of State funding applicable to open-enrollment charter schools. The information contained under the caption “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS**” only reflects Harmony's understanding based on information available to Harmony 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. Laws enacted by the Texas Legislature (the “*Legislature*”) may materially change school district finance, appropriations, and the statutory authority related thereto, including many provisions discussed in this Official Statement. See “**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW**” herein.

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

2023 Legislative Sessions

The regular session of the 88th Texas Legislature (the "*88th Regular Session*") began on January 10, 2023, and adjourned on May 29, 2023. The Texas Legislature (the "*Legislature*") meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor has called and the Legislature has concluded four special sessions during the 88th Texas Legislature (such special sessions, together with the 88th Regular Session, the "*2023 Legislative Sessions*").

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

During the second called special session, legislation was passed that (i) reduced the Maximum Compressed Tax Rate for school districts by approximately \$0.107 for the 2023-2024 school year; (ii) increased the amount of the mandatory school district general residential homestead exemption from ad valorem taxation from \$40,000 to \$100,000 and to hold districts harmless from certain M&O and I&S tax revenue losses associated with the increase in the mandatory homestead exemption; (iii) adjusted the amount of the limitation on school district ad valorem taxes imposed on the residence homesteads of the elderly or disabled to reflect increases in exemption amounts; (iv) prohibits school districts, cities and counties from repealing or reducing an optional homestead exemption that was granted in tax year 2022 (the prohibition expires on December 31, 2027); (v) established a three-year pilot program limiting growth in the taxable assessed value of non-residence homestead property valued at \$5,000,000 or less to 20 percent (school districts are not held harmless for any negative revenue impacts associated with such limits); (vi) excepted certain appropriations to pay for ad valorem tax relief from the constitutional limitation on the rate of growth of appropriations; and (vii) expanded the size of the governing body of an appraisal district in a county with a population of more than 75,000 by adding elected directors and authorizing the Legislature to provide for a four-year term of office for a member of the board of directors of certain appraisal districts. At an election held on November 7, 2023, voters approved a State constitutional amendment effectuating the legislative changes. The legislation adopted during the second called special session reduces the amount of property taxes paid by homeowners and businesses and increases the State's share of the cost of funding public education.

During any additional called special session, the Legislature may enact laws that materially change current law as it relates to the funding of public schools. Harmony can make no representations or predictions regarding the

scope of additional legislation that may be considered during any additional called special sessions or the potential impact of such legislation at this time.

Local Funding for School Districts

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

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

Maximum Compressed Tax Rate. The "*Maximum Compressed Tax Rate*" or the "*MCR*" is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate (described below) to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the "*State Compression Percentage*" (as discussed above) multiplied by 100; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the school district's prior year MCR, until TEA determines that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. During the 2023 Legislative Sessions, the Legislature took action to reduce the maximum MCR for the 2023-2024 school year, establishing \$0.6880 as the maximum rate and \$0.6192 as the floor.

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

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

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

State Funding for School Districts

State funding for school districts is provided through the two-tiered Foundation School Program, which guarantees certain levels of funding for school districts in the State. School districts are entitled to a legislatively

appropriated guaranteed yield on their Tier One Tax Rate and Enrichment Tax Rate. When a school district's Tier One Tax Rate and Enrichment Tax Rate generate tax revenues at a level below the respective entitlement, the State will provide "*Tier One*" funding or "*Tier Two*" funding, respectively, to fund the difference between the school district's entitlements and the calculated M&O revenues generated by the school district's respective M&O tax rates.

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district to increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as amended (see "**Local Revenue Level in Excess of Entitlement**")), and in some instances is required to be used for that purpose, Tier Two funding may not be used for the payment of debt service or capital outlay.

The Finance System also provides an Existing Debt Allotment ("*EDA*") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("*IFA*") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("*NIFA*") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2024-2025 State fiscal biennium, the Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

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

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

The fast growth allotment weights are 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$315 million for the 2023-2024 school year.

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

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "*IFA Yield*") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since the program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. The guaranteed level of State and local funds per student per cent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2024-2025 State fiscal biennium, the Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

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

STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING

Open-enrollment charter schools are entitled to funding from both Tier One and Tier Two of the Foundation School Program in accordance with the funding formulas for school districts generally described above under “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS**”. The following description of State funding for open-enrollment charter schools constitutes only a summary of the finance system as it is currently structured. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended.

Tier One Funding for Open-Enrollment Charter Schools

A charter holder is entitled to receive for an open-enrollment charter school Tier One funding equal to the amount of Tier One funding per student in WADA, excluding (i) the adjustment under Section 48.052 of the Texas Education Code, as amended, (ii) the funding under Sections 48.101, 48.110, 48.111, and 48.112 of the Texas Education Code, as amended, and (iii) enrichment funding under Section 48.202(a) of the Texas Education Code, as amended, to which the charter holder would be entitled if the open-enrollment charter were a school district without a Tier One local share for purposes of calculating the distribution of the Foundation School Fund. For open-enrollment charter schools, the Tier One program allocations are determined by substituting the statewide average adjusted allotment in place of a school district's calculated adjusted allotment. The state average adjusted allotment is computed by averaging the adjusted allotment for each school district in the state for the relevant school year.

Student-Based Allotments

A charter holder of an open-enrollment charter school is entitled to receive an allotment per student in average daily attendance in an amount equal to the difference between (1) the product of (A) the quotient of (i) the total amount of funding provided to eligible school districts under Section 48.101(b) or (c) of the Texas Education Code, as amended, and (ii) the total number of students in average daily attendance in school districts that receive an allotment under Section 48.101(b) or (c) of the Texas Education Code, as amended, and (B) the sum of one and the quotient of (i) the total number of students in average daily attendance in school districts that receive an allotment under 48.101(b) or (c) of the Texas Education Code, as amended, and (ii) the total number of students in average daily attendance in school districts statewide, and (2) \$125. In addition, a charter holder of an open-enrollment charter school is entitled to receive funding related to the (i) College Career, or Military Readiness Outcomes Bonus (Section 48.110 of the Texas Education Code, as amended), and (ii) Teacher Incentive Allotment (Section 48.112 of the Texas Education Code, as amended), if the charter holder would be entitled to such funding if the open-enrollment charter school were a school district.

Tier Two Funding for Open-Enrollment Charter Schools

A charter holder of an open-enrollment charter school is entitled to receive an amount of Tier Two funding based on the statewide “average tax effort” of school districts. An allocation for the guaranteed yield allotment for Tier Two of the Foundation School Program is determined by substituting a statewide average enrichment tax rate in place of a school district's calculated enrichment tax rate. The state average tax rate is computed by averaging the enrichment tax rate for each component of Tier Two for each school district in the state for the relevant school year. Open-enrollment charter schools are also entitled to funds that are available to school districts from the TEA or the

Commissioner in the form of grants or other discretionary funding unless the authorizing statute specifically provides that open-enrollment charter schools are not entitled to such funding.

State Facilities Funding for Open-Enrollment Charter Schools

A charter holder of an open-enrollment charter school is entitled to receive additional facilities funding if the most recent overall performance rating assigned to an open-enrollment charter school reflects at least acceptable performance. Such additional facilities funding may be used for: (1) to lease an instructional facility; (2) to pay property taxes imposed on an instructional facility; (3) to pay debt service on bonds issued to finance an instructional facility; or (4) for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility.

Additional Funding for Open-Enrollment Charter Schools

A charter holder of an open-enrollment charter school is entitled to receive additional funding allotments, if the charter holder would be entitled to such funding allotments if the open-enrollment charter school were a school district, including the: (i) Transportation Allotment (Section 48.151 of the Texas Education Code, as amended); (ii) New Instructional Facilities Allotment (Section 48.152 of the Texas Education Code, as amended); Dropout Recovery School and Residential Placement Facility Allotment (Section 48.153 of the Texas Education Code, as amended); and (iv) Tuition Allotment for Districts Not Offering All Grade Levels (Section 48.154 of the Texas Education Code, as amended).

Timing of State Funding

Open-enrollment charter schools that have experienced a 10% or greater increase in enrollment year-over-year have the option to petition for an accelerated payment of Foundation School Program funding. Eligible charter schools that choose the accelerated payment schedule will receive accelerated payments for three (3) school years and then must reestablish eligibility. Harmony is not eligible for accelerated payments, and receives Foundation School Program funding payments monthly in approximately even amounts. The amount of any installment can be modified to provide the proper amount to which Harmony may be entitled and to correct errors in the allocation or distribution of funds.

LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM

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 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 June 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath, et.al v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 14-0776 (Tex. June 13, 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that “[d]espite the imperfections of the current school funding regime, it meets minimum constitutional requirements.” The Court also noted that:

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

Possible Effects of Changes in Law on Public School Obligations

The Court's decision in *Morath* upheld the constitutionality of the Finance System but noted that the Financing 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 independent school districts in the State. 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. As a matter of law, public school obligations, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses.

NEITHER HARMONY NOR ANY OTHER PARTY TO THE BOND TRANSACTION CAN MAKE ANY REPRESENTATIONS OR PREDICTIONS CONCERNING THE EFFECT FUTURE CHANGES TO THE SCHOOL FINANCE SYSTEM MAY HAVE ON HARMONY'S FINANCIAL CONDITION, REVENUES OR OPERATIONS.

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 I – 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 I is incorporated herein and made a part hereof for all purposes.

BOOK-ENTRY ONLY SYSTEM

The information in this section concerning DTC and DTC's book entry-only system has been obtained from DTC. The Issuer, Harmony, the Bond Trustee, the Master Trustee, and Underwriters take no responsibility for the accuracy thereof.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond 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 Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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 Issuer or the Bond Trustee. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

THE INFORMATION IN THIS SECTION CONCERNING DTC AND THE DTC BOOK-ENTRY SYSTEM HAS BEEN PROVIDED BY DTC. THE ISSUER, HARMONY, THE BOND TRUSTEE, THE MASTER TRUSTEE AND THE UNDERWRITERS BELIEVE SUCH INFORMATION TO BE RELIABLE, BUT TAKE NO RESPONSIBILITY FOR THE ACCURACY THEREOF. NO REPRESENTATION IS MADE BY ANY SUCH PARTY AS TO THE ACCURACY OR ADEQUACY OF SUCH INFORMATION OR AS TO THE ABSENCE OF MATERIAL ADVERSE CHANGES IN SUCH INFORMATION SUBSEQUENT TO THE DATE HEREOF.

LEGAL MATTERS

General

All legal matters incident to the authorization, issuance, sale and delivery of the Bonds by the Issuer are subject to the approval of the Attorney General of the State and the legal opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel, in substantially the form of the opinion set forth in “**APPENDIX D – FORM OF BOND COUNSEL OPINION.**” The opinion of Bond Counsel will express no opinion and make no comment with respect to the sufficiency of the security for, or the marketability of, the Bonds.

Bond Counsel was not requested to participate and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under the captions “**THE BONDS,**” “**SECURITY FOR THE BONDS,**” “**CONTINUING DISCLOSURE AGREEMENT**” (except for the subsection “*Compliance with Prior Undertakings*”), “**APPENDIX E – FORM OF CONTINUING DISCLOSURE AGREEMENT,**” and “**APPENDIX F – FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL FORM OF THE SUPPLEMENTAL MASTER INDENTURE,**” “**APPENDIX G – SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE,**” “**APPENDIX H – SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT,**” and Bond Counsel is of the opinion that the statements and information contained therein fairly and accurately reflect the provisions of the Bond Documents (as defined in the Loan Agreement). Further, Bond Counsel has reviewed the statements and information contained in this Official Statement under the captions and sub-captions “**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS,**” “**STATE OPEN-ENROLLMENT CHARTER SCHOOL FUNDING,**” “**CURRENT LITIGATION RELATED TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM,**” “**LEGAL MATTERS,**” “**TAX MATTERS FOR THE BONDS,**” and “**APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW**” and Bond Counsel is of the opinion that the statements and information contained therein are correct as to matters of law. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Houston, Texas, whose legal fee for services rendered is contingent upon the sale and delivery of the Bonds.

Certain legal matters will be passed upon by Locke Lord LLP, Texas, as counsel to the Issuer, and by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, as counsel to the Underwriters.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. By rendering a legal opinion, the opinion giver does not become an insurer or guarantor of that expression of professional

judgment of the transaction opined upon or of the future performance of parties to such transaction. Further, the various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the various legal instruments by limitations imposed by the valid exercise of the constitutional powers of the State and the United States of America and bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

Pending and Threatened Litigation

No Proceedings Against Harmony

In connection with the issuance of the Bonds, Harmony will deliver a certificate or certificates which will state that, as of the date of issuance of the Bonds, there is no action, suit, proceeding, inquiry or investigation at law or in equity before or by any court, public board or body pending or, to the best of its knowledge, threatened against or affecting Harmony, wherein an unfavorable decision, ruling or finding would adversely affect the transactions contemplated by the Loan Agreement, the Master Indenture, the Bond Indenture, the bond purchase agreement (referred to in “**MISCELLANEOUS — Underwriting**”) or this Official Statement, or the validity and enforceability of the Loan Agreement, the Bond Indenture, the Master Indenture, the bond purchase agreement, the Bonds, the Series 2024 Master Note or the operations (financial, operational or otherwise) of Harmony.

No Proceedings Against the Issuer

In connection with the issuance of the Bonds, the Issuer will deliver a certificate or certificates which will state that, as of the date of issuance of the Bonds, there is no pending or, to the knowledge of the Issuer, threatened litigation seeking to restrain or enjoin the issuance, sale, execution or delivery of the Bonds, questioning or affecting the validity of the Bonds or any proceedings of the Issuer taken with respect to the issuance or sale thereof, questioning or affecting the validity of the pledge or application of any money, revenues or security provided for the payment of the Bonds, questioning or affecting the right of the Issuer to enter into the Loan Agreement, the Bond Indenture or the bond purchase agreement, or questioning or affecting the existence or powers of the Issuer.

TAX MATTERS FOR THE BONDS

In the opinions of Hunton Andrews Kurth LLP, Bond Counsel (“*Bond Counsel*”), under current law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum income tax, and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code for the alternative minimum tax imposed on such corporations. No other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel’s opinion is given in reliance upon certifications by representatives of the Issuer and Harmony as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the “Code”), and is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The Issuer and Harmony have covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the Issuer or Harmony to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, limitations and exclusions that are a part of the conclusions therein. See “*Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions*”, 63 Bus. Law. 1277 (2008) and “*Legal Opinion Principles*”, 53 Bus. Law. 831 (May 1998). Purchasers of the Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Bonds.

Bond Counsel’s opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of current law, but is not a guarantee of result or binding on the Internal Revenue

Service (the “Service”) or the courts. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may come to Bond Counsel’s attention after the date of its opinion or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

Alternative Minimum Tax

Individuals –Bond Counsel’s opinion states that under current law interest on the Bonds is not an item of reference and is not subject to the alternative minimum tax on individuals.

Applicable Corporations –Bond Counsel’s opinion also states that under current law interest on the Bonds is taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. Under current law, an “applicable corporation” generally is a corporation with average annual adjusted financial statement income for a 3-taxable-year period ending after December 31, 2021 that exceeds \$1 billion.

Other Tax Matters

The Bonds will not be designated as qualified tax-exempt obligations under Section 265(b) of the Code.

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state, local, or foreign jurisdiction.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the Issuer as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, federal or state legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

Original Issue Discount

Some of the Bonds may be sold at initial sale prices that are less than their respective stated redemption prices payable at maturity (collectively, the “Discount Bonds”). The excess of (i) the stated redemption price at maturity of each maturity of the Discount Bonds, over (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Discount Bonds is sold will constitute original issue discount. Original issue discount will accrue for federal income tax purposes on a constant-yield-to-maturity method based on regular compounding; and a holder’s basis in such a Bond will be increased by the amount of original issue discount treated for federal income tax purposes as having accrued on the Bond while the holder holds the Bond.

Under the Code, for purposes of determining a holder’s adjusted basis in a Discount Bond, original issue discount treated as having accrued while the holder holds the Bond will be added to the holder’s basis. Original issue discount will accrue on a constant-yield-to-maturity method based on semiannual compounding. The adjusted basis

will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of a Discount Bond.

Prospective purchasers of Discount Bonds should consult their own tax advisors as to the calculation of accrued original issue discount and the state and local tax consequences of owning or disposing of such Bonds.

Bond Premium

Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

CONTINUING DISCLOSURE AGREEMENT

Harmony will enter into and deliver a Continuing Disclosure Agreement (the "*Continuing Disclosure Agreement*") with respect to the Bonds. See "**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT.**" Unless indicated in "**APPENDIX E — FORM OF CONTINUING DISCLOSURE AGREEMENT,**" tables provided in this Official Statement will not be included in the ongoing continuing disclosure of Harmony. In addition, please see "**APPENDIX I – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM**" for a description of the continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State of Texas as the case may be, and to provide timely notice of certain specified events related to the guarantee.

In order to provide certain continuing disclosure with respect to the Bonds in accordance with the Rule, Harmony has entered into a Disclosure Dissemination Agent Agreement ("*Disclosure Dissemination Agreement*") for the benefit of the holders of the Bonds with Masterson Advisors LLC ("*Dissemination Agent*"), under which Harmony has designated Dissemination Agent as Disclosure Dissemination Agent.

The Disclosure Dissemination Agent has only the duties specifically set forth in the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent's obligation to deliver the information at the times and with the contents described in the Disclosure Dissemination Agreement is limited to the extent Harmony has provided such information to the Disclosure Dissemination Agent as required by the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty with respect to the content of any disclosures or notice made pursuant to the terms of the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent has no duty or obligation to review or verify any information in the annual report, audited financial statements, notice of event or voluntary report, or any other information, disclosures or notices provided to it by Harmony and shall not be deemed to be acting in any fiduciary capacity for Harmony, the holders of the Bonds or any other party. The Disclosure Dissemination Agent has no responsibility for Harmony's failure to report to the Disclosure Dissemination Agent a notice event or a duty to determine the materiality thereof. The Disclosure Dissemination Agent shall have no duty to determine or liability for failing to determine whether Harmony has complied with the Disclosure Dissemination Agreement. The Disclosure Dissemination Agent may conclusively rely upon certifications of Harmony at all times.

Harmony has previously entered into Continuing Disclosure Agreements to provide financial information and operating data under Rule 15c2-12 in connection with prior bonds issued for the benefit of Harmony, including the HEF Bonds (collectively, the "*Prior Disclosure Agreements*") and the Prior Disclosure Agreements included annual, quarterly and significant event filing requirements. Harmony has also signed up for the automatic notification feature with EMMA in order to have an additional reminder to make its required filings. Harmony previously replaced the former dissemination agent appointed under all Prior Disclosure Agreements with FSC Continuing Disclosure Services, A Division of Hilltop Securities Inc. to assure the submittal of future filings in a timely manner in compliance with the Continuing Disclosure Agreement and the Prior Disclosure Agreements. In, 2021 FSC Continuing Disclosure Services, A Division of Hilltop Securities Inc. was further replaced with the Dissemination Agent. In connection with the HEF Bonds, Harmony failed to properly link any disclosure, including financial statement, operating data and

ratings changes, to the HEF Bonds for the Fiscal Years ending June 30, 2020, 2021, 2022 and 2023. As of April 5, 2024, this issue has been remedied and new procedures are in place going forward to fix this issue. In addition, in the Fiscal year ending June 30, 2019, and 2020, Harmony failed to provide the calculation of its lease payment coverage ratio; however, such ratio could be determined by a review of Harmony's audited financial statements. As of April 10, 2024, such calculations have been properly filed with a failure to file notification.

Since the Fiscal Year ending June 30, 2021 for the Series 2021A Bonds, Series 2021B Bonds and Series 2021C Bonds, Harmony has been required to provide TABLE 2 of Appendix B hereto. Harmony did not provide this table because the table had no updates to disclose, going forward Harmony will either file TABLE 2 or note that no changes are necessary to the table based on prior filings.

In connection with several of Harmony's filings required under its prior undertakings, while timely filed, in one or more cases, such filings were not cross-referenced properly within EMMA with respect to certain series of bonds. Such filings were corrected to the extent bonds were outstanding. Harmony has also been providing its Debt Service Coverage Ratio to bondholders but not its Lease Payment Coverage Ratio. Such Lease Payment Coverage Ratio calculation can be determined through Harmony's audited financial statements. Some of Harmony's prior filed tables have been mislabeled, though all the material information was correctly updated and provided in a timely manner.

FINANCIAL STATEMENTS

The annual financial reports of Harmony, for the fiscal years ending June 30, 2023, 2022 and 2021, included in this Official Statement in "**APPENDIX C — FINANCIAL STATEMENTS**," has been audited by Whitley Penn LLP, to the extent and for the periods indicated in their report thereon. Harmony is not aware of any facts that would make such financial statements misleading.

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (3) 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. 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), the Bonds may have to be assigned a rating of "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. The Bonds have been assigned a rating of "AAA" by a national rating agency. See "**RATINGS**" herein. However, political subdivisions otherwise subject to the Public Funds Investment Act may have additional statutory authority to invest in the Bonds independent of the Public Funds Investment Act. 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 combined capital, and savings and loan associations. No review has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. No representation is made that the Bonds will in fact be used as investments or security by any entity.

RATINGS

S&P Global Ratings ("*S&P*") has assigned the rating of "AAA" to the Bonds based on the Permanent School Fund Guarantee. S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" The underlying unenhanced rating of the Bonds is "BBB+" by S&P. Generally, rating agencies base their ratings on the information and materials furnished to them and on investigations, studies and assumptions of their own. There is no assurance that any such rating, once issued, will continue for any given period of time or that such rating will not be revised downward or withdrawn entirely by the rating agency, if, in the judgment of such agency, circumstances so warrant. Any such downward revision or withdrawal may have an adverse effect on the market price of the Bonds.

MISCELLANEOUS

Underwriting

Subject to the terms and conditions of a bond purchase agreement entered into by and among the Issuer, Harmony and the Underwriters, the Bonds are being sold by the Issuer to the Underwriters at a price of \$211,877,486.50 (representing the par amount of the Bonds, plus a net original issue premium of \$338,232.10 and less an underwriters' discount of \$900,745.60).

The Underwriters' obligation to purchase the Bonds is subject to certain conditions precedent and the Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. Expenses associated with the issuance of the Bonds are being paid from proceeds of the Bonds. The right of the Underwriters to receive compensation in connection with the Bonds is contingent upon the actual sale and delivery of the Bonds. The Underwriters have initially offered the Bonds to the public at the prices set forth on the inside cover page of this Official Statement. Such prices may subsequently change without any requirement of prior notice. The Underwriters reserve the right to join with dealers and other investment banking firms in offering the Bonds to the public.

RBC Capital Markets, LLC ("*RBCCM*") has provided the following information for inclusion in this Official Statement. RBCCM is a full-service financial institution engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM may engage in transactions for its own accounts involving securities and instruments made the subject of this securities offering or other offerings of Harmony. RBCCM may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of Harmony. RBCCM may make a market in credit default swaps in respect to municipal securities in the future.

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association may presently or in the future have other banking and financial relationships with the Issuer or Harmony.

Financial Advisor

Masterson Advisors LLC, Houston, Texas ("*Financial Advisor*") is serving as financial advisor to Harmony in connection with the offering of the Bonds. Financial Advisor is not obligated and has not undertaken to make an independent verification or assumed any responsibility for the accuracy or completeness of the information contained in this Official Statement. Certain of the fees for services rendered paid to Financial Advisor are contingent upon the issuance and delivery of the Bonds.

Additional Information

The summaries of or references to constitutional provisions, statutes, resolutions, agreements, contracts, financial statements, reports, publications and other documents or compilations of data or information set forth in this Official Statement do not purport to be complete statements of the provisions of the items summarized or referred to and are qualified in their entirety by the actual provisions of such items, copies of which are either publicly available or available upon request and the payment of a reasonable copying, mailing and handling charge from the Robert W. Baird & Co. Inc., 210 University Blvd., 8th Floor, Denver, CO 80206.

Certification

The preparation of this Official Statement and its distribution have been authorized by Harmony and the Issuer. This Official Statement is not to be construed as an agreement or contract between Harmony or the Issuer and any purchaser, owner or holder of any of the Bonds.

HARMONY PUBLIC SCHOOLS

By: /s/ Ebru Akyildiz
Chief Financial Officer

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW

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APPENDIX A

SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW

This Appendix summarizes certain provisions of Texas charter school law. This Appendix provides a summary only and is for informational purposes only. Potential investors should refer to and independently evaluate applicable provisions of the charter school law in their entirety, with assistance from counsel as necessary, for a complete understanding of their terms. Further, potential investors should note that the provisions summarized below are subject to change, and this summary only pertains to certain aspects of currently existing law. See, "RISK FACTORS – Future Changes to Charter School Laws."

The regular session of the 88th Texas Legislature convened on January 10, 2023 and concluded on May 29, 2023, and was followed by four special sessions concluding on December 5, 2023, as discussed above under "**STATE FUNDING FOR TRADITIONAL SCHOOL DISTRICTS – 2023 Legislative Session.**" Laws enacted by the 88th Texas Legislature may materially change certain provisions of Texas law and practice as it pertains to school districts and charter school operations, including those provisions discussed in this summary. This Appendix merely summarizes the text of relevant laws as they affect charter schools and does not speculate as to any interpretation or enforcement procedure TEA or the Commissioner may or may not institute. Varying interpretations and enforcement of these laws may materially change Texas charter school standards and requirements.

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GENERAL

BACKGROUND

Purposes of Chapter (Texas Education Code §§ 12.001, 12.0011)

In 1995, the Texas legislature adopted Chapter 12 of the Texas Education Code, which provides for the creation and development of public charter schools to be operated within the State of Texas. The stated purposes of authorizing charter schools are to improve student learning, increase the choice of learning opportunities within the public school system, create professional opportunities that will attract new teachers to the public school system, establish a new form of accountability for public schools, and encourage different and innovative learning methods. As an alternative to operating in the manner generally provided in the Texas Education Code, the Texas legislature authorized independent school districts, school campuses, and educational programs to choose to operate under a charter in accordance with Chapter 12 of the Texas Education Code.

Classes of Charter; Authorization (Texas Education Code §§ 12.002, 12.152)

Three classes of charters are provided for under the Texas Education Code: (i) home-rule school district charters, (ii) campus or campus programs charters, and (iii) open-enrollment charters. In addition, the legislature has authorized granting a charter on the application of a public senior college or university or a public junior college for an open-enrollment charter school to operate on the campus of the public senior college or university or public junior college or in the same county in which the campus of the public senior college or university or public junior college is located. Each of these types of charters is governed under a different subchapter of Chapter 12 of the Texas Education Code.

The remaining sections that follow provide additional information applicable to open-enrollment charter schools, such as AAL, and with respect to the Foundation School Program, which is the funding scheme for charter schools.

Authorization (Texas Education Code § 12.101)

(a) In accordance with this subchapter, the commissioner may grant a charter on the application of an eligible entity for an open-enrollment charter school to operate in a facility of a commercial or nonprofit entity, an eligible entity, or a school district, including a home-rule school district. In this subsection, "eligible entity" means:

- (1) an institution of higher education as defined under Section 61.003;
- (2) a private or independent institution of higher education as defined under Section 61.003;
- (3) an organization that is exempt from taxation under Section 501(c)(3), Internal Revenue Code of 1986 (26 U.S.C. Section 501(c)(3)); or
- (4) a governmental entity.

(b) After thoroughly investigating and evaluating an applicant, the commissioner, in coordination with a member of the State Board of Education designated for the purpose by the chair of the board, may grant a charter for an open-enrollment charter school only to an applicant that meets any financial, governing, educational, and operational standards adopted by the commissioner under this subchapter, that the commissioner determines is capable of carrying out the responsibilities provided by the charter and likely to operate a school of high quality, and that:

- (1) has not within the preceding 10 years had a charter under this chapter or a similar charter issued under the laws of another state surrendered under a settlement agreement, revoked, denied renewal, or returned; or

(2) is not, under rules adopted by the commissioner, considered to be a corporate affiliate of or substantially related to an entity that has within the preceding 10 years had a charter under this chapter or a similar charter issued under the laws of another state surrendered under a settlement agreement, revoked, denied renewal, or returned.

(b-0) The commissioner shall notify the State Board of Education of each charter the commissioner proposes to grant under this subchapter. Unless, before the 90th day after the date on which the board receives the notice from the commissioner, a majority of the members of the board present and voting vote against the grant of that charter, the commissioner's proposal to grant the charter takes effect. The board may not deliberate or vote on any grant of a charter that is not proposed by the commissioner.

(b-1) In granting charters for open-enrollment charter schools, the commissioner may not grant a total of more than:

- (1) 215 charters through the fiscal year ending August 31, 2014;
- (2) 225 charters beginning September 1, 2014;
- (3) 240 charters beginning September 1, 2015;
- (4) 255 charters beginning September 1, 2016;
- (5) 270 charters beginning September 1, 2017; and
- (6) 285 charters beginning September 1, 2018.

(b-2) Beginning September 1, 2019, the total number of charters for open-enrollment charter schools that may be granted is 305 charters.

(b-3) The commissioner may not grant more than one charter for an open-enrollment charter school to any charter holder. The commissioner may consolidate charters for an open-enrollment charter school held by multiple charter holders into a single charter held by a single charter holder with the written consent to the terms of consolidation by or at the request of each charter holder affected by the consolidation.

(b-4) Notwithstanding Section 12.114, approval of the commissioner under that section is not required for establishment of a new open-enrollment charter school campus if the requirements of this subsection are satisfied. A charter holder having an accreditation status of accredited and at least 50 percent of its student population in grades assessed under Subchapter B, Chapter 39, or at least 50 percent of the students in the grades assessed having been enrolled in the school for at least three school years may establish one or more new campuses under an existing charter held by the charter holder if:

- (1) the charter holder is currently evaluated under the standard accountability procedures for evaluation under Chapter 39 and received a district rating in the highest or second highest performance rating category under Subchapter C, Chapter 39, for three of the last five years with at least 75 percent of the campuses rated under the charter also receiving a rating in the highest or second highest performance rating category and with no campus with a rating in the lowest performance rating category in the most recent ratings;
- (2) the charter holder provides written notice to the commissioner of the establishment of any campus under this subsection in the time, manner, and form provided by rule of the commissioner; and
- (3) not later than the 60th day after the date the charter holder provides written notice under Subdivision (2), the commissioner does not provide written notice to the charter holder that the commissioner has determined that the charter holder does not satisfy the requirements of this section.

(b-5) The initial term of a charter granted under this section is five years.

(b-6) The commissioner shall adopt rules to modify criteria for granting a charter for an open-enrollment charter school under this section to the extent necessary to address changes in performance rating categories or in the financial accountability system under Chapter 39.

(b-7) A charter granted under this section for a dropout recovery school is not considered for purposes of the limit on the number of charters for open-enrollment charter schools imposed by this section. For purposes of this subsection, an open-enrollment charter school is considered to be a dropout recovery school if the school meets the criteria for designation as a dropout recovery school under Section 12.1141(c).

(b-8) In adopting any financial standards under this subchapter that an applicant for a charter for an open-enrollment charter school must meet, the commissioner shall not:

(1) exclude any loan or line of credit in determining an applicant's available funding; or

(2) exclude an applicant from the grant of a charter solely because the applicant fails to demonstrate having a certain amount of current assets in cash.

(b-10) The commissioner by rule shall allow a charter holder to provide written notice of the establishment of a new open-enrollment charter school under Subsection (b-4)(2) up to 18 months before the date on which the campus is anticipated to open. Notice provided to the commissioner under this section does not obligate the charter holder to open a new campus.

(c) If the facility to be used for an open-enrollment charter school is a school district facility, the school must be operated in the facility in accordance with the terms established by the board of trustees or other governing body of the district in an agreement governing the relationship between the school and the district.

(d) An educator employed by a school district before the effective date of a charter for an open-enrollment charter school operated at a school district facility may not be transferred to or employed by the open-enrollment charter school over the educator's objection.

Charter Authorization for High-Performing Entities (Texas Education Code § 12.1011)

(a) Notwithstanding Section 12.101(b), the commissioner may grant a charter for an open-enrollment charter school to an applicant that is:

(1) an eligible entity under Section 12.101(a)(3) that proposes to operate the charter school program of a charter operator that operates one or more charter schools in another state and with which the eligible entity is affiliated and, as determined by the commissioner in accordance with commissioner rule, has performed at a level of performance comparable to performance under the highest or second highest performance rating category under Subchapter C, Chapter 39; or

(2) an entity that has operated one or more charter schools established under this subchapter or Subchapter C or E and, as determined by the commissioner in accordance with commissioner rule, has performed in the highest or second highest performance rating category under Subchapter C, Chapter 39.

(b) A charter holder granted a charter for an open-enrollment charter school under Subsection (a) may vest management of corporate affairs in a member entity provided that the member entity may change the members of the governing body of the charter holder before the expiration of a member's term only with the express written approval of the commissioner.

(c) The initial term of a charter granted under this section is five years.

(d) The commissioner shall adopt rules to modify criteria for granting a charter for an open-enrollment charter school under this section to the extent necessary to address changes in performance rating categories under Subchapter C, Chapter 39.

Charter Authorizer Accountability (Texas Education Code § 12.1013)

(a) The commissioner shall select a center for education research authorized by Section 1.005 to prepare an annual report concerning the performance of open-enrollment charter schools by authorizer compared to campus charters and matched traditional campuses, which shall be provided annually under Subchapters J and K, Chapter 39.

(b) The format of the report must enable the public to distinguish and compare the performance of each type of public school by classifying the schools as follows:

- (1) open-enrollment charters granted by the State Board of Education;
- (2) open-enrollment charters granted by the commissioner;
- (3) charters granted by school districts; and
- (4) matched traditional campuses.

(c) The report must include the performance of each public school in each class described by Subsection (b) as measured by the achievement indicators adopted under Section 39.053(c) and student attrition rates.

(d) The report must also:

- (1) aggregate and compare the performance of open-enrollment charter schools granted charters by the State Board of Education, open-enrollment charter schools granted charters by the commissioner, campuses and programs granted charters by school districts, and matched traditional campuses; and
- (2) rate the aggregate performance of elementary, middle or junior high, and high schools within each class described by Subsection (b) as indicated by the composite rating that would be assigned to the class of elementary, middle or junior high, and high schools if the students attending all schools in that class were cumulatively enrolled in one elementary, middle or junior high, or high school.

(e) The report must also include an analysis of whether the performance of matched traditional campuses would likely improve if there were consolidation of school districts within the county in which the campuses are located. This subsection applies only to a county that includes at least seven school districts and at least 10 open-enrollment charter schools.

Authorization for Grant of Charters for Schools Primarily Serving Students with Disabilities (Texas Education Code § 12.1014)

(a) The commissioner may grant under Section 12.101 a charter on the application of an eligible entity for an open-enrollment charter school intended primarily to serve students eligible to receive services under Subchapter A, Chapter 29.

(b) The limit on the number of charters for open-enrollment charter schools imposed by Section 12.101 does not apply to a charter granted under this section to a school at which at least 50 percent of the students are eligible to receive services under Subchapter A, Chapter 29. Not more than five charters may be granted for schools described by this subsection.

(c) For purposes of the applicability of state and federal law, including a law prescribing requirements concerning students with disabilities, an open-enrollment charter school described by Subsection (a) is considered the same as any other school for which a charter is granted under Section 12.101.

(d) To the fullest extent permitted under federal law, a parent of a student with a disability may choose to enroll the parent's child in an open-enrollment charter school described by Subsection (a) regardless of whether a disproportionate number of the school's students are students with disabilities.

(e) This section does not authorize an open-enrollment charter school to discriminate in admissions or in the services provided based on the presence, absence, or nature of an applicant's or student's disability.

(f) The commissioner and the State Board for Educator Certification shall adopt rules as necessary to administer this section.

Authority Under Charter (Texas Education Code § 12.102)

An open-enrollment charter school: (i) shall provide instruction to students at one or more elementary or secondary grade levels as provided by the charter; (ii) is governed under the governing structure described by the charter; (iii) retains authority to operate under the charter to the extent authorized under Sections 12.1141, and 12.115 of the Texas Education Code and Chapter 39A of the Texas Education Code; and (iv) does not have authority to impose taxes.

General Applicability of Laws, Rules, and Ordinances to Open-Enrollment Charter School (Texas Education Code § 12.103)

(a) Except as provided by Subsection (b) or (c), an open-enrollment charter school is subject to federal and state laws and rules governing public schools and to municipal zoning ordinances governing public schools.

(b) An open-enrollment charter school is subject to this code and rules adopted under this code only to the extent the applicability to an open-enrollment charter school of a provision of this code or a rule adopted under this code is specifically provided.

Applicability of Title (Texas Education Code § 12.104)

(a) An open-enrollment charter school has the powers granted to schools under this title.

(a-1) The governing body of an open-enrollment charter school may:

(1) employ security personnel and commission peace officers in the same manner as a board of trustees of a school district under Section 37.081; and

(2) enter into a memorandum of understanding with a local law enforcement agency to assign a school resource officer, as that term is defined by Section 1701.601, Occupations Code, to the school.

(a-2) A reference in law to a peace officer commissioned under Section 37.081 includes a peace officer commissioned by an open-enrollment charter school in accordance with Subsection (a-1), and a charter school peace officer has the same powers, duties, and immunities as a peace officer commissioned under that section.

(b) An open-enrollment charter school is subject to:

(1) a provision of this title establishing a criminal offense;

(2) the provisions in Chapter 554, Government Code; and

(3) a prohibition, restriction, or requirement, as applicable, imposed by this title or a rule adopted under this title, relating to:

(A) the Public Education Information Management System (PEIMS) to the extent necessary to monitor compliance with this subchapter as determined by the commissioner;

(B) criminal history records under Subchapter C, Chapter 22;

(C) reading instruments and accelerated reading instruction programs under Section 28.006;

(D) accelerated instruction under Section 28.0211;

(E) high school graduation requirements under Section 28.025;

(F) special education programs under Subchapter A, Chapter 29;

(G) bilingual education under Subchapter B, Chapter 29;

(H) prekindergarten programs under Subchapter E or E-1, Chapter 29, except class size limits for prekindergarten classes imposed under Section 25.112, which do not apply;

(I) extracurricular activities under Section 33.081;

(J) discipline management practices or behavior management techniques under Section 37.0021;

(K) health and safety under Chapter 38;

(L) the provisions of Subchapter A, Chapter 39;

(M) public school accountability and special investigations under Subchapters A, B, C, D, F, G, and J, Chapter 39, and Chapter 39A;

(N) the requirement under Section 21.006 to report an educator's misconduct;

(O) intensive programs of instruction under Section 28.0213;

(P) the right of a school employee to report a crime, as provided by Section 37.148;

(Q) bullying prevention policies and procedures under Section 37.0832;

(R) the right of a school under Section 37.0052 to place a student who has engaged in certain bullying behavior in a disciplinary alternative education program or to expel the student;

(S) the right under Section 37.0151 to report to local law enforcement certain conduct constituting assault or harassment;

(T) a parent's right to information regarding the provision of assistance for learning difficulties to the parent's child as provided by Sections 26.004(b)(11) and 26.0081(c) and (d);

(U) establishment of residency under Section 25.001;

(V) school safety requirements under Sections 37.08 14, 37.108, 37.1081, 37.1082, 37.1083, 37.1084, 37.1085, 37.1086, 37.109, 37.113, 37.114, 37.1141, 37.115, 37.207, and 37.2071 and Subchapter J, Chapter 37;

(W) the early childhood literacy and mathematics proficiency plans under Section 11.185;

(X) the college, career, and military readiness plans under Section 11.186; and

(Y) parental options to retain a student under Section 28.02124.

(b-1) During the first three years an open-enrollment charter school is in operation, the agency shall assist the school as necessary in complying with requirements under Subsection (b)(2)(A).

(b-2) An open-enrollment charter school is subject to the requirement to establish an individual graduation committee under Section 28.0258.

(b-3) An open-enrollment charter school is subject to the graduation qualification procedure established by the commissioner under Section 28.02541.

(b-4) Section 11.201(c) applies to an open-enrollment charter school as though the governing body of the school were the board of trustees of a school district and to the superintendent or, as applicable, the administrator serving as educational leader and chief executive officer of the school as though that person were the superintendent of a school district.

(c) An open-enrollment charter school is entitled to the same level of services provided to school districts by regional education service centers. The commissioner shall adopt rules that provide for the representation of open-enrollment charter schools on the boards of directors of regional education service centers.

(d) The commissioner may by rule permit an open-enrollment charter school to voluntarily participate in any state program available to school districts, including a purchasing program, if the school complies with all terms of the program.

Status (Texas Education Code § 12.105)

An open-enrollment charter school is part of the Texas public school system.

Applicability of Open Meetings and Public Information Laws (Texas Education Code § 12.1051)

(a) With respect to the operation of an open-enrollment charter school, the governing body of a charter holder and the governing body of an open-enrollment charter school are considered to be governmental bodies for purposes of Chapters 551 and 552, Government Code.

(b) With respect to the operation of an open-enrollment charter school, any requirement in Chapter 551 or 552, Government Code, or another law that concerns open meetings or the availability of information, that applies to a school district, the board of trustees of a school district, or public school students applies to an open-enrollment charter school, the governing body of a charter holder, the governing body of an open-enrollment charter school, or students attending an open-enrollment charter school.

Applicability of Laws Relating to Local Government Records (Texas Education Code § 12.1052)

(a) With respect to the operation of an open-enrollment charter school, an open-enrollment charter school is considered to be a local government for purposes of Subtitle C, Title 6, Local Government Code, and Subchapter J, Chapter 441, Government Code.

(b) Records of an open-enrollment charter school and records of a charter holder that relate to an open-enrollment charter school are government records for all purposes under state law.

(c) Any requirement in Subtitle C, Title 6, Local Government Code, or Subchapter J, Chapter 441, Government Code, that applies to a school district, the board of trustees of a school district, or an officer or employee of a school district applies to an open-enrollment charter school, the governing body of a charter holder, the governing body of an open-enrollment charter school, or an officer or employee of an open-enrollment charter school except that the records of an open-enrollment charter school that ceases to operate shall be transferred in the manner prescribed by Subsection (d).

(d) The records of an open-enrollment charter school that ceases to operate shall be transferred in the manner specified by the commissioner to a custodian designated by the commissioner. The commissioner may designate any appropriate entity to serve as custodian, including the agency, a regional education service center, or a school district. In designating a custodian, the commissioner shall ensure that the transferred records, including student and personnel records, are transferred to a custodian capable of:

- (1) maintaining the records;
- (2) making the records readily accessible to students, parents, former school employees, and other persons entitled to access; and
- (3) complying with applicable state or federal law restricting access to the records.

(e) If the charter holder of an open-enrollment charter school that ceases to operate or an officer or employee of such a school refuses to transfer school records in the manner specified by the commissioner under Subsection (d), the commissioner may ask the attorney general to petition a court for recovery of the records. If the court grants the petition, the court shall award attorney's fees and court costs to the state.

Public Purchasing and Contracting (Texas Education Code § 12.1053)

(a) This section applies to an open-enrollment charter school unless the school's charter otherwise describes procedures for purchasing and contracting and the procedures are approved by the commissioner.

(b) An open-enrollment charter school is considered to be:

- (1) a governmental entity for purposes of:
 - (A) Subchapter D, Chapter 2252, Government Code; and
 - (B) Subchapter B, Chapter 271, Local Government Code;
- (2) a political subdivision for purposes of Subchapter A, Chapter 2254, Government Code; and
- (3) a local government for purposes of Sections 2256.009-2256.016, Government Code.

(c) To the extent consistent with this section, a requirement in a law listed in this section that applies to a school district or the board of trustees of a school district applies to an open-enrollment charter school, the governing body of a charter holder, or the governing body of an open-enrollment charter school.

Conflicts of Interest (Texas Education Code § 12.1054)

(a) A member of the governing body of a charter holder, a member of the governing body of an open-enrollment charter school, or an officer of an open-enrollment charter school is considered to be a local public official for purposes of Chapter 171, Local Government Code. For purposes of that chapter:

- (1) a member of the governing body of a charter holder or a member of the governing body or officer of an open-enrollment charter school is considered to have a substantial interest in a business entity if a person related to the member or officer in the third degree by consanguinity or affinity, as

determined under Chapter 573, Government Code, has a substantial interest in the business entity under Section 171.002, Local Government Code;

(2) notwithstanding any provision of Section 12.1054(1), an employee of an open-enrollment charter school rated acceptable or higher under Section 39.054 for at least two of the preceding three school years may serve as a member of the governing body of the charter holder of the governing body of the school if the employees do not constitute a quorum of the governing body or any committee of the governing body; however, all members shall comply with the requirements of Sections 171.003-171.007, Local Government Code.

(b) To the extent consistent with this section, a requirement in a law listed in this section that applies to a school district or the board of trustees of a school district applies to an open-enrollment charter school, the governing body of a charter holder, or the governing body of an open-enrollment charter school.

Applicability of Nepotism Laws (Texas Education Code § 12.1055)

(a) An open-enrollment charter school is subject to a prohibition, restriction, or requirement, as applicable, imposed by state law or by a rule adopted under state law, relating to nepotism under Chapter 573, Government Code.

(b) Repealed.

(c) Section 11.1513(f) applies to an open-enrollment charter school as though the governing body of the school were the board of trustees of a school district and to the superintendent or, as applicable, the administrator serving as educational leader and chief executive officer of the school as though that person were the superintendent of a school district.

(d) Notwithstanding any other provision of this section, a person who was not restricted or prohibited under this section as this section existed before September 1, 2013, from being employed by an open-enrollment charter school and who was employed by an open-enrollment charter school before September 1, 2013, is considered to have been in continuous employment as provided by Section 573.062(a), Government Code, and is not prohibited from continuing employment with the school.

Immunity from Liability and Suit (Texas Education Code § 12.1056)

(a) In matters related to operation of an open-enrollment charter school, an open-enrollment charter school or charter holder is immune from liability and suit to the same extent as a school district, and the employees and volunteers of the open-enrollment charter school or charter holder are immune from liability and suit to the same extent as school district employees and volunteers. A member of the governing body of an open-enrollment charter school or of a charter holder is immune from liability and suit to the same extent as a school district trustee.

(b) An open-enrollment charter school is a governmental unit as defined by Section 101.001, Civil Practice and Remedies Code, and is subject to liability only as provided by Chapter 101, Civil Practice and Remedies Code, and only in the manner that liability is provided by that chapter for a school district.

(c) An open-enrollment charter school is a local government as defined by Section 102.001, Civil Practice and Remedies Code, and a payment on a tort claim must comply with Chapter 102, Civil Practice and Remedies Code.

(d) An open-enrollment charter school is a local governmental entity as defined by Section 271.151, Local Government Code, and is subject to liability on a contract as provided by Subchapter I, Chapter 271, Local Government Code, and only in the manner that liability is provided by that subchapter for a school district.

Membership in Teacher Retirement System (Texas Education Code § 12.1057)

(a) An employee of an open-enrollment charter school who qualifies for membership in the Teacher Retirement System of Texas shall be covered under the system to the same extent a qualified employee of a school district is covered.

(b) For each employee of the school covered under the system, the school is responsible for making any contribution that otherwise would be the legal responsibility of the school district, and the state is responsible for making contributions to the same extent it would be legally responsible if the employee were a school district employee.

Applicability of Other Laws (Texas Education Code § 12.1058)

(a) An open-enrollment charter school is considered to be:

- (1) a local government for purposes of Chapter 791, Government Code;
- (2) a local government for purposes of Chapter 2259, Government Code, except that an open-enrollment charter school may not issue public securities as provided by Section 2259.031(b), Government Code;
- (3) a political subdivision for purposes of Chapter 172, Local Government Code;
- (4) a local governmental entity for purposes of Subchapter I, Chapter 271, Local Government Code;
- (5) a political subdivision for purposes of Section 180.008, Local Government Code;
- (6) a political subdivision for purposes of Section 16.061, Civil Practice and Remedies Code, with respect to any property purchased, leased, constructed, renovated, or improved with state funds under Section 12.128 of this code; and
- (7) a political subdivision for purposes of Section 11.11, Tax Code.

(b) An open-enrollment charter school may elect to extend workers' compensation benefits to employees of the school through any method available to a political subdivision under Chapter 504, Labor Code. An open-enrollment charter school that elects to extend workers' compensation benefits as permitted under this subsection is considered to be a political subdivision for all purposes under Chapter 504, Labor Code. An open-enrollment charter school that self-insures either individually or collectively under Chapter 504, Labor Code, is considered to be an insurance carrier for purposes of Subtitle A, Title 5, Labor Code.

(c) Notwithstanding Subsection (a) or (b), an open-enrollment charter school operated by a tax exempt entity as described by Section 12.101(a)(3) is not considered to be a political subdivision, local government, or local governmental entity unless:

- (1) the applicable statute specifically states that the statute applies to an open-enrollment charter school; or
- (2) a provision in this chapter states that a specific statute applies to an open-enrollment charter school.

Tuition and Fees Restricted (Texas Education Code § 12.108)

(a) An open-enrollment charter school may not charge tuition to an eligible student who applies under Section 12.117.

(b) The governing body of an open-enrollment charter school may require a student to pay any fee that the board of trustees of a school district may charge under Section 11.158(a). The governing body may not require a student to pay a fee that the board of trustees of a school district may not charge under Section 11.158(b).

Transportation (Texas Education Code § 12.109)

An open-enrollment charter school shall provide transportation to each student attending the school to the same extent a school district is required by law to provide transportation to district students.

CHARTER APPLICATION, CONTENT AND FORM

Application (Texas Education Code § 12.110)

(a) The commissioner shall adopt:

- (1) an application form and a procedure that must be used to apply for a charter for an open-enrollment charter school; and
- (2) criteria to use in selecting a program for which to grant a charter.

(b) The application form must provide for including the information required under Section 12.111 to be contained in a charter.

(c) As part of the application procedure, the commissioner may require a petition supporting a charter for a school signed by a specified number of parents or guardians of school-age children residing in the area in which a school is proposed or may hold a public hearing to determine parental support for the school.

(d) The commissioner shall approve or deny an application based on:

- (1) documented evidence collected through the application review process;
- (2) merit; and
- (3) other criteria as adopted by the commissioner, which must include:

(A) criteria relating to the capability of the applicant to carry out the responsibilities provided by the charter and the likelihood that the applicant will operate a school of high quality;

(B) criteria relating to improving student performance and encouraging innovative programs; and

(C) a statement from any school district whose enrollment is likely to be affected by the open-enrollment charter school, including information relating to any financial difficulty that a loss in enrollment may have on the district.

(e) The commissioner shall give priority to applications that propose an open-enrollment charter school campus to be located in the attendance zone of a school district campus assigned an unacceptable performance rating under Section 39.054 for the two preceding school years.

Charter Content (Texas Education Code § 12.111)

(a) Each charter granted under this subchapter must:

- (1) describe the educational program to be offered, which must include the required curriculum as provided by Section 28.002;
- (2) provide that continuation of the charter is contingent on the status of the charter as determined under Section 12.1141 or 12.115 or under Chapter 39A;

(3) specify the academic, operational, and financial performance expectations by which a school operating under the charter will be evaluated, which must include applicable elements of the performance frameworks adopted under Section 12.1181;

(4) specify:

(A) any basis, in addition to a basis specified by this subchapter or Chapter 39A, on which the charter may be revoked, renewal of the charter may be denied, or the charter may be allowed to expire; and

(B) the standards for evaluation of a school operating under the charter for purposes of charter renewal, denial of renewal, expiration, revocation, or other intervention in accordance with Section 12.1141 or 12.115 or Chapter 39A, as applicable;

(5) prohibit discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic, artistic, or athletic ability, or the district the child would otherwise attend in accordance with this code, although the charter may:

(A) provide for the exclusion of a student who has a documented history of a criminal offense, a juvenile court adjudication, or discipline problems under Subchapter A, Chapter 37; and

(B) provide for an admission policy that requires a student to demonstrate artistic ability if the school specializes in performing arts;

(6) specify the grade levels to be offered;

(7) describe the governing structure of the program, including:

(A) the officer positions designated;

(B) the manner in which officers are selected and removed from office;

(C) the manner in which members of the governing body of the school are selected and removed from office;

(D) the manner in which vacancies on that governing body are filled;

(E) the term for which members of that governing body serve; and

(F) whether the terms are to be staggered;

(8) specify the powers or duties of the governing body of the school that the governing body may delegate to an officer;

(9) specify the manner in which the school will distribute to parents information related to the qualifications of each professional employee of the program, including any professional or educational degree held by each employee, a statement of any certification under Subchapter B, Chapter 21, held by each employee, and any relevant experience of each employee;

(10) describe the process by which the person providing the program will adopt an annual budget;

(11) describe the manner in which an annual audit of the financial and programmatic operations of the program is to be conducted, including the manner in which the person providing the program will provide information necessary for the school district in which the program is located to

participate, as required by this code or by commissioner rule, in the Public Education Information Management System (PEIMS);

(12) describe the facilities to be used;

(13) describe the geographical area served by the program;

(14) specify any type of enrollment criteria to be used;

(15) provide information, as determined by the commissioner, relating to any management company that will provide management services to a school operating under the charter; and

(16) specify that the governing body of an open-enrollment charter school accepts and may not delegate ultimate responsibility for the school, including the school's academic performance and financial and operational viability, and is responsible for overseeing any management company providing management services for the school and for holding the management company accountable for the school's performance.

(b) A charter holder of an open-enrollment charter school shall consider including in the school's charter a requirement that the school develop and administer personal graduation plans under Sections 28.0212 and 28.02121.

CHARTER REVISION, REVOCATION AND NON-RENEWAL AND MODIFICATION OF GOVERNANCE

Revision (Texas Education Code § 12.114)

(a) A revision of a charter of an open-enrollment charter school may be made only with the approval of the commissioner.

(b) Not more than once each year, an open-enrollment charter school may request approval to revise the maximum student enrollment described by the school's charter.

(c) Not later than the 60th day after the date that a charter holder submits to the commissioner a completed request for approval for an expansion amendment, as defined by commissioner rule, including a new school amendment, the commissioner shall provide to the charter holder written notice of approval or disapproval of the amendment.

(d) A charter holder may submit a request for approval for an expansion amendment up to 36 months before the date on which the expansion will be effective. A request for approval of an expansion amendment does not obligate the charter holder to complete the proposed expansion.

Renewal of Charter; Denial of Renewal; Expiration (Texas Education Code § 12.1141)

(a) The commissioner shall develop and by rule adopt a procedure for renewal, denial of renewal, or expiration of a charter for an open-enrollment charter school at the end of the term of the charter. The procedure must include consideration of the performance under Chapters 39 and 39A of the charter holder and each campus operating under the charter and must include three distinct processes, which must be expedited renewal, discretionary consideration of renewal or denial of renewal, and expiration. To renew a charter at the end of the term, the charter holder must submit a petition for renewal to the commissioner in the time and manner established by commissioner rule.

(b) At the end of the term of a charter for an open-enrollment charter school, if a charter holder submits to the commissioner a petition for expedited renewal of the charter, the charter automatically renews unless, not later than the 30th day after the date the charter holder submits the petition, the commissioner provides written notice to the charter holder that expedited renewal of the charter is denied. The commissioner may not deny expedited renewal of a charter if:

- (1) the charter holder has been assigned the highest or second highest performance rating under Subchapter C, Chapter 39, for the three preceding school years;
- (2) the charter holder has been assigned a financial performance accountability rating under Subchapter D, Chapter 39, indicating financial performance that is satisfactory or better for the three preceding school years; and
- (3) no campus operating under the charter has been assigned an unacceptable performance rating under Subchapter C, Chapter 39, for the three preceding school years or such a campus has been closed.

(c) At the end of the term of a charter for an open-enrollment charter school, if a charter holder submits to the commissioner a petition for renewal of the charter and the charter does not meet the criteria for expedited renewal under Subsection (b) or for expiration under Subsection (d), the commissioner shall use the discretionary consideration process. The commissioner's decision under the discretionary consideration process must take into consideration the results of annual evaluations under the performance frameworks established under Section 12.1181. The renewal of the charter of an open-enrollment charter school that is registered under the agency's alternative education accountability procedures for evaluation under Chapter 39 shall be considered under the discretionary consideration process regardless of the performance ratings under Subchapter C, Chapter 39, of the open-enrollment charter school or of any campus operating under the charter, except that if the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39, indicating financial performance that is lower than satisfactory for any three of the five preceding school years, the commissioner shall allow the charter to expire under Subsection (d). In considering the renewal of the charter of an open-enrollment charter school that is registered under the agency's alternative education accountability procedures for evaluation under Chapter 39, such as a dropout recovery school or a school providing education within a residential treatment facility, the commissioner shall use academic criteria established by commissioner rule that are appropriate to measure the specific goals of the school. The criteria established by the commissioner shall recognize growth in student achievement as well as educational attainment. For purposes of this subsection, the commissioner shall designate as a dropout recovery school an open-enrollment charter school or a campus of an open-enrollment charter school:

- (1) that serves students in grades 9 through 12 and has an enrollment of which at least 60 percent of the students are 16 years of age or older as of September 1 of the school year as reported for the fall semester Public Education Information Management System (PEIMS) submission; and
- (2) that meets the eligibility requirements for and is registered under alternative education accountability procedures adopted by the commissioner.

(d) At the end of the term of a charter for an open-enrollment charter school, if a charter holder submits to the commissioner a petition for renewal of the charter, the commissioner may not renew the charter and shall allow the charter to expire if:

- (1) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39, for any three of the five preceding school years;
- (2) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39, indicating financial performance that is lower than satisfactory for any three of the five preceding school years;
- (3) the charter holder has been assigned any combination of the ratings described by Subdivision (1) or (2) for any three of the five preceding school years; or
- (4) any campus operating under the charter has been assigned an unacceptable performance rating under Subchapter C, Chapter 39, for the three preceding school years and such a campus has not been closed.

(e) Notwithstanding any other law, a determination by the commissioner under Subsection (d) is final and may not be appealed.

(f) Not later than the 90th day after the date on which a charter holder submits a petition for renewal of a charter for an open-enrollment charter school at the end of the term of the charter, the commissioner shall provide written notice to the charter holder, in accordance with commissioner rule, of the basis on which the charter qualified for expedited renewal, discretionary consideration, or expiration, and of the commissioner's decision regarding whether to renew the charter, deny renewal of the charter, or allow the charter to expire.

(g) Except as provided by Subsection (e), a decision by the commissioner to deny renewal of a charter for an open-enrollment charter school is subject to review by the State Office of Administrative Hearings. Notwithstanding Chapter 2001, Government Code:

(1) the administrative law judge shall uphold a decision by the commissioner to deny renewal of a charter for an open-enrollment charter school unless the judge finds the decision is arbitrary and capricious or clearly erroneous; and

(2) a decision of the administrative law judge under this subsection is final and may not be appealed.

(h) If a charter holder submits a petition for renewal of a charter for an open-enrollment charter school, notwithstanding the expiration date of the charter, the charter term is extended until the commissioner has provided notice to the charter holder of the renewal, denial of renewal, or expiration of the charter.

(i) The term of a charter renewed under this section is 10 years for each renewal.

(j) The commissioner shall adopt rules to modify criteria for renewal, denial of renewal, or expiration of a charter for an open-enrollment charter school under this section to the extent necessary to address changes in performance rating categories or in the financial accountability system under Chapter 39.

Basis for Charter Revocation or Modification of Governance (Texas Education Code § 12.115)

(a) Except as provided by Subsection (c), the commissioner shall revoke the charter of an open-enrollment charter school or reconstitute the governing body of the charter holder if the commissioner determines that the charter holder:

(1) committed a material violation of the charter, including by a failure to:

(A) satisfy accountability provisions prescribed by the charter; or

(B) comply with the duty to discharge or refuse to hire certain employees or applicants for employment, as provided by Section 12.1151;

(2) failed to satisfy generally accepted accounting standards of fiscal management;

(3) failed to protect the health, safety, or welfare of the students enrolled at the school;

(4) failed to comply with this subchapter or another applicable law or rule;

(5) failed to satisfy the performance framework standards adopted under Section 12.1181; or

(6) is imminently insolvent as determined by the commissioner in accordance with commissioner rule.

(b) The action the commissioner takes under Subsection (a) shall be based on the best interest of the open-enrollment charter school's students, the severity of the violation, any previous violation the school has committed, and the accreditation status of the school.

(c) The commissioner shall revoke the charter of an open-enrollment charter school if:

- (1) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39, for the three preceding school years;
- (2) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39, indicating financial performance lower than satisfactory for the three preceding school years; or
- (3) the charter holder has been assigned any combination of the ratings described by Subdivision (1) or (2) for the three preceding school years.

(d) In reconstituting the governing body of a charter holder under this section, the commissioner shall appoint members to the governing body. In appointing members under this subsection the commissioner:

(1) shall consider:

(A) local input from community members and parents; and

(B) appropriate credentials and expertise for membership, including financial expertise, whether the person lives in the geographic area the charter holder serves, and whether the person is an educator; and

(2) may reappoint current members of the governing body.

(e) If a governing body of a charter holder subject to reconstitution under this section governs enterprises other than the open-enrollment charter school, the commissioner may require the charter holder to create a new, single-purpose organization that is exempt from taxation under Section 501(c)(3), Internal Revenue Code of 1986, to govern the open-enrollment charter school and may require the charter holder to surrender the charter to the commissioner for transfer to the organization created under this subsection. The commissioner shall appoint the members of the governing body of an organization created under this subsection.

(f) This section does not limit the authority of the attorney general to take any action authorized by law.

(g) The commissioner shall adopt rules necessary to administer this section.

Failure to Discharge or Refusal to Hire Certain Employees or Applicants (Texas Education Code §12.1151)

An open-enrollment charter school commits a material violation of the school's charter if the school fails to comply with the duty to discharge or refuse to hire certain employees or applicants for employment under Section 12.1059, 22.085, or 22.092.

Procedures for Revocation, Modification of Governance, or Denial of Renewal (Texas Education Code § 12.116)

(a) The commissioner shall adopt an informal procedure to be used for:

(1) revoking the charter of an open-enrollment charter school or for reconstituting the governing body of the charter holder as authorized by Section 12.115; and

(2) denying the renewal of a charter of an open-enrollment charter school as authorized by Section 12.1141(c).

(a-1) The procedure adopted under Subsection (a) for the denial of renewal of a charter under Section 12.1141(c) or the revocation of a charter or reconstitution of a governing body of a charter holder under Section 12.115(a) must allow representatives of the charter holder to meet with the commissioner to discuss the commissioner's decision and must allow the charter holder to submit additional information to the commissioner relating to the commissioner's decision. In a final decision issued by the commissioner, the commissioner shall provide a written response to any information the charter holder submits under this subsection.

(b) Chapter 2001, Government Code, does not apply to a procedure that is related to a revocation or modification of governance under this subchapter.

(c) A decision by the commissioner to revoke a charter is subject to review by the State Office of Administrative Hearings. Notwithstanding Chapter 2001, Government Code:

(1) the administrative law judge shall uphold a decision by the commissioner to revoke a charter unless the judge finds the decision is arbitrary and capricious or clearly erroneous; and

(2) a decision of the administrative law judge under this subsection is final and may not be appealed.

(d) If the commissioner revokes the charter of an open-enrollment charter school, the commissioner may:

(1) manage the school until alternative arrangements are made for the school's students; and

(2) assign operation of one or more campuses formerly operated by the charter holder who held the revoked charter to a different charter holder who consents to the assignment.

Effect of Revocation, Non-Renewal or Surrender (Texas Education Code § 12.1161)

(a) If the commissioner revokes or denies the renewal of a charter of an open-enrollment charter school, or an open-enrollment charter school surrenders its charter, the school may not:

(1) continue to operate under this subchapter; or

(2) receive state funds under this subchapter.

(b) Repealed.

Additional Sanctions (Texas Education Code § 12.1162)

(a) The commissioner shall take any of the actions described by Subsection (b) or by Section 39A.001, 39A.002, 39A.004, 39A.005, or 39A.007), to the extent the commissioner determines necessary, if an open-enrollment charter school, as determined by a report issued under Section 39.004(b):

(1) commits a material violation of the school's charter;

(2) fails to satisfy generally accepted accounting standards of fiscal management; or

(3) fails to comply with this subchapter or another applicable rule or law.

(b) The commissioner may temporarily withhold funding, suspend the authority of an open-enrollment charter school to operate, or take any other reasonable action the commissioner determines necessary to protect the health, safety, or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety, or welfare of the students.

(c) After the commissioner acts under Subsection (b), the open-enrollment charter school may not receive funding and may not resume operating until a determination is made that:

(1) despite initial evidence, the conditions at the school do not present a danger of material harm to the health, safety, or welfare of students; or

(2) the conditions at the school that presented a danger of material harm to the health, safety, or welfare of students have been corrected.

(d) Not later than the third business day after the date the commissioner acts under Subsection (b), the commissioner shall provide the charter holder an opportunity for a hearing.

(e) Immediately after a hearing under Subsection (d), the commissioner must cease the action under Subsection (b) or initiate action under Section 12.116.

(f) The commissioner shall adopt rules implementing this section. Chapter 2001, Government Code, does not apply to a hearing under this section.

Audit by Commissioner (Texas Education Code § 12.1163)

(a) To the extent consistent with this section, the commissioner may audit the records of:

(1) an open-enrollment charter school;

(2) a charter holder; and

(3) a management company.

(b) An audit under Subsection (a) must be limited to matters directly related to the management or operation of an open-enrollment charter school, including any financial and administrative records.

(c) Unless the commissioner has specific cause to conduct an additional audit, the commissioner may not conduct more than one on-site audit during any fiscal year, including any financial and administrative records. For purposes of this subsection, an audit of a charter holder or management company associated with an open-enrollment charter school is not considered an audit of the school.

(d) If the aggregate amount of all transactions between a charter holder and a related party, as defined by commissioner rule adopted under Section 12.1166, exceeds \$5,000, an audit under Subsection (a) may include the review of any real property transactions between the charter holder and the related party. If the commissioner determines that a transaction with a related party using funds received under Section 12.106 was structured in a manner that did not benefit the open-enrollment charter school or that the transaction was in excess of fair market value, the commissioner may order that the transaction be reclassified or that other action be taken as necessary to protect the school's interests. Failure to comply with the commissioner's order is a material violation of the charter.

Notice to Teacher Retirement System of Texas (Texas Education Code § 12.1164)

(a) The commissioner must notify the Teacher Retirement System of Texas in writing of the revocation, denial of renewal, expiration, or surrender of a charter under this subchapter not later than the 10th business day after the date of the event.

(b) The commissioner must notify the Teacher Retirement System of Texas in writing that an open-enrollment charter school is no longer receiving state funding not later than the 10th business day after the date on which the funding ceases.

(c) The commissioner must notify the Teacher Retirement System of Texas in writing that an open-enrollment charter school has resumed receiving state funds not later than the 10th business day after the date on which funding resumes.

Related Party Transactions (Texas Education Code § 12.1166)

(a) The commissioner shall adopt a rule defining "related party" for purposes of this subchapter. The definition of "related party" must include:

- (1) a party with a current or former board member, administrator, or officer who is:
 - (A) a board member, administrator, or officer of an open-enrollment charter school; or
 - (B) related within the third degree of consanguinity or affinity, as determined under Chapter 573, Government Code, to a board member, administrator, or officer of an open-enrollment charter school;
- (2) a charter holder's related organizations, joint ventures, and jointly governed organizations;
- (3) an open-enrollment charter school's board members, administrators, or officers or a person related to a board member, administrator, or officer within the third degree of consanguinity or affinity, as determined under Chapter 573, Government Code; and
- (4) any other disqualified person, as that term is defined by 26 U.S.C. Section 4958(f).

(b) For purposes of Subsection (a)(1), a person is a former board member, administrator, or officer if the person served in that capacity within one year of the date on which a financial transaction between the charter holder and a related party occurred.

(c) In a charter holder's annual audit filed under Section 44.008, the charter holder must include a list of all transactions with a related party.

Appraisal of Certain Property (Texas Education Code § 12.1167)

The commissioner may adopt rules to require an open-enrollment charter school to:

- (1) notify the commissioner that the school intends to enter into a transaction with a related party, as defined by commissioner rule adopted under Section 12.1166; and
- (2) provide an appraisal from a certified appraiser to the agency.

Financial Report of Certain Schools (Texas Education Code § 12.1168)

(a) In this section, "related party" has the meaning adopted by commissioner rule under Section 12.1166.

(b) A financial report filed under Section 44.008 by an open-enrollment charter school must separately disclose:

- (1) all financial transactions between the open-enrollment charter school and any related party, separately stating the principal, interest, and lease payments; and
- (2) the total compensation and benefits provided by the school and any related party for each member of the governing body and each officer and administrator of the school and the related party.

(c) The commissioner may adopt rules to implement this section.

ADMISSION AND EVALUATION

Admission (Texas Education Code § 12.117)

(a) For admission to an open-enrollment charter school, the governing body of the school shall:

(1) require the applicant to complete and submit the common admission application form described by Section 12.1173 not later than a reasonable deadline the school establishes; and

(2) on receipt of more acceptable applications for admission under this section than available positions in the school:

(A) fill the available positions by lottery; or

(B) subject to Subsection (b), fill the available positions in the order in which applications received before the application deadline were received.

(b) An open-enrollment charter school may fill applications for admission under Subsection (a)(2)(B) only if the school published a notice of the opportunity to apply for admission to the school. A notice published under this subsection must:

(1) state the application deadline; and

(2) be published in a newspaper of general circulation in the community in which the school is located not later than the seventh day before the application deadline.

(c) An open-enrollment charter school authorized by a charter granted under this subchapter to a municipality:

(1) is considered a work-site open-enrollment charter school for purposes of federal regulations regarding admissions policies that apply to open-enrollment charter schools receiving federal funding; and

(2) notwithstanding Subsection (a), may admit children of employees of the municipality to the school before conducting a lottery to fill remaining available positions, provided that the number of children admitted under this subdivision constitutes only a small percentage, as may be further specified by federal regulation, of the school's total enrollment.

(d) Notwithstanding Section 12.111(a)(13), an open-enrollment charter school may admit a child of an employee of the school as provided by this section regardless of whether the child resides in the geographic area served by the school.

Admission to Open-Enrollment Charter Schools Specializing in Performing Arts (Texas Education Code § 12.1171)

Notwithstanding Section 12.117, the governing body of an open-enrollment charter school that specializes in one or more performing arts may require an applicant to audition for admission to the school in addition to completing and submitting the common admission application form under Section 12.1173.

Common Admission Application Form and Waiting Lists (Texas Education Code § 12.1173)

(a) The commissioner by rule shall adopt a common admission application form for use by an applicant for admission to an open-enrollment charter school that provides for the submission of information that the commissioner considers appropriate.

(b) The form adopted under this section may not:

- (1) advertise or otherwise promote any person or open-enrollment charter school; or
- (2) solicit money, goods, or services from an applicant.

(c) The commissioner shall publicize the availability of the form adopted under this section, including by posting the form on the agency's Internet website.

(d) The commissioner by rule shall adopt guidelines for an open-enrollment charter school that receives more acceptable applications for admission than available positions at the school to create and manage a waiting list each school year for applicants who are not admitted.

(e) The commissioner shall adopt any other rules as necessary to implement this section, including rules to ensure this section complies with federal law regarding confidentiality of student medical or educational information, including the Health Insurance Portability and Accountability Act of 1996 (42 U.S.C. Section 1320d et seq.) and the Family Educational Rights and Privacy Act of 1974 (20 U.S.C. Section 1232g), and any state law relating to the privacy of student information.

Enrollment and Waiting List Report (Texas Education Code § 12.1174)

(a) Not later than the last Friday in October of each school year, in the form prescribed by commissioner rule, the governing body of a charter holder shall report to the agency for that school year:

(1) the following information for each campus operating under the charter holder's charter:

(A) the number of students enrolled;

(B) the enrollment capacity; and

(C) if a charter holder uses a waiting list for admission to a campus:

(i) the total number of students on the waiting list; and

(ii) the number of students on the waiting list disaggregated by grade level;

(2) the information described by Subdivision (1) aggregated for all campuses operating under the charter holder's charter; and

(3) any information required by the commissioner as necessary to identify each student admitted to or on a waiting list for admission to a campus operating under the charter holder's charter who is or was previously enrolled in a public school in this state.

(b) From information provided to the commissioner by each charter holder under this subchapter, the commissioner shall identify each group of charter holders considered by the commissioner to be corporate affiliates or substantially related charter holders. Using the information reported under Subsections (a)(1) and (2), the agency shall aggregate the information for each group of charter holders identified by the commissioner under this subsection.

(c) Not later than March 15 of each year, the commissioner shall post on the agency's Internet website:

(1) the information reported by charter holders under Subsections (a)(1) and (2); and

(2) the information aggregated by the agency under Subsection (b).

(d) The commissioner shall adopt rules as necessary to implement this section, including rules to ensure this section complies with federal law regarding confidentiality of student educational information, including the Family Educational Rights and Privacy Act of 1974 (20 U.S.C. Section 1232g), and any state law relating to the privacy of student information.

Evaluation (Texas Education Code § 12.118)

(a) The commissioner shall designate an impartial organization with experience in evaluating school choice programs to conduct an annual evaluation of open-enrollment charter schools.

(b) An evaluation under this section must include consideration of the following items before implementing the charter and after implementing the charter:

- (1) students' scores on assessment instruments administered under Subchapter B, Chapter 39;
- (2) student attendance;
- (3) students' grades;
- (4) incidents involving student discipline;
- (5) socioeconomic data on students' families;
- (6) parents' satisfaction with their children's schools; and
- (7) students' satisfaction with their schools.

(c) The evaluation of open-enrollment charter schools must also include an evaluation of:

- (1) the costs of instruction, administration, and transportation incurred by open-enrollment charter schools;
- (2) the effect of open-enrollment charter schools on school districts and on teachers, students, and parents in those districts; and
- (3) other issues, as determined by the commissioner.

Performance Frameworks; Annual Evaluations (Texas Education Code § 12.1181)

(a) The commissioner shall develop and by rule adopt performance frameworks that establish standards by which to measure the performance of an open-enrollment charter school. The commissioner shall develop and by rule adopt separate, specific performance frameworks by which to measure the performance of an open-enrollment charter school that is registered under the agency's alternative education accountability procedures for evaluation under Chapter 39. The performance frameworks shall be based on national best practices that charter school authorizers use in developing and applying standards for charter school performance. In developing the performance frameworks, the commissioner shall solicit advice from charter holders, the members of the governing bodies of open-enrollment charter schools, and other interested persons.

(b) The performance frameworks may include a variety of standards. In evaluating an open-enrollment charter school, the commissioner shall measure school performance against an established set of quality standards developed and adopted by the commissioner.

(c) Each year, the commissioner shall evaluate the performance of each open-enrollment charter school based on the applicable performance frameworks adopted under Subsection (a). The performance of a school on a performance framework may not be considered for purposes of renewal of a charter under Section 12.1141(d) or revocation of a charter under Section 12.115(c).

GOVERNANCE

Bylaws; Annual Report (Texas Education Code § 12.119)

(a) A charter holder shall file with the commissioner a copy of its articles of incorporation and bylaws, or comparable documents if the charter holder does not have articles of incorporation or bylaws, within the period and in the manner prescribed by the commissioner.

(b) Each year within the period and in a form prescribed by the commissioner, each open-enrollment charter school shall file with the commissioner the following information:

(1) the name, address, and telephone number of each officer and member of the governing body of the open-enrollment charter school; and

(2) the amount of annual compensation the open-enrollment charter school pays to each officer and member of the governing body.

(c) On request, the commissioner shall provide the information required by this section and Section 12.111(a)(7) to a member of the public. The commissioner may charge a reasonable fee to cover the commissioner's cost in providing the information.

Restrictions on Serving as Member of Governing Body of Charter Holder or Open-Enrollment Charter School or As Officer or Employee (Texas Education Code § 12.120)

(a) A person may not serve as a member of the governing body of a charter holder, as a member of the governing body of an open-enrollment charter school, or as an officer or employee of an open-enrollment charter school if the person:

(1) has been convicted of a felony or a misdemeanor involving moral turpitude;

(2) has been convicted of an offense listed in Section [37.007\(a\)](#);

(3) has been convicted of an offense listed in Article [62.001\(5\)](#), Code of Criminal Procedure; or

(4) has a substantial interest in a management company.

(a-1) Notwithstanding Subsection (a), subject to Section [12.1059](#), an open-enrollment charter school may employ a person:

(1) as a teacher or educational aide if:

(A) a school district could employ the person as a teacher or educational aide; or

(B) a school district could employ the person as a teacher or educational aide if the person held the appropriate certificate issued under Subchapter [B](#), Chapter [21](#), and the person has never held a certificate issued under Subchapter [B](#), Chapter [21](#); or

(2) in a position other than a position described by Subdivision (1) if a school district could employ the person in that position.

(b) For purposes of Subsection (a)(4), a person has a substantial interest in a management company if the person:

(1) has a controlling interest in the company;

(2) owns more than 10 percent of the voting interest in the company;

- (3) owns more than \$25,000 of the fair market value of the company;
- (4) has a direct or indirect participating interest by shares, stock, or otherwise, regardless of whether voting rights are included, in more than 10 percent of the profits, proceeds, or capital gains of the company;
- (5) is a member of the board of directors or other governing body of the company;
- (6) serves as an elected officer of the company; or
- (7) is an employee of the company.

Requirement for Majority of Members of Governing Board (Texas Education Code § 12.1202)

A majority of the members of the governing body of an open-enrollment charter school or the governing body of a charter holder must be qualified voters.

Responsibility for Open-Enrollment Charter School (Texas Education Code § 12.121)

The governing body of an open-enrollment charter school is responsible for the management, operation, and accountability of the school, regardless of whether the governing body delegates the governing body's powers and duties to another person.

Property Purchased or Leased With State Funds (Texas Education Code § 12.128)

(a) Property purchased or leased with funds received by a charter holder under Section 12.106 after September 1, 2001:

- (1) is considered to be public property for all purposes under state law;
- (2) is property of this state held in trust by the charter holder for the benefit of the students of the open-enrollment charter school;
- (3) may be used only for a purpose for which a school district may use school district property; and
- (4) is exempt from ad valorem taxation as provided by Section 11.11, Tax Code.

(a-1) Property leased with funds received by a charter holder under Section 12.106 after September 1, 2001:

- (1) is considered to be public property for all purposes under state law;
- (2) is property of this state held in trust by the charter holder for the benefit of the students of the open-enrollment charter school;
- (3) may be used only for a purpose for which a school district may use school district property; and
- (4) is exempt from ad valorem taxation as provided by Section 11.11, Tax Code.

(a-2) The owner of property that receives a tax exemption under Subsection (a) shall transfer the amount of tax savings from the exemption to the tenant or reduce the common area maintenance fee in a proportionate amount based upon the square footage of the exempt portion of the property.

(b) If at least 50 percent of the funds used by a charter holder to purchase real property are funds received under Section 12.106 before September 1, 2001, the property is considered to be public property to the extent it was purchased with those funds.

(b-1) Subject to Subsection (b-2), while an open-enrollment charter school is in operation, the charter holder holds title to any property described by Subsection (a) or (b) and may exercise complete control over the property as permitted under the law.

(b-2) A charter holder may not transfer, sell, or otherwise dispose of any property described by this section without the prior written consent of the agency if:

(1) the charter holder has received notice of:

(A) the expiration of the charter holder's charter under Section 12.1141 and the charter has not been renewed; or

(B) the charter's revocation under Section 12.115(c);

(2) the charter holder has received notice that the open-enrollment charter school is under discretionary review by the commissioner, which may result in the revocation of the charter or a reconstitution of the governing body of the charter holder under Section 12.115; or

(3) the open-enrollment charter school for which the charter is held has otherwise ceased to operate.

(c) The commissioner shall:

(1) take possession and assume control of the property described by Subsection (a) of an open-enrollment charter school that ceases to operate; and

(2) supervise the disposition of the property in accordance with this subchapter.

(c-1) Notwithstanding Subsection (c), if an open-enrollment charter school ceases to operate, the agency:

(1) for property purchased with state funds, shall direct the charter holder to dispose of the property through one of the following methods:

(A) retain or liquidate the property and provide reimbursement to the state as provided by Section 12.1281;

(B) transfer the property to:

(i) the agency under Section 12.1281(h); or

(ii) a school district or open-enrollment charter school under Section 12.1282;

(C) close the operations of the open-enrollment charter school under Section 12.1284; or

(D) take any combination of the actions described by Paragraphs (A), (B), and (C); and

(2) for property leased with state funds, may direct the charter holder to assign the charter holder's interest in the lease to the agency.

(c-2) The agency may approve an expenditure of remaining funds by a former charter holder for insurance or utilities for or maintenance, repairs, or improvements to property described by this section if the agency determines that the expenditure is reasonably necessary to dispose of the property or preserve the property's value.

(d) The commissioner may adopt rules necessary to administer this section.

(e) This section does not affect a security interest in or lien on property established by a creditor in compliance with law if the security interest or lien arose in connection with the sale or lease of the property to the charter holder.

(f) A decision by the agency under this section is final and may not be appealed.

Disposition of Property Purchased with State Funds (Texas Education Code § 12.1281)

(a) A former charter holder of an open-enrollment charter school that has ceased to operate may retain property described by Section 12.128 if the former charter holder reimburses the state with non-state funds and the former charter holder:

- (1) provides written assurance that the requirements of Section 12.1284 will be met; and
- (2) receives approval from the agency.

(b) On receiving consent from the agency under Section 12.128(b-2) and a written agreement from any creditor with a security interest described by Section 12.128(e), the former charter holder may:

- (1) sell property for fair market value; or
- (2) transfer property to an open-enrollment charter school or a school district as provided under Section 12.1282.

(c) The amount of funds the state is entitled to as reimbursement for property of a former charter holder is:

- (1) for property retained by the former charter holder, the current fair market value less the amount of any debt subject to a security interest or lien described by Section 12.128(e), multiplied by the percentage of state funds used to purchase the property; or
- (2) for property sold by the former charter holder, the net sales proceeds of the property multiplied by the percentage of state funds used to purchase the property.

(d) To determine the amount of state funds a former charter holder used to purchase property, the agency shall calculate:

- (1) an estimated state reimbursement amount based on the last annual financial report filed under Section 44.008 available at the time the former charter holder retains or sells the property; and
- (2) a final state reimbursement amount using the former charter holder's final financial audit filed under Section 44.008.

(e) A former charter holder retaining property under Subsection (a) or selling the property under Subsection (b)(1) shall:

- (1) file an affidavit in the real property records of the county in which the property is located disclosing the state interest in the property;
- (2) place in escrow with the state comptroller an amount of non-state funds equal to 110 percent of the estimated state reimbursement amount not later than:

(A) the closing date of the sale of the property if the charter holder is selling the property;
or

(B) the 90th day after the charter school's last day of instruction if the charter holder is retaining the property; and

- (3) not later than two weeks after the date the charter holder's final financial audit is filed under Section 44.008, submit to the state the final state reimbursement amount using the funds in escrow in addition to any other funds necessary to pay the full amount of state reimbursement.

(f) A former charter holder may retain any funds remaining after complying with this section.

(g) As soon as the agency is satisfied that the former charter holder complied with Subsection (e), the agency shall file written notice of the release of the state interest in property the former charter holder retains under this section and authorize the return of any funds not used for state reimbursement to the former charter holder.

(h) Subject to the satisfaction of any security interest or lien described by Section 12.128(e), if a former charter holder does not dispose of property under Subsection (a) or (b), the former charter holder shall transfer the property, including a conveyance of title, to the agency in accordance with the procedures and time requirements established by the agency.

(i) Subject to the satisfaction of any security interest or lien described by Section 12.128(e), if the agency determines a former charter holder failed to comply with this section or Section 12.1282, on request of the agency, the attorney general shall take any appropriate legal action to compel the former charter holder to convey title to the agency or other governmental entity authorized by the agency to maintain or dispose of property.

(j) A decision by the agency under this section is final and may not be appealed.

(k) The commissioner may adopt rules necessary to administer this section.

Transfer of Property Purchased with State Funds (Texas Education Code § 12.1282)

(a) The agency may approve the transfer of property described by Section 12.128 from an open-enrollment charter school that has ceased to operate, or may transfer property conveyed to the agency by the former charter holder under Section 12.1281, to a school district or an open-enrollment charter school if:

(1) the open-enrollment charter school or school district receiving the property:

(A) agrees to the transfer; and

(B) agrees to identify the property as purchased wholly or partly using state funds on the school's annual financial report filed under Section 44.008;

(2) any creditor with a security interest in or lien on the property described by Section 12.128(e) agrees to the transfer; and

(3) the transfer of the property does not make the open-enrollment charter school or school district receiving the property insolvent.

(b) Property received by an open-enrollment charter school or school district under this section is considered to be state property under Section 12.128(a).

(c) The commissioner may adopt rules necessary to administer this section, including rules establishing qualifications and priority for a school district or open-enrollment charter school to receive a transfer of property under this section.

(d) If the agency determines that the cost of disposing of personal property described by Section 12.128 transferred to the agency by an open-enrollment charter school that ceases to operate exceeds the return of value from the sale of the property, the agency may distribute the personal property to open-enrollment charter schools and school districts in a manner determined by the commissioner.

(e) A determination by the agency under this section is final and may not be appealed.

Sale of Property Purchased with State Funds (Texas Education Code § 12.1283)

(a) After the agency receives title to property described by Section 12.128, the agency may sell the property at any price acceptable to the agency.

(b) On request of the agency, the following state agencies shall enter into a memorandum of understanding to sell property for the agency:

- (1) for real property, the General Land Office; and
- (2) for personal property, the Texas Facilities Commission.

(c) A memorandum of understanding entered into as provided by Subsection (b) may allow the General Land Office or Texas Facilities Commission to recover from the sale proceeds any cost incurred by the office or commission in the sale of the property.

(d) Subject to the satisfaction of any security interest or lien described by Section 12.128(e), proceeds from the sale of property under this section shall be deposited in the charter school liquidation fund.

(e) The commissioner may adopt rules as necessary to administer this section.

Closure of Charter Operations (Texas Education Code § 12.1284)

(a) After extinguishing all payable obligations owed by an open-enrollment charter school that ceases to operate, including a debt described by Section 12.128(e), a former charter holder shall:

- (1) remit to the agency:
 - (A) any remaining funds described by Section 12.106(h); and
 - (B) any state reimbursement amounts from the sale of property described by Section 12.128; or
- (2) transfer the remaining funds to another charter holder under Section 12.106(i).

(b) The agency shall deposit any funds received under Subsection (a)(1) in the charter school liquidation fund.

(c) The commissioner may adopt rules necessary to administer this section.

PRINCIPAL AND TEACHER QUALIFICATIONS

Minimum Qualifications for Principal and Teacher (Texas Education Code § 12.129)

(a) Except as provided by Subsection (b), a person employed as a principal or a teacher by an open-enrollment charter school must hold a baccalaureate degree.

(b) In an open-enrollment charter school that serves youth referred to or placed in a residential trade center by a local or state agency, a person may be employed as a teacher for a noncore vocational course without holding a baccalaureate degree if the person has:

- (1) demonstrated subject matter expertise related to the subject taught, such as professional work experience, formal training and education, holding a relevant active professional industry license, certification, or registration, or any combination of work experience, training and education, and industry license, certification, or registration; and

(2) received at least 20 hours of classroom management training, as determined by the governing body of the open-enrollment charter school.

Notice of Teacher Qualifications (Texas Education Code § 12.130)

Each open-enrollment charter school shall provide to the parent or guardian of each student enrolled in the school written notice of the qualifications of each teacher employed by the school.

STATE FUNDING

GENERAL

Entitlement (Texas Education Code § 12.106)

(a) A charter holder is entitled to receive for the open-enrollment charter school funding under Chapter 48 equal to the amount of funding per student in weighted average daily attendance, excluding the adjustment under Section 48.052, the funding under Sections 48.101, 48.110, 48.111, and 48.112, and enrichment funding under Section 48.202(a), to which the charter holder would be entitled for the school under Chapter 48 if the school were a school district without a tier one local share for purposes of Section 48.266.

(a-1) In determining funding for an open-enrollment charter school under Subsection (a), the amount of the allotment under Section 48.102 is based solely on the basic allotment to which the charter holder is entitled and does not include any amount based on the allotment under Section 48.101.

(a-2) In addition to the funding provided by Subsection (a), a charter holder is entitled to receive for the open-enrollment charter school an allotment per student in average daily attendance in an amount equal to the difference between:

(1) the product of:

(A) the quotient of:

(i) the total amount of funding provided to eligible school districts under Section 48.101(b) or (c); and

(ii) the total number of students in average daily attendance in school districts that receive an allotment under Section 48.101(b) or (c); and

(B) the sum of one and the quotient of:

(i) the total number of students in average daily attendance in school districts that receive an allotment under Section 48.101(b) or (c); and

(ii) the total number of students in average daily attendance in school districts statewide; and

(2) \$125.

(a-3) In addition to the funding provided by Subsections (a) and (a-2), a charter holder is entitled to receive for the open-enrollment charter school enrichment funding under Section 48.202 based on the state average tax effort.

(a-4) In addition to the funding provided by Subsections (a), (a-2), and (a-3), a charter holder is entitled to receive funding for the open-enrollment charter school under Sections 48.110 and 48.112 and Subchapter D, Chapter 48, if the charter holder would be entitled to the funding if the school were a school district.

(a-5) To ensure compliance with the requirements for the maintenance of state financial support for special education under 20 U.S.C. Section 1412(a)(18), in determining the funding for an open-enrollment charter school under Subsection (a) for the Section 48.102 allotment, the commissioner shall:

(1) if necessary, increase the amount of that allotment to an amount equal to the amount the charter holder was entitled to receive for the charter school under the allotment under former Section 42.151, Education Code, for the 2018-2019 school year; and

(2) reduce the amount of the allotment the charter holder is entitled to receive for the charter school under Subsection (a-2) by the amount of any increase provided for the charter school under Subdivision (1).

(a-6) Subsection (a-5) and this subsection expire September 1, 2025.

(b) An open-enrollment charter school is entitled to funds that are available to school districts from the agency or the commissioner in the form of grants or other discretionary funding unless the statute authorizing the funding explicitly provides that open-enrollment charter schools are not entitled to the funding.

(c) The commissioner may adopt rules to provide and account for state funding of open-enrollment charter schools under this section. A rule adopted under this section may be similar to a provision of this code that is not similar to Section 12.104(b) if the commissioner determines that the rule is related to financing of open-enrollment charter schools and is necessary or prudent to provide or account for state funds.

(d) Subject to Subsection (e), in addition to other amounts provided by this section, a charter holder is entitled to receive, for the open-enrollment charter school, funding per student in average daily attendance in an amount equal to the guaranteed level of state and local funds per student per cent of tax effort under Section 46.032(a) multiplied by the lesser of:

(1) the state average interest and sinking fund tax rate imposed by school districts for the current year; or

(2) a rate that would result in a total amount to which charter schools are entitled under this subsection for the current year equal to \$60 million.

(e) A charter holder is entitled to receive funding under Subsection (d) only if the most recent overall performance rating assigned to the open-enrollment charter school under Subchapter C, Chapter 39, reflects at least acceptable performance. This subsection does not apply to a charter holder that operates a school program located at a day treatment facility, residential treatment facility, psychiatric hospital, or medical hospital.

(f) Funds received by a charter holder under Subsection (d) may only be used:

(1) to lease an instructional facility;

(2) to pay property taxes imposed on an instructional facility;

(3) to pay debt service on bonds issued to finance an instructional facility; or

(4) for any other purpose related to the purchase, lease, sale, acquisition, or maintenance of an instructional facility.

(g) In this section, "instructional facility" has the meaning assigned by Section 46.001.

(h) Except as provided by Subsection (i), all remaining funds of a charter holder for an open-enrollment charter school that ceases to operate must be returned to the agency and deposited in the charter school liquidation fund.

(i) The agency may approve a transfer of a charter holder's remaining funds to another charter holder if the charter holder receiving the funds has not received notice of the expiration or revocation of the charter holder's charter for an open-enrollment charter school or notice of a reconstitution of the governing body of the charter holder under Section 12.1141 or 12.115.

(j) The commissioner may adopt rules specifying:

- (1) the time during which a former charter holder must return remaining funds under Subsection (h); and
- (2) the qualifications required for a charter holder to receive a transfer of remaining funds under Subsection (i).

Recovery of Certain Funds (Texas Education Code § 12.1061)

The commissioner may not garnish or otherwise recover funds paid to an open-enrollment charter school under Section 12.106 if:

(1) the basis of the garnishment or recovery is that:

- (A) the number of students enrolled in the school during a school year exceeded the student enrollment described by the school's charter during that period; and
- (B) the school received funding under Section 12.106 based on the school's actual student enrollment;

(2) the school:

- (A) submits to the commissioner a timely request to revise the maximum student enrollment described by the school's charter and the commissioner does not notify the school in writing of an objection to the proposed revision before the 90th day after the date on which the commissioner received the request, provided that the number of students enrolled at the school does not exceed the enrollment described by the school's request; or
- (B) exceeds the maximum student enrollment described by the school's charter only because a court mandated that a specific child enroll in that school; and

(3) the school used all funds received under Section 12.106 to provide education services to students.

Status and Use of Funds (Texas Education Code § 12.107)

(a) Funds received under Section 12.106 after September 1, 2001, by a charter holder:

- (1) are considered to be public funds for all purposes under state law;
- (2) are held in trust by the charter holder for the benefit of the students of the open-enrollment charter school;
- (3) may be used only for a purpose for which a school may use local funds under Section 45.105(c);
- (4) pending their use, must be deposited into a bank, as defined by Section 45.201, with which the charter holder has entered into a depository contract; and
- (5) may not:

(A) be pledged or used to secure loans or bonds for any other organization, including a non-charter operation or out-of-state operation conducted by the charter holder or a related party, as defined by commissioner rule adopted under Section 12.1166; or

(B) be used to support an operation or activity not related to the educational activities of the charter holder.

(b) A charter holder shall deliver to the Texas Education Agency a copy of the depository contract between the charter holder and any bank into which state funds are deposited.

Effect of Accepting State Funding (Texas Education Code § 12.1071)

(a) A charter holder who accepts state funds under Section 12.106 after the effective date of a provision of this subchapter agrees to be subject to that provision, regardless of the date on which the charter holder's charter was granted.

(b) A charter holder who accepts state funds under Section 12.106 after September 1, 2001, agrees to accept all liability under this subchapter for any funds accepted under that section before September 1, 2001. This subsection does not create liability for charter holder conduct occurring before September 1, 2001.

Tuition and Fees Restricted (Texas Education Code § 12.108)

(a) An open-enrollment charter school may not charge tuition to an eligible student who applies under Section 12.117.

(b) The governing body of an open-enrollment charter school may require a student to pay any fee that the board of trustees of a school district may charge under Section 11.158(a). The governing body may not require a student to pay a fee that the board of trustees of a school district may not charge under Section 11.158(b).

FOUNDATION SCHOOL PROGRAM

Average Daily Attendance (Texas Education Code § 48.005)

(a) In this chapter, average daily attendance is:

(1) the quotient of the sum of attendance for each day of the minimum number of days of instruction as described under Section 25.081(a) divided by the minimum number of days of instruction;

(2) for a district that operates under a flexible year program under Section 29.0821, the quotient of the sum of attendance for each actual day of instruction as permitted by Section 29.0821(b)(1) divided by the number of actual days of instruction as permitted by Section 29.0821(b)(1);

(3) for a district that operates under a flexible school day program under Section 29.0822, the average daily attendance as calculated by the commissioner in accordance with Sections 29.0822(d) and (d-1); or

(4) for a district that operates a half-day program or a full-day program under Section 29.153(c), one-half of the average daily attendance calculated under Subdivision (1).

(b) A school district that experiences a decline of two percent or more in average daily attendance shall be funded on the basis of:

(1) the actual average daily attendance of the preceding school year, if the decline is the result of the closing or reduction in personnel of a military base; or

(2) subject to Subsection (c), an average daily attendance not to exceed 98 percent of the actual average daily attendance of the preceding school year, if the decline is not the result of the closing or reduction in personnel of a military base.

(c) The commissioner shall adjust the average daily attendance of a school district that has a significant percentage of students who are migratory children as defined by 20 U.S.C. Section 6399.

(d) The commissioner may adjust the average daily attendance of a school district in which a disaster, flood, extreme weather condition, fuel curtailment, or other calamity has a significant effect on the district's attendance. In addition to providing the adjustment for the amount of instructional days during the semester in which the calamity first occurred, an adjustment under this section may only be provided based on a particular calamity for an additional amount of instructional days equivalent to one school year. The commissioner may divide the adjustment between two consecutive school years.

(e) For each school year, the commissioner shall adjust the average daily attendance of school districts that are entitled to funding on the basis of an adjusted average daily attendance under Subsection (b)(2) so that:

(1) all districts are funded on the basis of the same percentage of the preceding year's actual average daily attendance; and

(2) the total cost to the state does not exceed the amount specifically appropriated for that year for purposes of Subsection (b)(2).

(f) An open-enrollment charter school is not entitled to funding based on an adjustment under Subsection (b)(2).

(g) If a student may receive course credit toward the student's high school academic requirements and toward the student's higher education academic requirements for a single course, including a course provided under Section 28.009 by a public institution of higher education, the time during which the student attends the course shall be counted as part of the minimum number of instructional hours required for a student to be considered a full-time student in average daily attendance for purposes of this section.

(g-1) The commissioner shall adopt rules to calculate average daily attendance for students participating in a blended learning program in which classroom instruction is supplemented with applied workforce learning opportunities, including participation of students in internships, externships, and apprenticeships.

(h) Subject to rules adopted by the commissioner under Section 48.007(b), time that a student participates in an off-campus instructional program approved under Section 48.007(a) shall be counted as part of the minimum number of instructional hours required for a student to be considered a full-time student in average daily attendance for purposes of this section.

(h-1) Subject to rules adopted by the commissioner under Section 48.007(b), time that a student participates in a course or program provided under Section 48.0071(b) shall be counted as part of the minimum number of instructional hours required for a student to be considered a full-time student in average daily attendance for purposes of this section. This subsection expires September 1, 2023.

(i) A district or a charter school operating under Chapter 12 that operates a prekindergarten program is eligible to receive one-half of average daily attendance under Subsection (a) if the district's or charter school's prekindergarten program provides at least 32,400 minutes of instructional time to students.

(j) A district or charter school is eligible to earn full average daily attendance under Subsection (a) if the district or school provides at least 43,200 minutes of instructional time to students enrolled in:

(1) a dropout recovery school or program operating under Section 12.1141(c) or Section 39.0548;

- (2) an alternative education program operating under Section 37.008;
- (3) a school program located at a day treatment facility, residential treatment facility, psychiatric hospital, or medical hospital;
- (4) a school program offered at a correctional facility; or
- (5) a school operating under Subchapter G, Chapter 12.

(k) A charter school operating under a charter granted under Chapter 12 before January 1, 2015, is eligible to earn full average daily attendance under Subsection (a), as that subsection existed immediately before January 1, 2015, for:

- (1) all campuses of the charter school operating before January 1, 2015; and
- (2) any campus or site expansion approved on or after January 1, 2015, provided that the charter school received an academic accountability performance rating of C or higher, and the campus or site expansion is approved by the commissioner.

(l) A school district campus or charter school described by Subsection (j) may operate more than one program and be eligible for full average daily attendance for each program if the programs operated by the district campus or charter school satisfy all applicable state and federal requirements.

(m) The commissioner shall adopt rules necessary to implement this section, including rules that:

- (1) establish the minimum amount of instructional time per day that allows a school district or charter school to be eligible for full average daily attendance, which may differ based on the instructional program offered by the district or charter school;
- (2) establish the requirements necessary for a school district or charter school to be eligible for one-half of average daily attendance, which may differ based on the instructional program offered by the district or charter school;
- (3) proportionally reduce the average daily attendance for a school district if any campus or instructional program in the district provides fewer than the required minimum minutes of instruction to students; and
- (4) allow a grade or course repeated under Section 28.02124 to qualify for average daily attendance even if the student previously passed or earned credit for the grade or course, if the grade or course would otherwise be eligible.

(m-1) Except for students enrolled in programs or courses offered under Chapter 30A or Section 48.053, a school district or open-enrollment charter school may not count for purposes of calculating the district's or school's average daily attendance a student who received virtual or remote instruction for a majority of the instructional days during the preceding school year if the student:

- (1) did not achieve satisfactory performance or higher or the equivalent in the preceding school year on:
 - (A) each assessment instrument administered to the student under Section 39.023 or 39.025; or
 - (B) if the student was not administered an assessment instrument that was required to be administered to the student under Section 39.023 or 39.025 during the preceding school year, an assessment instrument designed to show grade-level proficiency in the essential knowledge and skills identified under Section 28.002 by the State Board of Education for the student's grade level;

(2) had a number of unexcused absences that exceeds 10 percent of the number of instructional days in the preceding school year; or

(3) did not earn a grade of C or higher or the equivalent in each of the foundation curriculum courses taken virtually or remotely in the preceding school year.

(m-2) Subsection (m-1) and this subsection expire September 1, 2023.

(n) To assist school districts in implementing this section as amended by H.B. 2442, Acts of the 85th Legislature, Regular Session, 2017, the commissioner may waive a requirement of this section or adopt rules to implement this section.

Incentive for Additional Instructional Days (Texas Education Code § 48.0051)

(a) Subject to Subsection (a-1), the commissioner shall adjust the average daily attendance of a school district or open-enrollment charter school under Section 48.005 in the manner provided by Subsection (b) if the district or school:

(1) provides the minimum number of minutes of operational and instructional time required under Section 25.081 and commissioner rules adopted under that section over at least 180 days of instruction; and

(2) offers an additional 30 days of half-day instruction for students enrolled in prekindergarten through fifth grade.

(a-1) Repealed by Acts 2021, 87th Leg., R.S., Ch. 806 (H.B. 1525), Sec. 48(a)(4), eff. September 1, 2021.

(b) For a school district or open-enrollment charter school described by Subsection (a), the commissioner shall increase the average daily attendance of the district or school under Section 48.005 by the amount that results from the quotient of the sum of attendance by students described by Subsection (a)(2) for each of the 30 additional instructional days of half-day instruction that are provided divided by 180.

(c) The commissioner may provide the incentive under this section to a school district or open-enrollment charter school that intended, but due to circumstances beyond the district's or school's control, including the occurrence of a natural disaster affecting the district or school, was unable to meet the requirement for instruction under Section 25.081 plus an additional 30 days of half-day instruction. The commissioner may proportionately reduce the incentive provided to a district or school described by this subsection.

(d) This section does not prohibit a school district from providing the minimum number of minutes of operational and instructional time required under Section 25.081 and commissioner rules adopted under that section over fewer than 180 days of instruction.

(e) The agency shall assist school districts and open-enrollment charter schools in qualifying for the incentive under this section.

(f) A school district or open-enrollment charter school may use funding attributable to the incentive provided under this section to pay costs associated with providing academic instruction in a voluntary summer program for students enrolled in the district or school.

(g) The commissioner shall adopt rules necessary for the implementation of this section.

Required PEIMS Reporting (Texas Education Code § 48.009)

(a) In this section, "full-time equivalent school counselor" means 40 hours of counseling services a week.

(b) The commissioner by rule shall require each school district and open-enrollment charter school to report through the Public Education Information Management System information regarding:

- (1) the number of students enrolled in the district or school who are identified as having dyslexia;
- (2) the availability of school counselors, including the number of full-time equivalent school counselors, at each campus;
- (3) the availability of expanded learning opportunities as described by Section 33.252 at each campus;
- (4) the total number of students, other than students described by Subdivision (5), enrolled in the district or school with whom the district or school, as applicable, used intervention strategies, as that term is defined by Section 26.004, at any time during the year for which the report is made;
- (5) the total number of students enrolled in the district or school to whom the district or school provided aids, accommodations, or services under Section 504, Rehabilitation Act of 1973 (29 U.S.C. Section 794), at any time during the year for which the report is made;
- (6) disaggregated by campus and grade, the number of:
 - (A) children who are required to attend school under Section 25.085, are not exempted under Section 25.086, and fail to attend school without excuse for 10 or more days or parts of days within a six-month period in the same school year;
 - (B) students for whom the district initiates a truancy prevention measure under Section 25.0915(a-4); and
 - (C) parents of students against whom an attendance officer or other appropriate school official has filed a complaint under Section 25.093; and
- (7) the number of students who are enrolled in a high school equivalency program, a dropout recovery school, or an adult education program provided under a high school diploma and industry certification charter school program provided by the district or school and who:
 - (A) are at least 18 years of age and under 26 years of age;
 - (B) have not previously been reported to the agency as dropouts; and
 - (C) enroll in the program at the district or school after not attending school for a period of at least nine months.

(b-1) Repealed.

(b-2) Repealed.

(b-3) A student reported under Subsection (b)(7) as having enrolled in a high school equivalency program, a dropout recovery school, or an adult education program provided under a high school diploma and industry certification charter school program must be reported through the Public Education Information Management System as having previously dropped out of school.

(b-4) The commissioner by rule shall require each school district and open-enrollment charter school to annually report through the Public Education Information Management System the number of reported incidents of bullying that have occurred at each campus. The commissioner's rules shall require a district or school to specify the number of incidents of bullying that included cyberbullying.

(b-5) Repealed.

Determination of Funding Levels (Texas Education Code § 48.010)

(a) Not later than July 1 of each year, the commissioner shall determine for each school district whether the estimated amount of state and local funding per student in weighted average daily attendance to be provided to the district under the Foundation School Program for maintenance and operations for the following school year is less than the amount provided to the district for the 2010-2011 school year. If the amount estimated to be provided is less, the commissioner shall certify the percentage decrease in funding to be provided to the district.

(b) In making the determinations regarding funding levels required by Subsection (a), the commissioner shall:

- (1) make adjustments as necessary to reflect changes in a school district's maintenance and operations tax rate;
- (2) for a district required to reduce its local revenue level under Section 48.257, base the determinations on the district's net funding levels after deducting any amounts required to be expended by the district to comply with Chapter 49; and
- (3) determine a district's weighted average daily attendance in accordance with this chapter as it existed on January 1, 2011.

Commissioner Authority to Resolve Unintended Consequences from School Finance Formula (Texas Education Code § 48.011)

(a) Subject to Subsections (b) and (d), the commissioner may adjust a school district's funding entitlement under this chapter if the funding formulas used to determine the district's entitlement result in an unanticipated loss or gain for a district.

(a-1) The commissioner may modify dates relating to the adoption of a school district's maintenance and operations tax rate and, if applicable, an election required for the district to adopt that rate as necessary to implement the changes made by H.B. 3, 86th Legislature, Regular Session, 2019.

(b) Before making an adjustment under Subsection (a) or (a-1), the commissioner shall notify and must receive approval from the Legislative Budget Board and the office of the governor.

(c) If the commissioner makes an adjustment under Subsection (a), the commissioner must provide to the legislature an explanation regarding the changes necessary to resolve the unintended consequences.

(d) Beginning with the 2021-2022 school year, the commissioner may not make an adjustment under Subsection (a) or (a-1).

(e) This section expires September 1, 2023.

BASIC AND REGULAR PROGRAM ALLOTMENT

General (Texas Education Code § 48.051)

(a) For each student in average daily attendance, not including the time students spend each day in special education programs in an instructional arrangement other than mainstream or career and technology education programs, for which an additional allotment is made under Subchapter C, a district is entitled to an allotment equal to the lesser of \$6,160 or the amount that results from the following formula:

$$A = \$6,160 \times (TR/MCR)$$

where:

"A" is the allotment to which a district is entitled;

"TR" is the district's tier one maintenance and operations tax rate, as provided by Section 45.0032; and

"MCR" is the district's maximum compressed tax rate, as determined under Section 48.2551.

(b) A greater amount for any school year may be provided by appropriation.

(c) During any school year for which the maximum amount of the basic allotment provided under Subsection (a) or (b) is greater than the maximum amount provided for the preceding school year, a school district must use at least 30 percent of the amount, if the amount is greater than zero, that equals the product of the average daily attendance of the district multiplied by the amount of the difference between the district's funding under this chapter per student in average daily attendance for the current school year and the preceding school year to provide compensation increases to full-time district employees other than administrators as follows:

(1) 75 percent must be used to increase the compensation paid to classroom teachers, full-time librarians, full-time school counselors certified under Subchapter B, Chapter 21, and full-time school nurses, prioritizing differentiated compensation for classroom teachers with more than five years of experience; and

(2) 25 percent may be used as determined by the district to increase compensation paid to full-time district employees.

(c-1) A school district employee who received a salary increase under Subsection (c) from a school district for the 2019-2020 school year is, as long as the employee remains employed by the same district and the district is receiving at least the same amount of funding as the amount of funding the district received for the 2019-2020 school year, entitled to salary that is at least equal to the salary the employee received for the 2019-2020 school year. This subsection does not apply if the board of trustees of the school district at which the employee is employed:

(1) complies with Sections 21.4021, 21.4022, and 21.4032 in reducing the employee's salary; and

(2) has adopted a resolution declaring a financial exigency for the district under Section 44.011.

(c-2) A reduction in the salary of a school district employee described by Subsection (c-1) is subject to the rights granted to the employee under this code.

(d) In this section, "compensation" includes benefits such as insurance premiums.

SPECIAL ALLOTMENTS

Special Education (Texas Education Code § 48.102)

(a) For each student in average daily attendance in a special education program under Subchapter A, Chapter 29, in a mainstream instructional arrangement, a school district is entitled to an annual allotment equal to the basic allotment, or, if applicable, the sum of the basic allotment and the allotment under Section 48.101 to which the district is entitled, multiplied by 1.15. For each full-time equivalent student in average daily attendance in a special education program under Subchapter A, Chapter 29, in an instructional arrangement other than a mainstream instructional arrangement, a district is entitled to an annual allotment equal to the basic allotment, or, if applicable, the sum of the basic allotment and the allotment under Section 48.101 to which the district is entitled, multiplied by a weight determined according to instructional arrangement as follows:

Homebound	5.0
Hospital class	3.0
Speech therapy	5.0
Resource room	3.0
Self-contained, mild and moderate, regular campus	3.0

Self-contained, severe, regular campus	3.0
Off home campus	2.7
Nonpublic day school	1.7
Vocational adjustment class	2.3

(b) A special instructional arrangement for students with disabilities residing in care and treatment facilities, other than state schools, whose parents or guardians do not reside in the district providing education services shall be established by commissioner rule. The funding weight for this arrangement shall be 4.0 for those students who receive their education service on a local school district campus. A special instructional arrangement for students with disabilities residing in state schools shall be established by commissioner rule with a funding weight of 2.8.

(c) For funding purposes, the number of contact hours credited per day for each student in the off home campus instructional arrangement may not exceed the contact hours credited per day for the multidistrict class instructional arrangement in the 1992-1993 school year.

(d) For funding purposes the contact hours credited per day for each student in the resource room; self-contained, mild and moderate; and self-contained, severe, instructional arrangements may not exceed the average of the statewide total contact hours credited per day for those three instructional arrangements in the 1992-1993 school year.

(e) The commissioner by rule shall prescribe the qualifications an instructional arrangement must meet in order to be funded as a particular instructional arrangement under this section. In prescribing the qualifications that a mainstream instructional arrangement must meet, the commissioner shall establish requirements that students with disabilities and their teachers receive the direct, indirect, and support services that are necessary to enrich the regular classroom and enable student success.

(f) In this section, "full-time equivalent student" means 30 hours of contact a week between a special education student and special education program personnel.

(g) The commissioner shall adopt rules and procedures governing contracts for residential placement of special education students. The legislature shall provide by appropriation for the state's share of the costs of those placements.

(h) At least 55 percent of the funds allocated under this section must be used in the special education program under Subchapter A, Chapter 29.

(i) The agency shall encourage the placement of students in special education programs, including students in residential instructional arrangements, in the least restrictive environment appropriate for their educational needs.

(j) A school district that provides an extended year program required by federal law for special education students who may regress is entitled to receive funds in an amount equal to 75 percent, or a lesser percentage determined by the commissioner, of the basic allotment, or, if applicable, the sum of the basic allotment and the allotment under Section 48.101 to which the district is entitled for each full-time equivalent student in average daily attendance, multiplied by the amount designated for the student's instructional arrangement under this section, for each day the program is provided divided by the number of days in the minimum school year. The total amount of state funding for extended year services under this section may not exceed \$10 million per year. A school district may use funds received under this section only in providing an extended year program.

(k) From the total amount of funds appropriated for special education under this section, the commissioner shall withhold an amount specified in the General Appropriations Act, and distribute that amount to school districts for programs under Section 29.014. The program established under that section is required only in school districts in which the program is financed by funds distributed under this subsection and any other funds available for the program. After deducting the amount withheld under this subsection from the total amount appropriated for special education, the commissioner shall reduce each district's allotment proportionately and shall allocate funds to each district accordingly.

Other Special Allotments

Texas law provides for other special allotments, including an allotment for students with dyslexia or related disorder (Texas Education Code Section 48.103), a compensatory education allotment (Texas Education Code Section 48.104), bilingual education allotments (Texas Education Code Section 48.105), career and technology education allotments (Texas Education Code Section 48.106), transportation allotments (Texas Education Code Section 48.151), public education grant allotments (Texas Education Code Section 48.107), early education allotment (Texas Education Code Section 48.108), college, career, or military readiness outcomes bonus (Texas Education Section 48.110), fast growth allotment (Texas Education Code Section 48.111), new instructional facility allotments (Texas Education Code Section 48.152), dropout recovery school and residential placement facility allotment (Texas Education Code Section 48.153), tuition allotments for districts not offering all grade levels (Texas Education Code Section 48.154), allotments for small and mid-sized districts (Texas Education Code Section 48.101), allotments for certain special-purpose school districts (Texas Education Code Section 48.053), and school safety allotment (Texas Education Code Section 42.168).

FINANCING THE PROGRAM

General (Texas Education Code § 48.251)

(a) The cost of the Foundation School Program for a school district is the total sum:

(1) the sum of the tier one allotments and other funding as follows:

(A) the basic allotment under Subchapter B;

(B) the student-based allotments under Subchapter C; and

(C) the additional funding under Subchapter D; and

(2) the tier two allotment under Subchapter E.

(b) The sum of the Foundation School Program maintenance and operations costs for all accredited school districts in this state constitutes the total maintenance and operations cost of the Foundation School Program.

(c) The program shall be financed by:

(1) state available school funds distributed in accordance with the law;

(2) ad valorem tax revenue generated by local school district effort; and

(3) state funds appropriated for the purposes of public school education and allocated to each district in an amount sufficient to finance the cost of each district's Foundation School Program not covered by other funds specified in this subsection.

Additional State Aid

Texas law provides for additional State aid in certain circumstances, including additional State aid for tax increment financing payments (Texas Education Code Section 48.253) and additional State aid for ad valorem tax credits under the Texas Economic Development Act (Texas Education Code Section 48.254).

State Compression Percentage (Texas Education Code § 48.255)

(a) In this title, "state compression percentage" means the percentage of the rate of \$1.00 per \$100 valuation of taxable property that is used to determine a school district's maximum compressed tax rate under Section 48.2551.

(b) The state compression percentage is the lower of:

- (1) 93 percent, or a lower percentage set by appropriation for a school year;
- (2) the percentage determined by the following formula:

$$SCP = PYCP \times 1.025 / (1 + ECPV); \text{ or}$$

- (3) the percentage determined under this section for the preceding school year.

(c) For purposes of Subsection (b)(2):

- (1) "SCP" is the state compression percentage;
- (2) "PYCP" is the state compression percentage for the preceding school year; and
- (3) "ECPV" is the estimated percentage change in total taxable property value for the applicable tax year as determined based on the estimate submitted to the legislature under Section 48.269.

Maximum Compressed Tax Rate (Texas Education Code Section 48.2551)

(a) In this section:

- (1) "DPV" is the taxable value of property in the school district, as determined by the agency by rule, using locally determined property values adjusted in accordance with Section 403.302(d), Government Code;
- (2) "E" is the expiration of the exclusion of appraised property value for the preceding tax year that is recognized as taxable property value for the current tax year, which is the sum of the following:
 - (A) property value that is no longer subject to a limitation on appraised value under former Subchapter B or C, Chapter 313, Tax Code, or a limitation on taxable value under Subchapter T, Chapter 403, Government Code; and
 - (B) property value under Section 311.013(n), Tax Code, that is no longer excluded from the calculation of "DPV" from the preceding year because of refinancing or renewal after September 1, 2019;
- (3) "MCR" is the district's maximum compressed rate, which is the tax rate for the current tax year per \$100 of valuation of taxable property at which the district must levy a maintenance and operations tax to receive the full amount of the tier one allotment to which the district is entitled under this chapter;
- (4) "PYDPV" is the district's value of "DPV" for the preceding tax year; and
- (5) "PYMCR" is the district's value of "MCR" for the preceding tax year.

(b) Except as provided by Subsection (c), a district's maximum compressed rate ("MCR") is the lesser of:

- (1) the rate determined by the following applicable formula:

(A) if "DPV" exceeds "PYDPV" by an amount equal to or greater than 2.5 percent:
$$MCR = (1.025((PYDPV + E) \times PYMCR)) / DPV; \text{ or}$$

B) if Paragraph (A) does not apply: $MCR = PYMCR; \text{ or}$

(2) the product of the state compression percentage, as determined under Section 48.255, for the current tax year, multiplied by \$1.00.

(c) Notwithstanding Subsection (b), for a district to which Section 48.2552(b) applies, the district's maximum compressed rate is the value calculated in accordance with Section 48.2552(b).

(d) The agency shall:

(1) calculate and make available school districts' maximum compressed rates, as determined under this section; and

(2) post the information described by Section 48.2556 on the agency's Internet website as required by that section.

(d-1) Local appraisal districts, school districts, and the comptroller shall provide any information necessary to the agency to implement this section.

(d-2) A school district may appeal to the commissioner the district's taxable property value as determined by the agency under this section. A decision by the commissioner is final and may not be appealed.

(e) It is the intent of the legislature that the state continue to fund public schools at the same or similar level as the state would have if this section had not taken effect.

Limitation on Maximum Compressed Rate (Texas Education Code Section 48.2552)

(a) Each year, the agency shall evaluate the difference between school districts' maximum compressed rates, as determined under Section 48.2551.

(b) If a school district's maximum compressed rate as calculated under Section 48.2551(b) would be less than 90 percent of another school district's maximum compressed rate, the district's maximum compressed rate is the value at which the district's maximum compressed rate would be equal to 90 percent of the other district's maximum compressed rate.

(c) The amount of revenue available to the state as a result of the differences in the amount of state aid and reduction in local revenue between calculating a district's maximum compressed rate in accordance with Subsection (b) and calculating the district's maximum compressed rate under Section 48.2551 shall be used to lower the state compression percentage under Section 48.255. The agency shall provide estimates to the legislature of the reduction of the state compression percentage based on this subsection.

Permitted Tax Rate for Maintenance of 2020-2021 Basic Allotment (Texas Education Code Section 48.2553)

(a) Notwithstanding any other provision of this title or Chapter 26, Tax Code, if the maximum amount of the basic allotment provided under Section 48.051(a) or (b) for a school year is less than the maximum amount provided for the 2020-2021 school year, subject to Subsection (b), a school district may adopt a maintenance and operations tax rate that exceeds the maximum compressed tax rate permitted under Section 48.2551, provided that:

(1) the rate adopted by the district was previously approved by voters for a tax year subsequent to the 2005 tax year; and

(2) the rate may not exceed the lesser of:

(A) \$1.17; or

(B) the district's maximum compressed tax rate and the additional tax rate necessary to generate the amount of revenue equal to the difference in per student funding.

(b) Before adopting a maintenance and operations tax rate under Subsection (a), a school district must receive approval from the agency. To receive approval from the agency under this subsection the district must submit the following information:

- (1) a statement detailing the loss of funding to the district that resulted from the decline in the maximum amount of the basic allotment provided under Section 48.051(a) or (b);
- (2) the proposed additional tax effort and the amount of funding the proposed additional tax effort will generate;
- (3) evidence that the proposed additional tax effort described by Subdivision (2) had been previously authorized by voters subsequent to the 2005 tax year; and
- (4) any other information required by the commissioner.

(c) The agency's approval of a district's tax rate under Subsection (b) expires at the end of each tax year.

(d) Any additional tax effort by a school district authorized under this section is not:

- (1) eligible for funding under Subchapter B, C, or D;
- (2) eligible for the guaranteed yield amount of state funds under Section 48.202; or
- (3) subject to the limit on local revenue under Section 48.257.

(e) The commissioner shall reduce state aid or adjust the limit on local revenue under Section 48.257 in an amount equal to the amount of revenue generated by a school district's tax effort that is not in compliance with this section or Section 48.2551.

(f) This section does not apply to a school district to which Section 45.003(f) applies.

Local Share of Program Cost (Tier One) (Texas Education Code § 48.256)

(a) Each school district's share of the Foundation School Program is determined by the following formula:

$$LFA = TR \times DPV$$

where:

"LFA" is the school district's local share;

"TR" is the school district's adopted tier one maintenance and operations tax rate, as described by Section 45.0032(a) for each hundred dollars of valuation; and

"DPV" is the taxable value of property in the school district for the current tax year determined under Subchapter M, Chapter 403, Government Code.

(b) The commissioner shall adjust the values reported by the comptroller to reflect reductions in taxable value of property resulting from natural or economic disaster in the year in which the valuations are determined. The decision of the commissioner is final. An adjustment does not affect the local fund assignment of any other school district.

(c) Appeals of district values shall be held pursuant to Section 403.303, Government Code.

(d) This subsection applies to a school district in which the board of trustees entered into a written agreement with a property owner for the implementation of a limitation on taxable value under Subchapter T, Chapter 403, Government Code. For purposes of determining "DPV" under Subsection (a) for a school district to which this subsection applies, the commissioner shall exclude a portion of the market value of property not otherwise fully taxable by the district under Subchapter T, Chapter 403, Government Code. The comptroller shall provide information to the agency necessary for this subsection. A revenue protection payment required as part of an agreement for a limitation on appraised value shall be based on the district's taxable value of property for the preceding tax year.

(d-1) Subsection (d) applies to an agreement for the implementation of a limitation on appraised value under former Subchapter B or C, Chapter 313, Tax Code, that was in effect on January 1, 2023, in the same manner as that subsection applies to an agreement described by that subsection. If the agreement for the limitation on appraised value requires revenue protection payment to the school district, the payment shall be based on the district's taxable value of property for the preceding tax year

(e) Subsection (d-1) does not apply to property that was the subject of an application under former Subchapter B or C, Chapter 313, Tax Code, made after May 1, 2009, that the comptroller recommended should be disapproved.

Local Revenue Level in Excess of Entitlement (Texas Education Code Section 48.257)

(a) Subject to Subsection (b), if a school district's tier one local share under Section 48.256 exceeds the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund, the district must reduce the district's tier one revenue level in accordance with Chapter 49 to a level not to exceed the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund.

(b) This subsection applies only to a school district to which Subsection (a) applies. If a district's maintenance and operations tax collections from the tax rate described by Section 45.0032(a) for the current tax year minus the required reduction in a district's tier one revenue level under Subsection (a) results in an amount that is less than the amount of the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund, the agency shall adjust the amount of the reduction required in the district's tier one revenue level under Subsection (a) up to the amount of local funds necessary for the district's entitlement under Section 48.266(a)(1) less the district's distribution from the state available school fund.

(c) For purposes of Subsection (a), state aid to which a district is entitled under this chapter that is not described by Section 48.266(a)(3) may offset the amount by which a district must reduce the district's revenue level under this section. Any amount of state aid used as an offset under this subsection shall reduce the amount of state aid to which the district is entitled.

(d) Except as provided by Subsection (e), a school district is entitled to retain the total amount of the district's tier two local share described by Section 48.266(a)(5)(A).

(e) In any school year for which the amount of state funds appropriated specifically excludes the amount necessary to provide the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort under Section 48.202(a-1)(1), a district may only retain the amount of the district's tier two local share described by Section 48.266(a)(5)(A) equal to the amount of revenue that would be generated based on the amount appropriated for the dollar amount guaranteed level of state and local funds.

(f) If the amount of a school district's tier two local share described by Section 48.266(a)(5)(B) to which a district is entitled exceeds the amount described by Section 48.202(a-1)(2), the district must reduce the district's revenue in accordance with Chapter 49 to a level not to exceed the amount described by Section 48.202 (a-1)(2).

(g) For a district to which Section 45.003(f) applies, revenue generated from any cents of maintenance and operations tax effort that exceeds the maximum rate permitted under Section 45.003(d) is subject to the revenue limit established under Subsection (f).

Adjustments for Certain Districts Receiving Federal Impact Aid (Texas Education Code § 48.262)

The commissioner is granted the authority to ensure that school districts receiving federal impact aid due to the presence of a military installation or significant concentrations of military students do not receive more than an eight percent reduction should the federal government reduce appropriations to those schools.

Distribution of Foundation School Fund (Texas Education Code § 48.266)

(a) For each school year the commissioner shall determine:

- (1) the amount of money to which a school district is entitled under Subchapters B, C, and D;
- (2) the amount of money to which a school district is entitled under Subchapter E;
- (3) the amount of money allocated to the district from the available school fund;
- (4) the amount of each district's tier one local share under Section 48.256; and
- (5) the amount of each district's tier two local share under Section 48.202 for:

(A) the district's maintenance and operations tax effort described by Section 48.202(a-1)(1); and

(B) the district's maintenance and operations tax effort described by Section 48.202(a-1)(2).

(b) Except as provided by this subsection, the commissioner shall base the determinations under Subsection (a) on the estimates provided to the legislature under Section 48.269, or, if the General Appropriations Act provides estimates for that purpose, on the estimates provided under that Act, for each school district for each school year. The commissioner shall reduce the entitlement of each district that has a final taxable value of property for the second year of a state fiscal biennium that is higher than the estimate under Section 48.269 or the General Appropriations Act, as applicable. A reduction under this subsection may not reduce the district's entitlement below the amount to which it is entitled at its actual taxable value of property.

(c) Each school district is entitled to an amount equal to the difference for that district between the sum of Subsections (a)(1) and (a)(2) and the sum of Subsections (a)(3), (a)(4), and (a)(5).

(d) The commissioner shall approve warrants to each school district equaling the amount of its entitlement except as provided by this section. Warrants for all money expended according to this chapter shall be approved and transmitted to treasurers or depositories of school districts in the same manner that warrants for state payments are transmitted. The total amount of the warrants issued under this section may not exceed the total amount appropriated for Foundation School Program purposes for that fiscal year.

(e) If a school district demonstrates to the satisfaction of the commissioner that the estimate of the district's tax rate, student enrollment, or taxable value of property used in determining the amount of state funds to which the district is entitled are so inaccurate as to result in undue financial hardship to the district, the commissioner may adjust funding to that district in that school year to the extent that funds are available for that year.

(f) If the amount appropriated for the Foundation School Program for the second year of a state fiscal biennium is less than the amount to which school districts and open-enrollment charter schools are entitled for that year, the commissioner shall certify the amount of the difference to the Legislative Budget Board not later than January 1 of the second year of the state fiscal biennium. The Legislative Budget Board shall propose to the legislature that the certified amount be transferred to the foundation school fund from the economic stabilization fund and appropriated for the purpose of increases in allocations under this subsection. If the legislature fails during the regular session to enact the proposed transfer and appropriation and there are not funds available under Subsection (h), the

commissioner shall adjust the total amounts due to each school district and open-enrollment charter school under this chapter and the total amounts necessary for each school district to comply with the requirements of Chapter 49 by an amount determined by applying to each district and school the same percentage adjustment to the total amount of state and local revenue due to the district or school under this chapter and Chapter 49 so that the total amount of the adjustment to all districts and schools results in an amount equal to the total adjustment necessary. The following fiscal year:

- (1) a district's or school's entitlement under this section is increased by an amount equal to the adjustment made under this subsection; and
- (2) the amount necessary for a district to comply with the requirements of Chapter 49 is reduced by an amount necessary to ensure a district's full recovery of the adjustment made under this subsection.

(g) Not later than March 1 each year, the commissioner shall determine the actual amount of state funds to which each school district is entitled under the allocation formulas in this chapter for the current school year and shall compare that amount with the amount of the warrants issued to each district for that year. If the amount of the warrants differs from the amount to which a district is entitled because of variations in the district's tax rate, student enrollment, or taxable value of property, the commissioner shall adjust the district's entitlement for the next fiscal year accordingly.

(h) The legislature may appropriate funds necessary for increases under Subsection (g) from funds that the comptroller, at any time during the fiscal year, finds are available.

(i) The commissioner shall compute for each school district the total amount by which the district's allocation of state funds is increased or reduced under Subsection (g) and shall certify that amount to the district.

Recovery of Overallocated Funds (Texas Education Code § 48.272)

(a) If a school district has received an overallocation of state funds, the agency shall, by withholding from subsequent allocations of state funds for the current or subsequent school year or by requesting and obtaining a refund, recover from the district an amount equal to the overallocation.

(b) Notwithstanding Subsection (a), the agency may recover an overallocation of state funds over a period not to exceed the subsequent five school years if the commissioner determines that the overallocation was the result of exceptional circumstances reasonably caused by statutory changes to Chapter 46 or 49 or this chapter and related reporting requirements.

(c) If a district fails to comply with a request for a refund under Subsection (a), the agency shall certify to the comptroller that the amount constitutes a debt for purposes of Section 403.055, Government Code. The agency shall provide to the comptroller the amount of the overallocation and any other information required by the comptroller. The comptroller may certify the amount of the debt to the attorney general for collection.

(d) Any amounts recovered under this section shall be deposited in the foundation school fund.

(e) Subject to Subsection (f), the agency may review a school district as necessary to determine if the district qualifies for each allotment received by the district under this chapter. If the agency determines that a school district received an allotment to which the district was not entitled, the agency may establish a corrective action plan or withhold the applicable amount of funding from the district.

(f) The agency may not review school district expenditures that occurred seven or more years before the review.

Foundation School Fund Transfers (Texas Education Code § 48.273)

(a) In this section:

- (1) "Category 1 school district" means a school district having a wealth per student of less than one-half of the statewide average wealth per student.
- (2) "Category 2 school district" means a school district having a wealth per student of at least one-half of the statewide average wealth per student but not more than the statewide average wealth per student.
- (3) "Category 3 school district" means a school district having a wealth per student of more than the statewide average wealth per student.
- (4) "Wealth per student" means the taxable property values reported by the comptroller to the commissioner under Section 48.256 divided by the number of students in average daily attendance.

(b) Payments from the foundation school fund to each category 1 school district shall be made as follows:

- (1) 15 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
- (2) 80 percent of the yearly entitlement of the district shall be paid in eight equal installments to be made on or before the 25th day of October, November, December, January, March, May, June, and July; and
- (3) five percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of February.

(c) Payments from the foundation school fund to each category 2 school district shall be made as follows:

- (1) 22 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
- (2) 18 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of October;
- (3) 9.5 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of November;
- (4) 7.5 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of April;
- (5) five percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of May;
- (6) 10 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of June;
- (7) 13 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of July; and
- (8) 15 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of August.

(d) Payments from the foundation school fund to each category 3 school district shall be made as follows:

- (1) 45 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
- (2) 35 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of October; and
- (3) 20 percent of the yearly entitlement of the district shall be paid in an installment to be made on or before the 25th day of August.

(e) The amount of any installment required by this section may be modified to provide a school district with the proper amount to which the district may be entitled by law and to correct errors in the allocation or distribution of funds. If an installment under this section is required to be equal to other installments, the amount of other installments may be adjusted to provide for that equality. A payment under this section is not invalid because it is not equal to other installments.

(f) Previously unpaid additional funds from prior fiscal years owed to a district shall be paid to the district together with the September payment of the current fiscal year entitlement.

(g) The commissioner shall make all annual Foundation School Program payments under this section for purposes described by Sections 45.252(a)(1) and (2) before the deadline established under Section 45.263(b) for payment of debt service on bonds. Notwithstanding any other provision of this section, the commissioner may make Foundation School Program payments under this section after the deadline established under Section 45.263(b) only if the commissioner has not received notice under Section 45.258 concerning a district's failure or inability to pay matured principal or interest on bonds.

Foundation School Fund Transfers to Certain Charter Schools (Texas Education Code § 48.274)

(a) On the request of an open-enrollment charter school, the commissioner shall compare the student enrollment of the open-enrollment charter school for the current school year to the student enrollment of the school during the preceding school year. If the number of students enrolled at the open-enrollment charter school for the current school year has increased by 10 percent or more from the number of students enrolled during the preceding school year, the open-enrollment charter school may request that payments from the foundation school fund to the school for the following school year and each subsequent school year, subject to Subsection (b), be made according to the schedule provided under Subsection (c).

(b) An open-enrollment charter school that qualifies to receive funding as provided by this section is entitled to receive funding in that manner for three school years. On the expiration of that period, the commissioner shall determine the eligibility of the open-enrollment charter school to continue receiving payments from the foundation school fund under this section for an additional three school years. Subsequently, the open-enrollment charter school must reestablish eligibility in the manner provided by this subsection every three school years.

(c) Payments from the foundation school fund to an open-enrollment charter school under this section shall be made as follows:

- (1) 22 percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of September of a fiscal year;
- (2) 18 percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of October;
- (3) 9.5 percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of November;

(4) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of December;

(5) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of January;

(6) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of February;

(7) four percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of March;

(8) 7.5 percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of April;

(9) five percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of May;

(10) seven percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of June;

(11) seven percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of July; and

(12) eight percent of the yearly entitlement of the school shall be paid in an installment to be made on or before the 25th day of August.

(d) The amount of any installment required by this section may be modified to provide an open-enrollment charter school with the proper amount to which the school may be entitled by law and to correct errors in the allocation or distribution of funds.

(e) Previously unpaid additional funds from prior fiscal years owed to an open-enrollment charter school shall be paid to the school together with the September payment of the current fiscal year entitlement.

Use of Certain Funds (Texas Education Code § 48.275)

(a) In this section, "participating charter school" means an open-enrollment charter school that participates in the uniform group coverage program established under Chapter 1579, Insurance Code.

(b) The amount of additional funds to which each school district or participating charter school is entitled due to the increases in formula funding made by H.B. No. 3343, Acts of the 77th Legislature, Regular Session, 2001, and any subsequent legislation amending the provisions amended by that Act that increase formula funding under Chapter 49 and this chapter to school districts and charter schools is available for purposes of Subsection (c).

(c) Notwithstanding any other provision of this code, a school district or participating charter school may use the sum of the following amounts of funds only to pay contributions under a group health coverage plan for district or school employees:

(1) the amount determined by multiplying the amount of \$900 or the amount specified in the General Appropriations Act for that year for purposes of the state contribution under Section 1579.251, Insurance Code, by the number of district or school employees who participate in a group health coverage plan provided by or through the district or school; and

(2) the difference between the amount necessary for the district or school to comply with Section 1581.052, Insurance Code, for the school year and the amount the district or school is required to use to provide health coverage under Section 1581.051, Insurance Code, for that year.

(d) A determination by the commissioner under this section is final and may not be appealed.

Formula Transition Grant (Texas Education Code Section 48.277)

(a) A school district or open-enrollment charter school is entitled to receive an annual allotment for each student in average daily attendance in the amount equal to the difference, if the difference is greater than zero, that results from subtracting the total maintenance and operations revenue per student in average daily attendance for the current school year from the lesser of:

(1) 103 percent of the district's or school's total maintenance and operations revenue per student in average daily attendance for the 2019-2020 school year that the district or school would have received under former Chapters 41 and 42, as those chapters existed on January 1, 2019; or

(2) 128 percent of the statewide average amount of maintenance and operations revenue per student in average daily attendance that would have been provided for the 2019-2020 school year under former Chapters 41 and 42, as those chapters existed on January 1, 2019.

(b) For purposes of calculating maintenance and operations revenue under Subsection (a), the commissioner shall:

(1) for purposes of Subsections (a)(1) and (2), use the following applicable school year:

(A) in a school year ending in an even-numbered year, the 2019-2020 school year; and

(B) in a school year ending in an odd-numbered year, the 2019-2020 or 2020-2021 school year, whichever is greater;

(2) include all state and local funding, except for any funding resulting from:

(A) reimbursement for disaster remediation costs under former Sections 41.0931 and 42.2524;

(B) an adjustment for rapid decline in taxable value of property under former Section 42.2521;

(C) an adjustment for property value affected by a state of disaster under former Section 42.2523; and

(D) additional state aid under Section 48.307 or 48.308;

(3) adjust the calculation to reflect a reduction in tax effort by a school district; and

(4) if a school district or open-enrollment charter school receives a waiver relating to eligibility requirements for the national free or reduced-price lunch program under 42 U.S.C. Section 1751 et seq., use the numbers of educationally disadvantaged students on which the district's or school's entitlement to compensatory education funds was based for the school year before the school year in which the district or school received the waiver, adjusted for estimated enrollment growth.

(c) A decision by the commissioner under this section is final and may not be appealed.

(c-1) Notwithstanding any other provision of this chapter, beginning with the 2021-2022 school year, if the total amount of allotments to which school districts and open-enrollment charter schools are entitled under this section for a school year exceeds \$400 million, the commissioner shall proportionately reduce each district's or school's allotment under this section. The reduction in the amount to which a district or school is entitled under this section may not result in an amount that is less than zero.

(d) A school district or open-enrollment charter school is not entitled to an allotment under Subsection (a) beginning with the 2024-2025 school year.

(e) This section expires September 1, 2025.

Equalized Wealth Transition Grant (Texas Education Code Section 48.278)

(a) Subject to Subsection (b), a school district is entitled to receive an annual allotment in an amount equal to the amount of additional revenue a school district received for the 2018-2019 school year under former Sections 41.002(e) through (g), as those sections existed on January 1, 2019.

(b) For purposes of calculating a district's allotment under Subsection (a), the commissioner shall reduce the amount to which a district is entitled under Subsection (a) by:

- (1) for the 2020-2021 school year, 20 percent;
- (2) for the 2021-2022 school year, 40 percent;
- (3) for the 2022-2023 school year, 60 percent; and
- (4) for the 2023-2024 school year, 80 percent.

(c) This section expires September 1, 2024.

Maintenance of State Financial Support for Special Education (Texas Education Code Section 48.279)

(a) Funds appropriated for purposes of this section or transferred in accordance with this section are state funds for purposes of compliance with the requirements regarding maintenance of state financial support for special education under 20 U.S.C. Section 1412(a)(18). The commissioner shall identify the amount of funding described by this subsection and separate that amount from other funding provided under this chapter.

(b) If the commissioner determines that the total amount of funding for special education for a school year that ends during the first state fiscal year of a state fiscal biennium is less than the amount required to comply with requirements regarding maintenance of state financial support under 20 U.S.C. Section 1412(a)(18), the commissioner shall use funds appropriated for the Foundation School Program for the second state fiscal year of that biennium to increase funding for special education for the first state fiscal year of that biennium in an amount necessary to ensure compliance with that provision.

(c) If the commissioner determines that the total amount of funding for special education for a school year that ends during the second state fiscal year of a state fiscal biennium is less than the amount required to comply with requirements regarding maintenance of state financial support under 20 U.S.C. Section 1412(a)(18), the commissioner shall submit to the legislature an estimate of the amount of funding needed to comply with that provision for that state fiscal year.

(d) If federal funds are withheld for a school year due to noncompliance with requirements regarding maintenance of state financial support under 20 U.S.C. Section 1412(a)(18), the commissioner shall use for that school year an amount of funds described by Subsection (a) equal to the amount of withheld funds in the same manner and for the same purposes as the withheld funds would have been provided.

(e) After the commissioner has replaced any withheld federal funds as provided by Subsection (d), the commissioner shall distribute the remaining amount, if any, of funds described by Subsection (a) to proportionately increase funding for the special education allotment under Section 48.102.

(f) In complying with Subsection (d), the commissioner may implement any program necessary to ensure the use of funds in accordance with that subsection.

GUARANTEED YIELD PROGRAM

Purpose (Texas Education Code § 48.201)

The purpose of the tier two component of the Foundation School Program is to provide each school district with the opportunity to provide the basic program and to supplement that program at a level of its own choice. An allotment under this subchapter may be used for any legal purpose other than:

- (1) capital outlay or debt service; or
- (2) a purpose prohibited by Section 45.105(c-1) or another provision of this code.

Tier Two Allotment (Texas Education Code § 48.202)

(a) Each school district is guaranteed a specified amount per weighted student in state and local funds for each cent of tax effort over that required for the district's local fund assignment up to the maximum level specified in this subchapter. The amount of state support, subject only to the maximum amount under Section 48.203, is determined by the formula:

$$\text{GYA} = (\text{GL} \times \text{WADA} \times \text{DTR} \times 100) - \text{LR}$$

where:

"GYA" is the guaranteed yield amount of state funds to be allocated to the district;

"GL" is the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort, which is an amount described by Subsection (a-1) or a greater amount for any year provided by appropriation;

"WADA" is the number of students in weighted average daily attendance, which is calculated by dividing the sum of the school district's allotments under Subchapters B and C by the basic allotment for the applicable year;

"DTR" is the district enrichment tax rate of the school district, which is determined by subtracting the amounts specified by Subsection (b) from the total amount of maintenance and operations taxes collected by the school district for the applicable school year and dividing the difference by the quotient of the district's taxable value of property as determined under Subchapter M, Chapter 403, Government Code, or, if applicable, under Section 48.258 or by the quotient of the value of "DPV" as determined under Section 48.256(d) if that subsection applies to the district, divided by 100; and

"LR" is the local revenue, which is determined by multiplying "DTR" by the quotient of the district's taxable value of property as determined under Subchapter M, Chapter 403, Government Code, or, if applicable, under Section 48.258 or by the quotient of the value of "DPV" as determined under Section 48.256(d) if that subsection applies to the district, divided by 100.

(a-1) For purposes of Subsection (a), the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort ("GL") for a school district is:

- (1) the greater of the amount of district tax revenue per weighted student per cent of tax effort available to a school district at the 96th percentile of wealth per weighted student or the amount that results from multiplying 6,160, or the greater amount provided under Section 48.051(b), if applicable, by 0.016, for the first eight cents by which the district's maintenance and operations tax rate exceeds the district's tier one tax rate; and

(2) subject to Subsection (f), the amount that results from multiplying \$6,160, or the greater amount provided under Section 48.051(b), if applicable, by 0.008, for the district's maintenance and operations tax effort that exceeds the amount of tax effort described by Subdivision (1).

(a-2) The limitation on district enrichment tax rate ("DTR") under Section 48.203 does not apply to the district's maintenance and operations tax effort described by Subsection (a-1)(1).

(b) In computing the district enrichment tax rate of a school district, the total amount of maintenance and operations taxes collected by the school district does not include the amount of:

- (1) the district's local fund assignment under Section 48.256; or
- (2) taxes paid into a tax increment fund under Chapter 311, Tax Code.

(c) For purposes of this section, school district taxes for which credit is granted under Section 31.035, 31.036, or 31.037, Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted.

(d) For purposes of this section, the total amount of maintenance and operations taxes collected for an applicable school year by a school district with alternate tax dates, as authorized by Section 26.135, Tax Code, is the amount of taxes collected on or after January 1 of the year in which the school year begins and not later than December 31 of the same year.

(e) For purposes of this section, school district taxes for which credit is granted under former Subchapter D, Chapter 313, Tax Code, are considered taxes collected by the school district as if the taxes were paid when the credit for the taxes was granted.

(e-1) For purposes of this section, the total amount of maintenance and operations taxes collected by a school district includes the amount of taxes refunded under Section 26.1115(c), Tax Code.

(f) For a school year in which the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort ("GL") under Subsection (a-1)(2) exceeds the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort ("GL") under Subsection (a-1)(2) for the preceding school year, a school district shall reduce the district's tax rate under Section 45.0032(b)(2) for the tax year that corresponds to that school year to a rate that results in the amount of state and local funds per weighted student per cent of tax effort available to the district at the dollar amount guaranteed level for the preceding school year. A school district is not entitled to the amount equal to the increase of revenue described by this subsection for the school year for which the district must reduce the district's tax rate. Unless Section 26.042(e), Tax Code, applies to the district, for a tax year in which a district must reduce the district's tax rate under this subsection, the district may not increase the district's maintenance and operations tax rate to a rate that exceeds the maximum maintenance and operations tax rate permitted under Section 45.003(d) or (f), as applicable, minus the reduction of tax effort required under this subsection. This subsection does not apply if the amount of state funds appropriated for a school year specifically excludes the amount necessary to provide the dollar amount guaranteed level of state and local funds per weighted student per cent of tax effort under Subsection (a-1)(2).

Limitation on Enrichment Tax Rate (Texas Education Code § 48.203)

The district enrichment tax rate ("DTR") under Section 48.202 of the Texas Education Code may not exceed the amount per \$100 of valuation by which the maximum rate permitted under Section 45.003 of the Texas Education Code exceeds the rate used to determine the district's local share under Section 48.256 of the Texas Education Code, or a greater amount for any year provided by appropriation.

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APPENDIX B

HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS

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HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS

General

Harmony Public Schools (“*Harmony*”) is a non-profit corporation incorporated in the State of Texas (for purposes of this Appendix A, the “*State*”) in 1999. Harmony is an organization described under Section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the “*Code*”). Harmony currently operates 61 charter schools with plans to add 16 additional schools by the 2027-28 school year (collectively, the “*Charter Schools*”). **TABLE 1** below present certain basic information concerning the Charter Schools currently in operation or expected to be in operation as indicated.

TABLE 1: CHARTER SCHOOLS				
CHARTER NAME/CAMPUS NAME	GRADES OFFERED ⁽¹⁾	CAMPUS ENROLLMENT ⁽¹⁾	YEAR OPENED ⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME) ⁽¹⁾
Harmony Public Schools (Houston South) (101-846)				
1. Harmony Science Academy – Houston	9-12	716	2000-01	57.32%
2. Harmony School of Innovation – Houston	6-8	496	2005-06	69.42%
3. Harmony School of Ingenuity – Houston	6-12	763	2009-10	72.94%
4. Harmony School of Science – Houston ⁽⁴⁾	K-8	CLOSED	2010-11	CLOSED
5. Harmony School of Fine Arts and Technology – Houston	K-8	755	2010-11	64.42%
6. Harmony School of Exploration – Houston	PK-5	701	2013-14	74.00%
7. Harmony Virtual ⁽⁴⁾	K-12	240	2022-23	52.92%
Harmony Public Schools (Houston North) (101-858)				
1. Harmony School of Excellence – Houston	K-8	1104	2006-07	59.32%
2. Harmony School of Endeavor - Houston	K-8	529	2009-10	87.41%
3. Harmony Science Academy – Bryan	PK-8	389	2007-08	68.12%
4. Harmony School of Enrichment – Houston	K-5	679	2017-18	62.63%
5. Harmony School of Technology - Houston	6-8	700	2006-07	65.19%
6. Harmony School of Advancement High School – Houston	9-12	792	2010-11	67.97%
7. Harmony School of Discovery – Houston	6-12	857	2010-11	
8. Harmony School of Achievement – Houston	K-5	667	2015-16	73.78%
9. Harmony Science Academy - Cypress	K-5	664	2019-20	68.37%
10. Harmony School of Excellence - Katy	PK-6 ⁽⁵⁾	752	2022-23	68.36%
11. Harmony Science Academy – Bridge Land	PK-5	N/A	2025-26	N/A
12. Harmony Science Academy – City Place	PK-7	N/A	2025-26	N/A
Harmony Public Schools (Houston West) (101-862)				
1. Harmony Science Academy – Sugar Land	K-5	756	2008-09	64.29%
2. Harmony School of Innovation – Sugar Land ⁽³⁾	6-12	858	2011-12	52.28%
3. Harmony Science Academy – Katy	PK-7	1342	2011-12	49.25%
4. Harmony Science Academy – Beaumont	K-12 ⁽⁷⁾	671	2007-08	72.56%
5. Harmony School of Innovation - Katy	8-12	786	2016-17	50.19%
6. Harmony School of Excellence – Sugar Land	K-8	1443	2017-18	62.35%
Harmony Public Schools (North Texas) (161-807)				
1. Harmony Science Academy – Waco	PK-5	565	2007-08	88.22%
2. Harmony Science Academy – Dallas	K-12	1070	2007-08	86.30%
3. Harmony Science Academy – Garland	PK-6	748	2010-11	70.01%
4. Harmony School of Innovation – Garland	7-12	614	2014-15	58.67%
5. Harmony School of Innovation – Dallas	6-12	502	2012-13	50.30%
6. Harmony Science Academy – Fort Worth	K-5 ⁽⁸⁾	640	2006-07	59.53%
7. Harmony Science Academy – Grand Prairie	PK-8	489	2008-09	51.52%
8. Harmony Science Academy – Euless	6-12	622	2009-10	50.96%
9. Harmony School of Excellence – Dallas	6-12	603	2010-11	67.76%

**TABLE 1:
CHARTER SCHOOLS**

CHARTER NAME/CAMPUS NAME	GRADES OFFERED ⁽¹⁾	CAMPUS ENROLLMENT ⁽¹⁾	YEAR OPENED ⁽²⁾	FREE/REDUCED LUNCH (LOW-INCOME) ⁽¹⁾
10. Harmony School of Innovation – Fort Worth	6-12	1049	2012-13	53.20%
11. Harmony School of Innovation – Euless	K-5	696	2013-14	54.82%
12. Harmony Science Academy – Carrollton	6-12	550	2015-16	50.73%
13. Harmony School of Innovation – Carrollton	PK-5	436	2010-11	60.41%
14. Harmony School of Innovation – Waco	6-12	613	2017-18	75.78%
15. Harmony Science Academy – Plano	PK-5	599	2017-18	55.87%
16. Harmony School of Innovation – Grand Prairie	PK-5	524	2018-19	75.72%
Harmony Public Schools (Central Texas) (227-816)				
1. Harmony Science Academy – Austin	PK-8	698	2001-02	96.30%
2. Harmony Science Academy – Pflugerville	6-12	798	2008-09	67.20%
3. Harmony School of Excellence – Austin	6-12	557	2009-10	74.15%
4. Harmony School of Innovation – Austin	PK-5	343	2014-15	73.61%
5. Harmony School of Science – Austin	PK-5	461	2006-07	55.36%
6. Harmony School of Endeavor – Austin	PK-12	961	2011-12	30.82%
7. Harmony Science Academy – Cedar Park	PK-5	704	2017-18	22.93%
8. Harmony Science Academy - Leander	PK-7 ⁽⁶⁾	N/A	2025-26	N/A
Harmony Public Schools (West Texas) (071-806)				
1. Harmony Science Academy – El Paso	6-12	1005	2006-07	72.38%
2. Harmony School of Innovation – El Paso	PK-12	1371	2009-10	76.33%
3. Harmony Science Academy – Lubbock	PK-8	622	2007-08	80.19%
4. Harmony Science Academy – Odessa	K-8	544	2010-11	67.53%
5. Harmony School of Excellence – El Paso	K-5	666	2016-17	76.88%
6. Harmony School of Science – El Paso	PK-12	1127	2020-21	70.38%
7. Harmony Science Academy - Midland	PK-2 ⁽⁶⁾	N/A	2024-25	N/A
Harmony Public Schools (South Texas) (015-828)				
1. Harmony Science Academy – San Antonio	6-12	1,483	2006-07	39.93%
2. Harmony School of Innovation – San Antonio	PK-8	409	2010-11	57.11%
3. Harmony Science Academy – Laredo	6-8	674	2008-09	89.07%
4. Harmony School of Innovation – Laredo	K-5	667	2014-15	57.11%
5. Harmony School of Excellence – Laredo	9-12	684	2017-18	89.43%
6. Harmony Science Academy – Brownsville	PK-8	508	2008-09	91.23%
7. Harmony School of Innovation – Brownsville	6-12	556	2017-18	80.68%
8. Harmony School of Excellence – San Antonio	PK-5	316	2015-16	83.44%
9. Harmony School of Science - San Antonio	PK-6	502	2022-23	42.03%
TOTAL ENROLLMENT		41,483		

Source: Harmony.

⁽¹⁾ As of December 31, 2023.

⁽²⁾ The year opened reflects the year in which Harmony began operating.

⁽³⁾ Harmony School of Innovation -Sugarland currently houses grades 9-12 at 13738 Old Richmond Rd., Sugar Land, Texas and grades 6-8 at 13522 W. Airport Blvd., Sugar Land, Texas.

⁽⁴⁾ Harmony School of Science – Houston was relocated to 1428 Eldridge, Sugar Land, TX 77478 after Hurricane Harvey and several other floods caused interruption in school operation. It is currently being used by Harmony Virtual Academy staff. Harmony Virtual is completely virtual for students.

⁽⁵⁾ Adding middle school grades for the 2024-25 school year at 6300 Peek Road, Katy, TX.

⁽⁶⁾ Additional grades to be added in future years.

⁽⁷⁾ Adding middle school and high school grades for the 2024-25 school year at 6490 Phelan Blvd., Beaumont, TX.

⁽⁸⁾ Adding 6th grade for the 2024-25 school year.

HISTORY AND OTHER INFORMATION RELATING TO HARMONY AND THE CHARTER SCHOOLS

General

Harmony was formed in 1999 and opened Harmony Science Academy in Houston, its first charter school, in 2000.

Harmony's goal is to provide high-performing college preparatory schools that focus on math, science, engineering and computer technologies through the operation of such schools. The Charter Schools are typically located in underserved communities. The Charter Schools provide students with the opportunity to excel in their studies in a small classroom environment focused on providing the skills they need to succeed later in life. Harmony's vision is to lead its students from the classroom into the world as productive and responsible citizens, and even Nobel laureates. Harmony's mission is to prepare each student for higher education in a safe, caring and collaborative atmosphere featuring a quality, student-centered educational program with a strong emphasis on science, technology, engineering and math ("STEM").

Harmony's core values are set forth below:

- *High Expectations:* Every student will learn and grow into a successful and productive citizen.
- *Dedicated Staff:* We do whatever it takes to help our students reach their goals.
- *Working Together:* Our students, parents and staff work in harmony to create a strong community of success.
- *Character Matters:* We guide our students to value integrity, show respect and be responsible.
- *STEM for All:* Every student will graduate with a strong understanding and appreciation of STEM and how it connects to the real world.

In its first growth phase (2000-2006), Harmony focused on refining its model to ensure consistently high quality programming and began launching new schools in Houston while also expanding to major metropolitan areas in Texas (including in Austin, Dallas-Fort Worth, El Paso and San Antonio).

In its second growth phase (2007-2013), Harmony focused on significantly expanding its impact through rapid replication and building the dynamic organizational engine needed to support a statewide network of schools. During this period, Harmony expanded from five geographic regions to eleven, launching new schools in Beaumont, Brownsville, Laredo, Lubbock, Odessa and Waco. To support its growing network of schools, in addition to its central offices, Harmony implemented a regionalized cluster model with administrative personnel to provide localized support to schools.

In its third growth phase (2014-2020), Harmony focused on deepening its impact in Texas, expanding nationally (through other corporate entities) and continuing to build the necessary organizational strength and capacity to support the growing system of schools.

In its fourth growth phase (2021-2025), Harmony is focused on:

- Strengthening its academic model to serve the whole student, for all students - to and through postsecondary;
- Redefining bar for excellence for academic & social-emotional achievement;
- Establishing clear school culture vision & aligned social-emotional support;
- Ensuring high-quality, consistent gap-closing services & support;
- Innovating in student & alumni support for college & career success;
- Establishing principals as instructional & adult culture leaders;
- Focusing its network structure, roles, & accountability on campus success;

- Setting and acting on Harmony’s vision for diversity, equity, & inclusion;
- Strengthening external support to accelerate student success; and
- Continuously improving through smart data & research processes.

2025 Strategic Plan

In late 2020, Harmony adopted a strategic plan designated as its “2025 Strategic Plan.” Harmony has six principal goals under the 2025 Strategic Plan, as follows:

- | | |
|--|---|
| 1A. Bar for excellence | <ul style="list-style-type: none"> 1) Develop Vision Statements for Student Success 2) Create Teacher Instructional Rubric & Exemplars |
| 1B. School culture vision & SEL | <ul style="list-style-type: none"> 1) Define School Culture Vision 2) Implement and Monitor SEL and Non-Academic Support 3) Pursue School of Character Designation |
| 1C. Gap-closing | <ul style="list-style-type: none"> 1) Refine RTI Process and Intervention Support |
| 1D. College & career success | <ul style="list-style-type: none"> 1) Communicate a College & Career Vision 2) Build Postsecondary Readiness 3) Deepen Alumni Support for Postsecondary Persistence and Completion |
| 2. Principals as instructional & culture leaders | <ul style="list-style-type: none"> 1) Evolve Principal Role 2) Redesign Teacher Support 3) Define Instructional Coaching Model |
| 3. Network structure, roles, & accountability | <ul style="list-style-type: none"> 1) Optimize Network Structure Design 2) Build Transparent Accountability |
| 4. Diversity, equity, & inclusion | <ul style="list-style-type: none"> 1) Invest in DEI Needs Assessment 2) Define Diversity, Equity, & Inclusion Vision 3) Develop DEI Measures and Action Steps |
| 5. External support | <ul style="list-style-type: none"> 1) Refresh Marketing & Branding 2) Develop Fundraising Strategy 3) Pursue Proactive Partnerships |
| 6. Data & research | <ul style="list-style-type: none"> 1) Streamline Data Systems 2) Establish Data-Driven Continuous Improvement Processes |

Central Office, Clusters and Campuses

As described above, in its second growth phase, in addition to its central office, Harmony implemented a cluster model. Under the cluster model, Harmony has both central offices and cluster offices. The central office serves the cluster offices and the campuses and the cluster offices are regional offices that serve a group of campuses. The central office provides direct support to all Texas clusters and campuses and is responsible for (a) setting organization-wide and high level regional strategy, (b) setting policies and procedures that will be standard across the Charter Schools, (c) providing approaches, tools and templates that clusters and campuses can adapt to local context, (d) building capacity in clusters and campuses over time, (e) holding campuses accountable for academic performance and budgetary compliance, and (f) holding clusters accountable for meeting financial targets.

Cluster offices serve as a critical bridge between the central office and the campuses, and play a key role in determining how to best allocate state and federally funded resources to the Charter Schools. Clusters are responsible for (a) building academic capacity in campus leadership teams and teachers, (b) providing operations and finance services to campuses to reduce administrative responsibilities and enable school leaders to focus on student achievement, (c) guiding the budget process and advancing financial stewardship in the cluster region, and (d) managing external relations and community outreach to build Harmony's reputation in the cluster region. Currently, there are six cluster offices located in Houston (two cluster offices), Dallas, San Antonio, El Paso and Austin.

Harmony's campuses are ultimately accountable for student outcomes, so they are primarily focused on instruction and student achievement. Responsibilities also include (a) creating an effective learning environment for students, (b) managing teacher recruitment and hiring, and delivering regular, actionable coaching, (c) managing the campus budget to meet targets, and (d) tailoring approaches, tools and templates provided by the central offices and clusters to specific student populations and needs.

Support Service Agreements

Harmony provides support services to other organizations who wish to replicate Harmony's model for operating Charter Schools. Such organizations (all of which operate one or more charter schools in a number of states), include, but are not limited to, (1) Frontier Schools, Inc., (2) Dove Schools, Inc., and (7) Harmony DC Public Schools. Harmony has entered into agreements (each a "*Support Service Agreement*") with each of the aforementioned organizations (or schools operated by the foregoing) wherein Harmony provides support services to each organization. Pursuant to the Support Service Agreements, Harmony provides support in certain of the following areas: consulting services; educational technology solutions; data network solutions; efficiency analysis; strategic planning; and coaching key leadership and teacher training. Harmony is paid for such services on an hourly basis ranging from \$80.00 to \$120.00 per hour.

In addition to each Support Service Agreement, Harmony also licenses certain of its intellectual property to the foregoing entities for fees (except for Harmony DC Public Schools) ranging from \$15,000 to \$147,000 per school per year. For Harmony DC Public Schools, the fee is equal to 5% of the state and local per-pupil funding that Harmony DC Public Schools receives. In the fiscal year ending June 30, 2020, Harmony received an aggregate of approximately \$350,000 in revenue from such Support Service Agreements. Harmony has also agreed to allow Harmony DC Public Schools to use the Harmony name.

Most of the Support Service Agreements have terms ending June 30, 2022, but each agreement has automatic renewal for additional one-year terms annually thereafter; and may be terminated upon the occurrence of certain events.

Educational Philosophy

Harmony's educational approach revolves around prioritizing the needs of each student, and recognizing their individuality in terms of interests, requirements, and capabilities. The foundation of student achievement in Harmony is built upon four fundamental pillars:

- A rigorous math and science curriculum, emphasizing project-based learning.
- Integration of core knowledge with personalized learning.
- Emphasis on assessment.
- Fostering a culture of constructive competition, discipline, and parental engagement.

Harmony's curriculum is inquiry-based, focusing on depth, rigor, and the development of higher-order skills like conceptual understanding and application. With the ultimate aim of college preparedness, Harmony places significant emphasis on its advanced placement program in high schools, providing students with opportunities for advanced study tailored to their interests, thereby equipping them with the necessary skills for collegiate success.

Harmony has adopted a standards-focused project-based learning approach across middle and high schools, particularly highlighting STEM subjects. This approach encourages cross-disciplinary exploration, enhancing student engagement by allowing them to direct their intellectual pursuits based on personal interests. Through student-driven projects, learners delve deeply into content, applying their knowledge through complex tasks and performance assessments.

To ensure individualized attention, Harmony employs blended learning strategies, intensive counseling, and personalized goal setting for all students. The Custom Day program plays a crucial role in this regard, offering tailored interventions, enrichments, or elective courses to address specific learning needs in Math and English Language Art classes. By providing differentiated instruction, Harmony aims to accelerate the learning process for every student.

Furthermore, Harmony emphasizes core knowledge and essential skills, aiming to bridge achievement gaps by ensuring mastery of foundational concepts necessary for academic progress. Continuous assessment, aligned with standards and utilizing various tools, enables teachers to understand students' strengths and weaknesses, set ambitious goals, differentiate instruction, and provide timely support as needed.

Implementation of the core curriculum is supported by the purposeful use of diagnostic, formative, benchmark and additive assessments aligned to the standards. Harmony's ongoing assessment system also includes Northwest Evaluation Association Measures of Academic Progress and College Board Readistep to monitor the academic growth of each individual student. Harmony's comprehensive approach to assessment gives teachers the information they need to understand the specific skills and abilities of each student, set accelerated goals, differentiate instruction and provide timely corrective instruction where necessary to ensure student mastery.

In addition to academics, Harmony encourages student participation in STEM competitions to foster engagement and promote authentic learning experiences. Harmony has also developed a character education program that cultivates a community of respect.

Parental Involvement

Harmony recognizes the significance of parental involvement in its charter schools, considering it crucial to their success. Actively involving parents/guardians in school activities enhances student attendance and engagement. Various programs encourage parents to reinforce classroom learning at home, and teachers conduct home visits to establish communication, particularly with parents who have limited availability due to work commitments.

RECENT ACCOMPLISHMENTS

Harmony has regularly been recognized for its accomplishments and notes the following as highlights in the last five years:



- Harmony schools are ranked among the top high schools in the Washington Post, Newsweek, and U.S. News & World Report in 2022-23 school year.
- In 2023, all 23 Harmony high school campuses were named to the U.S. News & World Report Best High Schools in America rankings.
- 98% graduation rate among Harmony high school seniors in 2023 (above the national average of 84%).
- 100% of college acceptance rates among graduating Harmony School Seniors in 2023.
- 84.3% of the Class of 2023 enrolled and attended college in the Fall of 2023.
- 64% of Harmony alumni are the first in their family to attend college (more than double the national average).
- 93% of the Class of 2023 completed FAFSA applications by Jan 1st.
- 90% of the Class of 2023 participated in the Career, Technology and Engineering (CTE) program.
- The Class of 2023 earned 1,853 Industrial-based Certifications (IBCs).
- In 2023, 58% of Harmony graduates choose STEM majors in college, more than doubling both the Texas and United States averages.
- \$123 million scholarships offered to the Class of 2023.
- Class of 2023 accumulated 24,331 volunteer hours in their high school years.
- In the 2022-23 school year, 2500 Harmony students completed Dual Credit courses and 4,433 Harmony students completed AP courses.
- 48 Harmony Seniors have been named 2023 QuestBridge Finalists. Out of over 20,800 applications, 6,683 high school seniors were selected as National College Match Finalists, 48 from Harmony Public Schools. Match day is scheduled for December 1st.
- All seven Harmony districts received an 'A' rating from TEA in Financial Accountability, and 5 districts received an 'A' rating and two districts received a 'B' rating from TEA in Overall Academic Accountability in 2022.
- In the 2022-23 school year, Harmony was ranked the top school district system by Children at Risk for high schools in the greater Houston area with an "A" grade.
- In January 2024, eighteen (18) additional campuses from Harmony Public Schools were named official Texas "State Schools of Character" for their outstanding efforts in promoting cultures of character in their schools and communities by Character.org, a national advocate and leader for character development in schools.
- Harmony Public Schools has been awarded the Purchase Award of Merit from the Texas Association of School Business Officials(TASBO) for demonstrating professional standards in the acquisition of goods and services in 2024.

- The U.S. The Department of Education awarded Harmony Public Schools with \$4.3 million to support the Teacher and School Leader (TSL) Incentive project to ensure a diverse and sustainable educator workforce.
- Harmony Public Schools was among the first public schools systems in Texas to adapt and qualify for the Teacher Incentive Allotment. As of 2024, all 7 Harmony regional districts have qualified for designation, benefitting almost 1,000 individual Harmony educators totalling \$8.29 million.
- The Grow Your Own Teacher (GYOT) Program has expanded with 316 Alumni employees, 68 Active GYOT Residents; and 66 GYOT Graduates.
- Through our Comp3 programming curriculum, every Harmony student receives a minimum of two hours of coding instruction per week starting in kindergarten. Harmony is one of the only school systems in the U.S. to offer coding for all students at this age.
- Harmony established ‘Makerspace’ for all K-12 campuses equipped with Engineering, Manufacturing and Technology Tools. Makerspaces are simulated work environments as an extension of CTE classes.

THE FOUNDATION

Harmony Education Foundation f/k/a Charter School Solutions (“*HEF*”) is a Texas nonprofit corporation organized on April 10, 2015. HEF has been determined by the Internal Revenue Service to be an organization described under Section 501(c)(3) of the Code and is exempt from federal income taxation under Section 501(a) of the Code. The specific purpose of HEF is to support Harmony and other charter schools and educational organizations located in Arizona, Arkansas, Kansas, New Mexico, Mississippi, Missouri, Louisiana, Oklahoma, Tennessee, and Texas, in order to (i) promote education by developing school models, educational services, and products for the purposes of replicating the Harmony model; (ii) facilitate charter school campus development projects, including designing, financing, and leasing the developments; (iii) facilitate the attainment of higher education by providing college tuition assistance in the form of scholarships and grants for charter school graduates; and (iv) foster and promote scientific advancement and exploration by conducting and overseeing the operation of STEM education and science fairs, including the International Sustainable World (Energy, Engineering, and Environment) Project (“*I-SWEEP*”), a collaborative and competitive integration science fair event open to high school students from around the world with a goal of creating a more sustainable world for tomorrow.

HEF owns several properties where Charter Schools are located (the “*HEF Properties*”). See “TABLE 2” herein. These properties are leased to Harmony. The lease payments are subordinate to any debt issued by Harmony under its Master Indenture, including the Bonds. HEF has issued the following bonds secured by the HEF Properties and its rental payments from Harmony: (i) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Harmony Education Foundation—Harmony Public Schools Project), Series 2021A, in the aggregate principal amount of \$14,955,000 of which \$14,620,000 remains outstanding; (ii) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Harmony Education Foundation —Harmony Public Schools Project), Taxable Series 2021B, in the aggregate principal amount of \$420,000 of which \$0 remains outstanding; (iii) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Series 2018A, in the aggregate principal amount of \$33,365,000 of which \$33,365,000 remains outstanding; (iv) the Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Taxable Series 2018B, in the aggregate principal amount of \$955,000 of which \$0 remains outstanding; (v) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Series 2016A, in the aggregate principal amount of \$42,365,000 of which \$37,430,000 remains outstanding; and (vi) The Industrial Development Authority of the County of La Paz, Arizona Education Facility Lease Revenue Bonds (Charter School Solutions—Harmony Public Schools Project), Taxable Series 2016B, in the aggregate principal amount of \$920,000 of which \$0 remains outstanding (collectively, the “*HEF Bonds*”).

THE PROJECT

Harmony will issue the Bonds for the purpose of: (i) financing and refinancing the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Issuer Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (ii) funding capitalized interest, and (iii) paying the costs of issuing the Bond.

PRIOR, CURRENT AND FUTURE FINANCINGS

Obligations of Harmony. Harmony has previously issued Master Notes as follows: (i) Arlington Higher Education Finance Corporation \$147,025,000 Education Revenue Bonds (Harmony Public Schools) Series 2021A, (ii) Arlington Higher Education Finance Corporation \$4,350,000 Education Revenue Bonds (Harmony Public Schools) Taxable Series 2021B, (iii) Arlington Higher Education Finance Corporation \$22,170,000 Education Revenue Refunding Bonds (Harmony Public Schools) Series 2021C, (iv) Arlington Higher Education Finance Corporation \$40,540,000 Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2017A, (v) Arlington Higher Education Finance Corporation \$55,405,000 Education Revenue Bonds (Harmony Public Schools) Series 2016A, (vi) Arlington Higher Education Finance Corporation \$106,745,000 Education Revenue Bonds (Harmony Public Schools) Series 2015, (vii) Texas Public Finance Authority Charter School Finance Corporation \$8,880,000 Taxable Education Revenue Bonds (Harmony Public Schools) Series 2014Q (Qualified School Construction Bonds – Direct Pay), (viii) City of Houston Higher Education Finance Corporation \$101,555,000 Education Revenue and Refunding Bonds (Harmony Public Schools) Series 2014A, (ix) City of Houston Higher Education Finance Corporation \$5,085,000 Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2011Q (Qualified School Construction Bonds – Direct Pay), (x) \$39,910,000 Texas Public Finance Authority Charter School Finance Corporation Taxable Education Revenue Bonds (Cosmos Foundation, Inc.), Series 2010Q (Qualified School Construction Bonds – Direct Pay), and (xi) a revolving line of credit in an amount not to exceed \$200,000,000 at any time.

Future Financings. Harmony’s leadership presents a growth plan with opening five to seven schools per year for the next five years. Each of these proposed schools within the growth plan is subject to approval by the Board of Directors and the Texas Education Agency. Some of these projects are currently in beginning phases and those costs are carried on the line of credit and cannot be financed with the Bonds. Additionally, Harmony would need to receive charter enrollment increases beyond the current aggregate enrollment cap of 66,500, which are subject to approval by the Texas Education Agency. Harmony’s current plan is to expand to approximately 47,000 students in 77 schools by the 2027-28 school year.

FACILITIES

The following table provides information regarding the locations from which the Charter Schools currently operate.

TABLE 2: EXISTING/PROPOSED FACILITIES

CHARTER NAME/CAMPUS NAME & ADDRESS	OWN/LEASE (LEASE EXPIRATION DATE)	APPROXIMATE SQUARE FOOTAGE ⁽¹⁾	YEAR BUILT	PLEGDED TO THE BONDS	OCCUPANCY LOAD ⁽¹⁾
Harmony Public Schools (Houston South)					
1. Harmony Science Academy– Houston 9431-9441 W. Sam Houston Pkwy. S., Houston, TX	Own	54,104	1986	YES	1,200
2. Harmony School of Innovation – Houston 9421 W. Sam Houston Pkwy. S., Houston, TX	Own	41,400	1986	YES	1,035
3. Harmony School of Ingenuity – Houston 10555 Stella Link Rd., Houston, TX	Own	68,592	2000	YES	1,550
4. Harmony Virtual formerly Harmony School of Science – Houston 5435 S. Braeswood Blvd., Houston, TX	Own	26,101	1976	YES	550
5. Harmony School of Fine Arts and Technology – Houston 9115 Kirby Dr., Houston, TX	Own	77,412	2010	YES	1,700
6. Harmony School of Exploration – Houston 9303 and 9305 W. Sam Houston Parkway South, Houston, TX	Own	74,787	1980	YES	1,732
Harmony Public Schools (Houston North)					
1. Harmony School of Excellence – Houston 7340 N. Gessner Dr., Houston, TX	Own	75,665	1984	YES	1,800
7300 N. Gessner Dr., Houston, TX	Own	32,500	2000	YES	850
2. Harmony School of Endeavor –Houston 5668 W. Little York Rd., Houston, TX	Own	39,751	1984	YES	820
3. Harmony Science Academy – Bryan 2031 S. Texas Ave., Bryan, TX	Own	37,920	1990	YES	800
4. Harmony School of Achievement – Houston 16205 Keith Harrow Blvd., Houston, TX	Lease (7/31/2025)	47,341	1996	NO	1,336
5. Harmony School of Technology – Houston 3203 N. Sam Houston Parkway West, Houston, TX	Own	78,200	2016	YES	1,175
6. Harmony School of Advancement – Houston 3171 N. Sam Houston Pkwy. W., Houston, TX	Own	65,921	2010	YES	1,550
7. Harmony School of Discovery – Houston 6270 Barker Cypress Rd., Houston, TX	Own	59,778	2008	YES	1,609
8. Harmony School of Enrichment – Houston 3207 N. Sam Houston Parkway West, Houston, TX	Own	43,000	2017	YES	1,400
9. Harmony Science Academy – Cypress 7047 Greenhouse Road, Katy, TX	Lease ⁽²⁾	46,000	2019	NO	1,110
10. Harmony School of Excellence – Katy 22855 Elyson Falls Dr., Katy, TX	Own	59,000	2022	YES	1,700
6300 Peek Road Katy, TX (middle and high school)	Own	90,208	2024	YES	2,419
11. Harmony Science Academy – Bridge Land 12800 Creekland Village Dr, Cypress, TX 77433	Own	59,693	2025	YES	1,843
12. Harmony Science Academy – City Place 2600 Spring Stuebner Rd. Spring, TX 77389	Own	58,931	2025	YES	2,013
Harmony Public Schools (Houston West)					
1. Harmony Science Academy – Sugar Land 13415 W. Belfort Ave., Sugar Land, TX	Own	36,937	2008	YES	920
2. Harmony School of Innovation – Sugar Land 13522 W. Airport Blvd., Sugar Land, TX	Own	69,850	2011	YES	1,256
13738 Old Richmond Rd., Sugar Land, TX	Own	94,000	2022	YES	2,100
3. Harmony School of Excellence – Sugar Land 1428 Eldridge Rd, Sugar Land, TX	Lease ⁽²⁾	46,000	2017	NO	1,100

TABLE 2: EXISTING/PROPOSED FACILITIES

CHARTER NAME/CAMPUS NAME & ADDRESS	OWN/LEASE (LEASE EXPIRATION DATE)	APPROXIMATE SQUARE FOOTAGE ⁽¹⁾	YEAR BUILT	PLEGDED TO THE BONDS	OCCUPANCY LOAD ⁽¹⁾
4. Harmony Science Academy – Katy 22400 Grand Corner Drive, Katy, TX	Own	59,500	2011	YES	1,180
22400 Grand Corner Drive, Katy, TX (middle)	Own	42,000	2016	YES	995
5. Harmony Science Academy – Beaumont 4055 Calder Ave., Beaumont, TX	Own	46,095	1993	YES	866
6490 Phelan Blvd, Beaumont, TX (middle/high school)	Own	74,099	2024	YES	2,503
6. Harmony School of Innovation - Katy 22400 Grand Corner Dr., Katy, TX	Own	42,000	2016	YES	995
2156 Bellaire, Richmond, Texas	Own	94,000	2022	YES	2,100
Harmony Public Schools (North Texas)					
1. Harmony Science Academy – Waco 1900 N. Valley Mills Dr., Waco, TX	Own	54,265	1988	YES	1,350
2. Harmony Science Academy – Dallas 11945-12005 Forestgate Dr., Dallas, TX	Own	111,385	1985	YES	2,000
3. Harmony School of Innovation – Carrollton 1024 W. Rosemeade Pkwy., Carrollton, TX	Own	41,000	1985	YES	1,000
4. Harmony Science Academy – Garland 2302 Firewheel Pkwy., Garland, TX	Own	54,000	1995	YES	1,200
5. Harmony School of Innovation – Garland 2250 Firewheel Pkwy., Garland, TX	Own	46,128	2014	YES	1,420
6. Harmony School of Innovation – Dallas 8080 W. President George Bush Highway, Dallas, TX	Own	60,812	2014	YES	1,420
7. Harmony Science Academy - Plano 550 Talbert Drive, Plano, TX	Lease ⁽²⁾	46,000	2017	NO	1,100
8. Harmony Science Academy – Fort Worth 5651 Westcreek Dr., Fort Worth, TX	Lease	47,000	1975	YES	1,175
5651 Westcreek Dr., Fort Worth, TX (middle school)	Own	78,499	2024	YES	1,377
9. Harmony Science Academy – Grand Prairie 1102 NW 7th St., Grand Prairie, TX	Own	50,200	1981	YES	1,200
10. Harmony Science Academy – Euless 701 S. Industrial Blvd., Euless, TX	Lease ⁽²⁾	48,000	2002	NO	1,200
11. Harmony School of Excellence – Dallas 8120 W. Camp Wisdom Rd., Dallas, TX	Own	96,416	2011	YES	2,000
12. Harmony School of Innovation - Grand Prairie 1441 Fish Creek Parkway, Grand Prairie, TX	Lease ⁽²⁾	51,465	2018	NO	N/A
13. Harmony School of Innovation – Fort Worth 8100 South Hulen Street, Fort Worth, TX	Own	82,550	2012	YES	2,325
14. Harmony School of Innovation – Euless 701 S. Industrial Blvd., Euless, TX	Lease ⁽²⁾	40,300	2013	NO	900
15. Harmony Science Academy-Carrollton 1024 W. Rosemeade, Carrollton, TX	Own	45,026	2015	YES	1,535
16. Harmony School of Innovation - Waco 1110 S. Valley Mills Drive, Beverly Hills, TX	Own	48,390	1991	YES	600
Harmony Public Schools (Central Texas)					
1. Harmony Science Academy – Austin 930 E. Rundberg Ln., Austin, TX	Own	46,900	1972	YES	1,221
2. Harmony Science Academy – Pflugerville 1421 Wells Branch Pkwy. W., Pflugerville, TX	Lease (8/31/2026)	66,645	1998	NO	1,300

TABLE 2: EXISTING/PROPOSED FACILITIES

CHARTER NAME/CAMPUS NAME & ADDRESS	OWN/LEASE (LEASE EXPIRATION DATE)	APPROXIMATE SQUARE FOOTAGE ⁽¹⁾	YEAR BUILT	PLEGDED TO THE BONDS	OCCUPANCY LOAD ⁽¹⁾
3. Harmony School of Excellence – Austin 2100 E. Saint Elmo Rd., Austin, TX	Lease (8/31/2026)	49,966	1998	NO	1,200
4. Harmony School of Innovation – Austin 2124 E. Saint Elmo Rd., Austin, TX	Lease (8/31/2026)	26,100	1981	NO	800
5. Harmony School of Science – Austin 11800 Stonehollow Dr., Austin, TX	Lease (11/30/2025)	31,650	1999	LEASEHOLD	790
6. Harmony School of Endeavor – Austin 13415 FM 620 North, Austin, TX	Own	80,862	2011	YES	1,400
7. Harmony Science Academy – Cedar Park 12200 Anderson Mill Road, Austin, TX	Own	50,328	2017	YES	770
12200 Anderson Mill Road, Austin, TX (grades 6-8)	Own	70,000	2022	YES	1,600
8. Harmony Science Academy – Leander 3250 Hero Way, Leander TX	Own	75,701	2025	No	1,822
Harmony Public Schools (West Texas)					
1. Harmony Science Academy – El Paso 9405 Betel Dr., El Paso, TX	Lease ⁽²⁾	86,000	2007	LEASEHOLD	2,000
2. Harmony School of Excellence – El Paso 9435 Betel Dr., El Paso, TX	Lease ⁽²⁾	50,000	2016	NO	1,200
3. Harmony School of Innovation – El Paso 5210 Fairbanks Dr., El Paso, TX	Lease (12/31/2025)	72,000	1987	NO	1,800
10405 Dyer Street, El Paso, TX (middle/high school)	Own	94,000	2023	YES	2,100
4. Harmony Science Academy – Lubbock 1516 53 rd St., Lubbock, TX, 1501 52 nd St., Lubbock, TX, 1503 52 nd St., Lubbock, TX and 5201 Avenue P, Lubbock, TX	Own	58,951	1980	YES	1,325
5. Harmony Science Academy – Odessa 2755 N. Grandview Ave., Odessa, TX	Lease (8/31/2030)	36,145	2001	N/A	850
6. Harmony School of Science – El Paso 1730 Joe Battle Blvd., El Paso, TX	Lease ⁽²⁾	59,000	2020	NO	1,223
1730 Joe Battle Blvd., El Paso, TX (middle/high school)	Lease ⁽²⁾	88,350	2023	NO	2,419
7. Harmony Science Academy- Midland 2501 E Loop 250 N Midland, TX	Own	21,000 ⁽³⁾	2024	NO	756
Harmony Public Schools (South Texas)					
1. Harmony Science Academy – San Antonio 8505 Lakeside Pkwy., San Antonio, TX	Own	62,000	2006	YES	1,550
2. Harmony School of Innovation – San Antonio 8125 Glen Mont Dr., San Antonio, TX	Own	74,700	2010	YES	1,868
3. Harmony Science Academy – Laredo 4401 San Francisco Ave., Laredo, TX	Own	48,569	1997	YES	1,000
4. Harmony School of Innovation – Laredo 616 Leal Street, Laredo, TX 4608 Daugherty Ave., Laredo TX	Lease (6/30/2025)	37,000	1987	NO	750

TABLE 2: EXISTING/PROPOSED FACILITIES

CHARTER NAME/CAMPUS NAME & ADDRESS	OWN/LEASE (LEASE EXPIRATION DATE)	APPROXIMATE SQUARE FOOTAGE ⁽¹⁾	YEAR BUILT	PLEGDED TO THE BONDS	OCCUPANCY LOAD ⁽¹⁾
5. Harmony Science Academy – Brownsville 1124 Central Blvd., Brownsville, TX	Own	44,000	1970	YES	1,000
6. Harmony School of Innovation – Brownsville 3451 Dana Avenue., Brownsville, TX	Own	60,000	2017	YES	1,500
7. Harmony School of Excellence – San Antonio 2015 SW Loop 410, San Antonio, TX	Lease (8/31/2035)	48,932	1993	NO	1,386
8. Harmony School of Excellence – Laredo 4401 San Francisco Ave, Building B, Laredo, TX	Own	53,973	2017	YES	550
9. Harmony School of Science - San Antonio 5566 Wiseman Blvd, San Antonio, TX	Own	59,000	2022	YES	1,700

Source: Harmony.

⁽¹⁾ Determined assuming the completion of the facilities. Reflects the building occupancy load as permitted by the applicable local governing authority. This includes classroom as well as common areas such as auditoriums, cafeterias, gym facilities and administrative areas.

⁽²⁾ Owned by HEF and pledged to the debt of HEF. Lease expiration correspond to the debt of HEF.

⁽³⁾ Will be opened in modular facilities and replaced with permanent facilities in the future.

CHARTER CONTRACTS

General

The Charter Schools operate pursuant to seven open-enrollment charter contracts between Harmony and the Texas State Board of Education (the “*State Board of Education*”) under Chapter 12 of the Texas Education Code, Section 12.001 et seq. (the “*Charter Schools Act*”). The Charter Schools Act provides for the creation of charter schools in order to improve student learning, to increase the choice of learning opportunities within the public school system, to create professional opportunities that will attract new teachers to the public school system, to establish a new form of accountability for public schools and to encourage different and innovative learning methods. The Charter Schools Act provides for three kinds of charter contracts: home-rule school district charters, campus or campus programs charters and open-enrollment charters. See “**APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW — GENERAL.**” A charter contract governs such matters as the recipient’s authority to operate, student admissions and performance, financial management, and governance and operations. The term of an open-enrollment charter contract is not specifically provided under State law, and there is no formal annual review process. The current practice of the Texas Education Agency (the “*TEA*”) is to grant open-enrollment charters for a five-year period and then to renew such charters for additional ten-year periods. At the end of each charter contract, each charter holder is required to submit a charter renewal application to the TEA. Charter schools are required to provide periodic reports to the TEA, including financial data, an annual governance report, and an annual financial audit report. Additionally, charter schools must report enrollment data to TEA every six weeks. If any such reports are missing or not satisfactory, the TEA may follow up with additional questions.

The table following contains information regarding each of Harmony’s charters and the current expiration dates of the charters.

CHARTER INFORMATION			
CHARTER NAME/CAMPUS NAME	CHARTER GRANTED/ CAMPUS OPENED	ORIGINAL CHARTER EXPIRATION DATE	CURRENT CHARTER EXPIRATION DATE
Harmony Public Schools (Houston South) (101-846)	05/19/00	07/31/05	7/31/25
Harmony Public Schools (Houston North) (101-858)	02/01/06	07/31/10	7/31/30
Harmony Public Schools (Houston West) (101-862)	04/25/08	07/31/15	7/31/33
Harmony Public Schools (North Texas) (161-807)	02/26/07	07/31/11	7/31/31
Harmony Public Schools (Central Texas) (227-816)	05/19/00	07/31/05	7/31/25
Harmony Public Schools (West Texas) (071-806)	02/01/06	07/31/10	7/31/30
Harmony Public Schools (South Texas) (015-828)	02/01/06	07/31/10	7/31/30

Source: Harmony.

Harmony was granted its initial open-enrollment charter from the TEA to operate its initial school on May 19, 2000. Harmony currently holds seven open-enrollment charters from the TEA. Harmony’s charters are continually being amended to add schools, grades, etc.

Due to Harmony’s size, Harmony is given an automatic seat on the Texas Public Charter School Association board which represents approximately 760 charter campuses in Texas.

Revocation, Nonrenewal, Modification of Governance and Automatic Revocation

Under the Charter Schools Act and the terms of Harmony’s charter contract, the Commissioner of Education (the “*Commissioner*”) is required to revoke the charter of, or modify the governance of the holder of a charter of an open-enrollment charter school, or reconstitute the governing body of the charter holder, if the Commissioner determines that the charter holder:

- (i) committed a material violation of the charter, including failure to satisfy accountability provisions prescribed by the charter;
- (ii) failed to satisfy generally accepted accounting standards of fiscal management;
- (iii) failed to protect the health, safety, or welfare of the students enrolled at the school;
- (iv) failed to comply with any applicable law or rule;
- (v) failed to satisfy the performance framework standards adopted under Section 12.1181 of the Texas Education Code; or
- (vi) is imminently insolvent as determined by the Commissioner in accordance with Commissioner rule.

Any action the Commissioner takes in this respect must be based on the best interest of the school’s students, the severity of the violation, any previous violation the school has committed and the accreditation status of the school.

The Commissioner is required to revoke the charter of an open-enrollment charter school if:

- (i) the charter holder has been assigned an unacceptable performance rating under Subchapter C, Chapter 39 of the Texas Education Code (the “*Accountability Rating*”) for the three preceding school years;

- (ii) the charter holder has been assigned a financial accountability performance rating under Subchapter D, Chapter 39 of the Texas Education Code (the “*FIRST Rating*”) indicating performance lower than satisfactory for the three preceding school years; or
- (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii) for the three preceding school years.

The Commissioner shall deny renewal of the charter of an open-enrollment charter school if:

- (i) the charter holder has been assigned the lowest performance rating as its Accountability Rating for any three of the five preceding school years;
- (ii) the charter holder has been assigned a financial accountability performance rating as its FIRST Rating indicating financial performance that is lower than satisfactory for any three of the five preceding school years;
- (iii) the charter holder has been assigned any combination of the ratings described in (i) or (ii) for any three of the five preceding school years; or
- (iv) any campus operating under the charter has been assigned the lowest performance rating as its Accountability Rating for the three preceding school years and such campus has not been closed.

The Commissioner may temporarily withhold funding, suspend the authority of an open-enrollment charter to operate or take any other reasonable action the Commissioner determines necessary to protect the health, safety or welfare of students enrolled at the school based on evidence that conditions at the school present a danger to the health, safety or welfare of the students. If the Commissioner takes such action, the school may not receive funding and may not resume operating until a determination is made that:

- (i) despite initial evidence, the conditions at the school do not present a danger of material harm to the health, safety, or welfare of students, or
- (ii) the conditions at the school that presented a danger of material harm to the health, safety, or welfare of students have been corrected.

Not later than the third business day after the date the Commissioner takes action, the Commissioner must provide the school an opportunity for a hearing, after which the Commissioner must take action or cease any temporary sanctions. Texas law provides that relevant provisions of the Texas Government Code do not apply to a hearing related to a modification, placement on probation, revocation, or denial of renewal of a charter. Hence, the determination of the Commissioner is final and may not be appealed. For additional information, see “**APPENDIX A — SUMMARY OF CERTAIN PROVISIONS OF TEXAS CHARTER SCHOOL LAW — GENERAL — CHARTER REVISION, REVOCATION AND NON-RENEWAL,**” “**RISK FACTORS — Nonrenewal or Revocation of Charter**” and “**TABLE 8: Accountability Ratings.**”

The following table reflects, for each year shown, the FIRST Rating (which ratings may be either “Superior,” “Above Standard,” “Met Standard,” or “Substandard,” and the Accountability Rating (which are set forth under “Accountability Ratings and Student Performance” herein). According to the TEA, the purpose of the FIRST Rating is to encourage schools to better manage their financial resources to provide the maximum allocation possible for direct instructional purposes.

**TABLE 3:
ACCOUNTABILITY RATING AND FIRST RATING**

CHARTER NAME	2018-19	2019-20 ⁽¹⁾	2020-21 ⁽¹⁾	2021-22	2022-23 ⁽²⁾
Harmony Public Schools (Houston South) (101-846)					
Accountability Rating	A	NOT RATED	NOT RATED	A	
FIRST Rating	Superior	Meets Standard	Superior	Superior	Superior
Harmony Public Schools (Houston North) (101-858)					
Accountability Rating	A	NOT RATED	NOT RATED	A	
FIRST Rating	Superior	Superior	Superior	Superior	Superior
Harmony Public Schools (Houston West) (101-862)					
Accountability Rating	A	NOT RATED	NOT RATED	A	
FIRST Rating	Superior	Superior	Superior	Superior	Superior
Harmony Public Schools (North Texas) (161-807)					
Accountability Rating	B	NOT RATED	NOT RATED	B	
FIRST Rating	Superior	Superior	Superior	Superior	Superior
Harmony Public Schools (Central Texas) (227-816)					
Accountability Rating	B	NOT RATED	NOT RATED	B	
FIRST Rating	Superior	Superior	Superior	Superior	Superior
Harmony Public Schools (West Texas) (071-806)					
Accountability Rating	A	NOT RATED	NOT RATED	A	
FIRST Rating	Superior	Superior	Superior	Superior	Superior
Harmony Public Schools (South Texas) (015-828)					
Accountability Rating	A	NOT RATED	NOT RATED	A	
FIRST Rating	Superior	Superior	Superior	Superior	Superior

Source: Harmony, from information made available by the Texas Education Agency.
⁽¹⁾ For the 2019-20 and 2020-21 school years all Texas districts and campuses were labeled Not Rated: Declared State of Disaster. STAAR testing was conducted for the 2020-21 school year, but A-F grades will not be issued.
⁽²⁾ The 22-2023 accountability reports are not yet publicly available. The release of these reports is pending judicial ruling.

See “Charter Contract – Revocation, Nonrenewal, Modification of Governance and Automatic Revocation” above; see also “RISK FACTORS – Nonrenewal or Revocation of Charter.”

BOARD OF DIRECTORS

Harmony operates as a nonprofit corporation under the Texas Business Organizations Code. Harmony is governed by applicable law and its articles of incorporation and bylaws. Harmony is governed by a 7-member Board of Directors. Board members are recruited among volunteers who participate in activities of Harmony and its Charter Schools and who share goals and objectives with Harmony (i.e., to establish and provide state-of-the-art math, science, and technology education). Identification and recruitment of new board members is a long-term process requiring a step-by-step approach. One of Harmony’s goals regarding board membership and diversity is to build a team around Harmony’s core values rather than around the unpredictable results of political elections or friendships. Currently, there is no set term for board members. Board members also serve on Harmony’s Membership Committee, Nominating Committee and Program Committee.

Dr. Oner U. Celepcikay is the President of the Board of Directors of Harmony. He received his Ph.D. in Computer Science at University of Houston in 2009 and his M.S. Degree in Computer Science at the University of Houston in 2003. He received his bachelor’s degree in electrical engineering in 1997 from Istanbul University. Dr. Celepcikay serves on the faculty at the University of Phoenix Business Information System Department and works as a web application developer. Prior to that, he served as an Information Technology Consultant with Harmony and a Program Director and instructor for North American College. Before joining North American College, Dr. Celepcikay worked at the University of Houston Educational Technology Outreach Department from 2000 to 2007 as a graduate technology assistant. He has published a number of papers in his research fields including cluster analysis, multivariate statistical analysis, regional

regression analysis and spatial data mining. Dr. Celepcikay is a member of the Institute of Electrical and Electronics Engineers.

Mrs. Helen Sherwood is a Second Vice Chair and brings a track record of knowledge and community involvement to the Harmony Public School Board. Spending 10 years at Texaco, Ms. Sherwood held the position of Senior Research Librarian. During her tenure, Ms. Sherwood served as Co-coordinator of the Adopt-A-School STEM Program, as well as an initiative that teaches scientific methods through an invention process called, “Create SE Texas.” As a parent, Ms. Sherwood was an active volunteer for Harmony Public Schools, serving as a PTO member and science fair coordinator, among other roles. Ms. Sherwood also volunteered for 15 years with the Boy Scouts of America as a Cub Scout Pack Den Leader, Pack Committee Chair and additional roles within the organization. Ms. Sherwood is currently a Youth Religious Education Administrator and teacher with Tapestry UU Church and volunteers with the Harris County Election Services as an Election Clerk. She received her Bachelor of Science degree from Texas A&M University and Master of Library and Information Science degree from the University of Texas at Austin.

Dr. Hakduran Koc is the Secretary of the Board of Directors of Harmony. Dr. Koc is currently Chairman and Associate Professor of Computer Engineering Program at University of Houston – Clear Lake. After receiving his B.S. degree in Electronics Engineering, he worked in the industry for two years. Then, he joined Syracuse University where he received his M.S. and Ph.D. degrees in Computer Engineering. During his graduate study, Dr. Koc was at The Pennsylvania State University as visiting scholar. His research and teaching are in the areas of digital system design, embedded systems, and computer architecture. His research work is published in prestigious academic conferences and journals. Dr. Koc is also very active in professional service. He regularly reviews scientific papers for several academic journals and conferences. He has served as executive committee member for Institute of Electrical and Electronics Engineers (IEEE) Galveston Bay Section at various capacities including chair, vice chair, and secretary; and he has been the counselor of IEEE Student Branch at UHCL. He regularly serves in science fairs for middle and high school students. Dr. Koc is the recipient of several teaching and leadership awards including IEEE-USA Professional Achievement for Individuals Award, UHCL Piper Nominee Finalist, IEEE Outstanding Student Branch Counselor Award and IEEE MGA Outstanding Small Section Award. He is a member of IEEE and ACM.

Ms. Laura Gonzalez is a Board Member of the Board of Directors of Harmony. Ms. Laura Gonzalez holds the distinction of being the first Harmony alumna to serve on the board, having attended Harmony schools for nine years and interned as staff at Harmony. Her commitment to education was further demonstrated when she became a recipient of the Rice Investment Grant, covering all tuition costs while earning her bachelor’s degree at Rice University. Currently serving as an academic advisor at the Bauer School of Business, Ms. Gonzalez specializes in guiding students toward successful careers as accountants. In her role as an educator, Ms. Gonzalez is dedicated to addressing the unique needs of each student, fostering a sense of belonging, and preparing them for success in our ever-evolving world. As a leader, she prioritizes cultivating a passion for lifelong learning, creating a thriving and inclusive workplace that inspires excellence, and driving organizational success through ethical decision-making, transparency, and accountability.

Dr. Mehmet Argin is a Board Member of the Board of Directors of Harmony. Dr. Argin is currently dean of the Center of Excellence at the Houston Community College. He received his Ph.D. degree from Arizona State University in Electrical Engineering. Towards the end of his Ph.D., he joined the practice of K-12 education at the STEM-focused charter school system in Arizona. He continued to work in charter schools in Arizona and California until 2015. During his time in K-12 education, Dr. Argin developed and led many STEM activities and secured competitive grants for his schools. Dr. Argin is active in professional service. He serves as a member of North American Process Technology Alliance (NAPTA) Outreach committee and Economic Alliance Houston Port Region – Workforce Task Force. He is also a member of the Institute of Electrical and Electronics Engineers (IEEE) and the American Society for Engineering Education (ASEE). In addition, Dr. Argin has been teaching engineering and electronics classes for the Houston Community College since 2017.

Ms. Kimberly D. House is a Board Member of the Board of Directors of Harmony. Ms. House has served in local government for the City of Houston over 30 years with primary focus in financial and administrative management. In her current role as Division Manager, she oversees day-to-day financial activity, programmatic and financial reporting, and compliance for various federal grant programs. With a strong commitment to supporting youth, Kimberly has volunteered

her time in public schools, extracurricular programs, and educational initiatives. She, along with her husband, established an endowed scholarship to support college students seeking a degree in business. Kimberly holds a Bachelor of Science Degree in Management, a Certified Grants Management Specialist certification, and is a candidate for Certified Governmental Financial Manager.

Dr. Simon Koch is a Board Member of the Board of Directors of Harmony. Dr. Koch is on the teaching faculty of Rice University in the Department of Computer Science and an Assistant Professor in the Department of Computer Science for Lamar University. In addition, Dr. Koch is a Technical Consultant for ScienceDocs Inc. He holds a Ph.D. in Applied Science/Applied Computing. His research interests include Biomedical Image Processing and Analysis for Skin Cancer as well as Biomedical Visualization and Virtual Reality. Dr. Koch has many published articles in his area of research interest including: “Enhancing Medical Training through Learning from Mistakes by Interacting with an Ill-trained Reinforcement Learning Agent and “Scoring Metrics for Assessing Skills in Arthroscopic Rotator Cuff Repair”.

SENIOR LEADERSHIP

Listed below are members of Harmony’s central office senior leadership, along with a brief description of the responsibilities of their respective positions and biographical information pertaining to each.

Mr. Fatih Ay, MEd, Chief Executive Officer – Mr. Ay has served as Chief Executive Officer since October of 2017. Beginning as a graduate assistant at the University of Houston, and later as a science teacher at Harmony’s first campus in Houston, a principal in El Paso and most recently as the Dallas Area Superintendent, Mr. Ay is poised to continue the implementation of Harmony’s 2020 Strategic Plan as a 14-year veteran of Harmony. Mr. Ay coordinated Harmony T-STEM initiative statewide and adopted PLTW Pre-Engineering program at middle and high school level during his tenure as the Principal at HSA El Paso. Mr. Ay coordinated Harmony T-STEM initiative statewide and adopted PLTW Pre-Engineering program at middle and high school level during his tenure as the Principal at HSA El Paso. Mr. Ay received his Bachelor of Science in Physics and Education. He has a master’s degree from the University of Houston in Curriculum and Instruction.

Dr. Nihat Bayhan, Deputy Superintendent of Operations and Business– Dr. Bayhan started in 2002 as a math teacher at Harmony’s first Austin campus, which was only the second campus in the state. He previously served as Harmony’s Chief Financial Officer and Chief Internal Auditor from 2014-2020 and an Area Superintendent from 2010-2014. Dr. Bayhan’s career in education spans 20 years and holds teacher, principal, and superintendent certifications. He earned a Bachelor of Science in Mathematics from Bogazici University in Turkey, his master’s degree from Texas A&M, and Doctor of Education Degree in Educational Leadership from Lamar University.

Mr. Umit Alpaslan, MEd, Senior Deputy Superintendent– Mr. Alpaslan has worked as Deputy Superintendent of Harmony Public Schools since 2018. He earned a bachelor’s in chemistry education in 2002. In 2009, he earned a master’s degree in education administration from Sam Houston State University in Texas. He worked as a science teacher, assistant principal and principal at Harmony Public Schools before ultimately being named area superintendent for El Paso cluster. In 2012, he was named superintendent of Dove Public Charter Schools, which has elementary and secondary schools in Oklahoma City and Tulsa in the state of Oklahoma. In 2018, he earned the distinction of Rising Star Award in Character Education from Character.org.

Mrs. Ebru Akyildiz, MBA, Chief Financial Officer – Mrs. Akyildiz has been a part of the Harmony family for more than 13 years, serving in a variety of key positions in accounting, payroll, benefits, and capital management. For the past nine years, her primary responsibilities have included managing and finding financial resources for Harmony’s capital needs, overseeing financial accountability through Financial Integrity Rating System of Texas (FIRST), working with rating agencies Standard and Poor’s and Moody’s to improve and maintain Harmony’s credit rating, and managing financial reporting to internal and external stakeholders, as well as investment and all banking relations. Mrs. Akyildiz received her Bachelor of Business Administration and Master of Business Administration from the University of Houston. Mrs. Akyildiz succeeds Dr. Nihat Bayhan, who was promoted to Harmony Deputy Superintendent of Operation & Business in 2020.

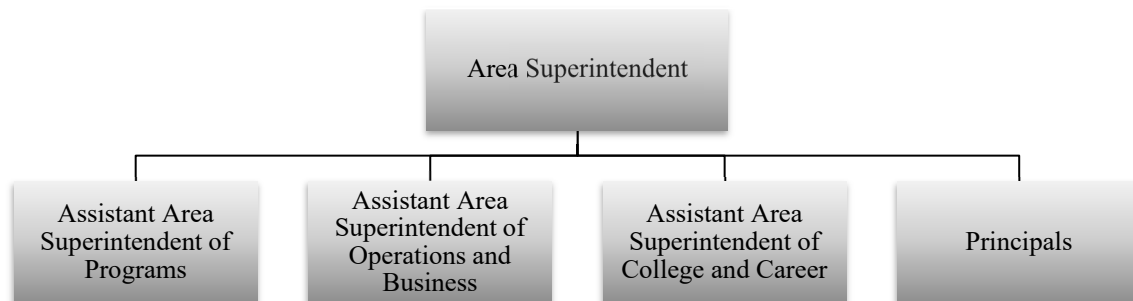
Mr. Emre Altun, MEd, Chief HR Officer – Emre Altun is Chief Human Resources Officer at Harmony, a Texas-based charter school system that serves over 35,000 students and employs more than 4,200 employees. He provides leadership in the operation of the Human Resources Department in such a manner as to promote the overall efficiency of the school system and enhance the performance and morale of Harmony personnel. Mr. Altun joined Harmony in 2006 as an Assistant Principal and he served in various positions with progressive responsibilities including Assistant Director of Special Programs, Human Resources Director, Director of Global Talent, and Chief HR Officer. He earned a master’s degree in Gifted and Talented Education at the University of Houston. Mr. Altun holds Texas Educator certifications in the areas of Math (4-8), ESL, Special Education, and Superintendent.

Mr. Andy Ayyildiz, MEd, Chief Programs Officer – Mr. Ayyildiz has been a member of the Harmony team since 2002 and has served as Harmony Director of Curriculum at the Central Office since 2012. He was also director of Harmony’s signature event, I-SWEEP International Science Fair, from 2007-2017. From the day he started as science teacher at Harmony’s first campus in Houston, moving up to administrative positions, Mr. Ayyildiz has played very important roles in creating Harmony’s curriculum and assessment system, professional learning communities, response to Intervention (RTI) model/Intervention system, teacher playbook, and high school programs and college counseling. Mr. Ayyildiz received a Bachelor of Science degree from Bogazici University, and a Master of Education in Educational Leadership and Administration from the University of Texas at Tyler.

In addition to the leadership described above, each of the Charter Schools is led by a principal, who reports to an Area Superintendent. The Charter Schools are organized into six “clusters,” and each of the Area Superintendents reports to the Deputy Superintendent of Schools.

Cluster Organizational Structure

The chart set forth below shows the organizational structure of the cluster offices.



Succession Planning

Harmony maintains a succession plan for every executive position (i.e., Chief Executive Officer, Deputy Superintendents, Chief Financial Officer, Chief HR Officer, Chief Programs Officer, Chief Operating Officer, each Area Superintendent, and each Principal). Each executive works closely with several other employees in his/her division and provides mentoring to prepare others to fill his/her position in the future. Harmony has consistently used this process of mentoring and advancement to fill vacant leadership positions. For example, both the Chief Financial Officer and Chief Programs Officer work closely with the Deputy Superintendents and are consulted for input on many important decisions.

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EMPLOYEES

General

The following table provides information regarding the number of professional staff and faculty that Harmony employed as of the first day of the school year for the years set forth below.

PROFESSIONAL STAFF AND FACULTY					
FACULTY & STAFF	2019-20	2020-21	2021-22	2022-23	2023-24
Teachers	2,339	2,313	2,463	2,677	2,594
Administration (Leadership)	351	368	393	420	562
Central Administration	138	142	158	171	193
Total	2,828	2,823	3,014	3,268	3,349
FACULTY	2019-20	2020-21	2021-22	2022-23	2023-24
Beginning Teachers	258	152	354	274	154
1-5 Years' Experience	1,153	1,091	978	1,062	1,016
6-10 Years' Experience	549	647	654	774	756
Over 10 Years' Experience	379	423	477	567	668
Number of Students Per Teacher	14.84	15.13	14.90	15.00	15.99

Source: Harmony.

Labor Relations

All of Harmony's teachers, support staff and other employees are at-will employees of Harmony and are held to high standards. Harmony believes that the faculty, administration and the Board of Directors have a strong and collaborative working relationship. Harmony had an approximately 80% teacher retention rate between the commencement of the 2022-23 and the 2023-24 school years. Harmony maintains and develops positive relationships with its teachers and considers its relationship with its teachers to be very good.

ENROLLMENT

Enrollment in the Charter Schools is open to all State residents within Harmony's geographic regions, subject to compliance with State law, which prohibits discrimination in admission policy on the basis of sex, national origin, ethnicity, religion, disability, academic, artistic, or athletic ability, or the district the applicant would otherwise attend. State law requires that open-enrollment Charter Schools, such as the Charter Schools, must (i) require applicants to complete and submit an application not later than a reasonable deadline established by the school, and (ii) upon receipt of more acceptable applications for admission than available positions in the school, fill the available positions either by lottery, or if the school has published a notice of the opportunity to apply the school may fill available positions in the order in which applications were received before the application deadline. See "APPENDIX A — SUMMARY OF CERTAIN

PROVISIONS OF TEXAS CHARTER SCHOOL LAW — GENERAL — ADMISSION AND EVALUATION – Admission.”

Under its general admissions policies, Harmony accepts applications year round, on a school-by-school basis. Any student who lives in the area of a Charter School and who submits a timely application may attend such Charter School. If the number of applications exceeds such Charter School’s capacity, applicants are selected through a lottery process.

The following table sets forth data provided by Harmony regarding the district’s historical and projected enrollment. For 2024-25 and thereafter, data presented represents projected enrollment as estimated by Harmony, and is subject to the general qualifications and limitations described under “**INTRODUCTION — Forward-Looking Statements**” in the Official Statement. The table includes projected information for Harmony’s currently existing campuses and planned campuses included as part of the Project.

TABLE 4: HISTORICAL AND FUTURE PROJECTED ENROLLMENT									
Grade	Historical				Current	Projected			
	2019-20⁽¹⁾	2020-21⁽²⁾	2021-22⁽¹⁾	2022-23⁽¹⁾	2023-24⁽¹⁾	2024-25	2025-26	2026-27	2027-28
PreK	580	632	653	902	894	903	1,012	1,029	1,050
K	2,499	2,627	2,621	3,007	3,065	3,096	3,227	3,200	3,250
1	2,488	2,770	2,697	3,155	3,323	3,356	3,490	3,300	3,351
2	2,593	2,759	2,770	3,130	3,354	3,388	3,521	3,350	3,375
3	2,573	2,704	2,715	3,107	3,254	3,287	3,419	3,150	3,201
4	2,631	2,734	2,715	3,060	3,190	3,222	3,354	3,200	3,253
5	2,724	2,803	2,756	3,106	3,099	3,130	3,261	3,276	3,300
6	3,585	3,643	3,500	3,731	3,878	3,916	4,055	4,055	4,683
7	3,542	3,566	3,602	3,706	3,851	4,051	4,191	4,191	4,191
8	3,303	3,450	3,438	3,601	3,754	4,029	4,169	4,169	4,169
9	2,691	2,658	2,866	2,902	2,924	3,329	3,462	3,462	3,462
10	2,242	2,405	2,390	2,670	2,602	2,953	3,082	3,982	3,982
11	1,887	2,007	2,097	2,176	2,302	2,438	2,463	2,563	2,563
12	1,722	1,750	1,888	1,903	1,993	2,100	2,121	2,221	2,221
	35,060	36,508	36,708	40,156	41,483	43,198	44,827	45,148	46,051

Source: Harmony

⁽¹⁾ Data presented is as of December 31 of each year.

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WAITING LIST

Once a lottery for admission has been held and all remaining slots are filled, students are placed on a waiting list in the order in which their names are selected. If there are additional students who apply after the lottery has been conducted, they are added to the waiting list in the order in which their applications are received. Each year, students wishing to enroll must reapply, a new lottery is conducted, and a new waiting list prepared. Harmony currently maintains waiting lists on a campus-by-campus basis. The table below sets forth the current waiting list as of as of October 9, 2023. Harmony is currently enrolling students for the 2024-25 school year. A new waitlist will be generated the first day of the 2024-25 school year.

TABLE 5: WAITING LIST DATA		
CHARTER NAME/CAMPUS NAME	ENROLLMENT FOR 2023-24 ⁽¹⁾	# ON WAITING LIST ⁽²⁾
Harmony Public Schools (Houston South) (101-846)		
1. Harmony Science Academy– Houston	716	58
2. Harmony School of Innovation – Houston	496	228
3. Harmony School of Ingenuity – Houston	763	109
4. Harmony School of Science – Houston	CLOSED	CLOSED
5. Harmony School of Fine Arts and Technology – Houston	755	649
6. Harmony School of Exploration – Houston	701	1451
7. Harmony Virtual Academy	240	157
Harmony Public Schools (Houston North) (101-858)		
1. Harmony School of Excellence – Houston	1104	128
2. Harmony School of Endeavor - Houston	529	155
3. Harmony Science Academy – Bryan/College Station	389	31
4. Harmony of Enrichment – Houston	679	599
5. Harmony School of Technology – Houston	700	121
6. Harmony School of Advancement– Houston	792	515
7. Harmony School of Discovery – Houston	857	604
8. Harmony School of Achievement – Houston	667	23
9. Harmony Science Academy - Cypress	664	279
10. Harmony School of Excellence - Katy	752	1394
Harmony Public Schools (Houston West) (101-862)		
1. Harmony Science Academy – Sugar Land	756	1044
2. Harmony School of Innovation – Sugar Land	858	228
3. Harmony Science Academy – Katy	1342	1458
4. Harmony Science Academy – Beaumont	671	1041
5. Harmony School of Innovation - Katy	786	77
6. Harmony School of Excellence – Sugar Land	1443	1165
Harmony Public Schools (North Texas) (161-807)		
1. Harmony Science Academy – Waco	565	50
2. Harmony Science Academy – Dallas	1070	6
3. Harmony Science Academy – Garland	748	512
4. Harmony School of Innovation – Garland	614	48
5. Harmony School of Innovation – Dallas	502	63
6. Harmony Science Academy – Fort Worth	640	455
7. Harmony Science Academy – Grand Prairie	489	79
8. Harmony Science Academy – Euless	622	52
9. Harmony School of Excellence – Dallas	603	37
10. Harmony School of Innovation – Fort Worth	1049	964
11. Harmony School of Innovation – Euless	696	70
12. Harmony Science Academy – Carrollton	550	15
13. Harmony School of Innovation – Carrollton	436	97

TABLE 5: WAITING LIST DATA

CHARTER NAME/CAMPUS NAME	ENROLLMENT FOR 2023-24 ⁽¹⁾	# ON WAITING LIST ⁽²⁾
14. Harmony School of Innovation – Waco	613	130
15. Harmony Science Academy – Plano	599	256
16. Harmony School of Innovation – Grand Prairie	524	62
Harmony Public Schools (Central Texas) (227-816)		
1. Harmony Science Academy – Austin	698	178
2. Harmony Science Academy – Pflugerville	798	20
3. Harmony School of Excellence – Austin	557	25
4. Harmony School of Innovation – Austin	343	24
5. Harmony School of Science – Austin	461	168
6. Harmony School of Endeavor – Austin	961	937
7. Harmony Science Academy – Cedar Park	704	376
Harmony Public Schools (West Texas) (071-806)		
1. Harmony Science Academy – El Paso	1005	104
2. Harmony School of Innovation – El Paso	1371	72
3. Harmony Science Academy – Lubbock	622	45
4. Harmony Science Academy – Odessa	544	756
5. Harmony School of Excellence – El Paso	666	135
6. Harmony School of Science – El Paso ⁽²⁾	1127	480
Harmony Public Schools (South Texas) (015-828)		
1. Harmony Science Academy – San Antonio	1,483	2
2. Harmony School of Innovation – San Antonio	409	12
3. Harmony Science Academy – Laredo	674	41
4. Harmony School of Innovation – Laredo	667	273
5. Harmony Science Academy – Brownsville	684	135
6. Harmony School of Innovation – Brownsville	508	7
7. Harmony School of Excellence – San Antonio	556	2
8. Harmony School of Excellence – Laredo	316	18
9. Harmony School of Science – San Antonio	502	11
TOTALS	41,483	18,231

Source: Harmony
 (1) As of December 31, 2023.
 (2) For the 2023-24 school year.

STUDENT RETENTION

The following table shows the number of Harmony’s students (aggregate, for all campuses) at the beginning of the 2022-23 school year which Harmony retained as of the beginning of the 2023-24 school year.

STUDENT RETENTION DATA⁽¹⁾			
	BEGINNING OF 2022-23	BEGINNING OF 2023-24	PERCENTAGE
NUMBER OF STUDENTS	38,414	30,312	78.91%

Source: Harmony

(1) Does not include high school graduates and students graduating 8th grade in San Antonio-Innovation, Bryan-Academy, Lubbock-Academy and Odessa-Academy where there is no Harmony operated high school. Data is typically updated by Harmony each October.

Competing Schools

The Charter Schools face constant competition for students with public schools, private schools and other charter schools and there can be no assurance that they will continue to attract and retain the number of students that are needed to generate sufficient revenues for Harmony to make payments representing debt service on the Bonds. See “**RISK FACTORS — Competition for Students.**”

ACCOUNTABILITY RATINGS AND STUDENT PERFORMANCE

The Student Assessment Division of the Texas Education Agency manages and oversees the development, administration, scoring, and analysis of the State’s assessment program, which is designed to measure the extent to which a student has learned and is able to apply the defined knowledge and skills at each tested grade level. Beginning in the spring of 2012, the State of Texas Assessments of Academic Readiness (“*STAAR*”) assessments replaced the Texas Assessment of Knowledge and Skills (“*TAKS*”). The STAAR program at grades 3-8 assesses the same subjects and grades that were previously assessed on TAKS. In high school, STAAR replaced grade-specific assessments with 5 end-of-course assessments (“*EOCs*”). The State of Texas Assessments of Academic Readiness Modified (“*STAAR Modified*”) is no longer offered to students with disabilities as of the 2014-2015 school year, as a result of requirements from the U.S. Department of Education. Testing accommodations have been made for students with disabilities who meet specific eligibility requirements. The Student Assessment Division oversees the administration of the State of Texas Assessments of Academic Readiness Alternate 2 (“*STAAR Alternate 2*”) for the purpose of assessing students in grades 3-8 and high school who have significant cognitive disabilities and are receiving special education services. The Student Assessment Division also oversees the administration of STAAR Spanish for students in grades 3-5 for whom a Spanish version of STAAR is the most appropriate measure of their academic progress, and provides for the administration of the Texas English Language Proficiency Assessment System (“*TELPAS*”) assessments, which are designed to assess the progress that limited English proficient students make in learning the English language.

Due to COVID-19, on March 16, 2020 the Governor waived STAAR testing for the 2019-2020 school year. STAAR testing was conducted for the 2020-21 and the 2021-22 school years.

Historical and Current Accountability Rating Frameworks

The State’s accountability system assigns ratings to every campus and district in the public education system each year. The State’s accountability system has been amended several times in recent years. For purposes of this Appendix B, three separate accountability systems have been analyzed: (i) accountability ratings for the 2017-2018 year; and (ii) accountability ratings for the 2018-2019 year which also applies to 2019-20, 2020-21 and 2021-22 years unless otherwise noted below. Further explanation of each of these respective systems is provided below.

2017-2018 Accountability Rating

For the 2017-2018 school year, the State revised its accountability rating system to better align federal funding with priorities within TEA’s strategic plan. See “**RISK FACTORS – Federal Accountability Measures**” in the Official Statement. For the 2017-2018 year, the accountability ratings were as follows:

- (a) *Met Standard*. Assigned for overall performance and for performance in each domain to campuses that met the performance targets.
- (b) *Improved Required*. Assigned for overall performance and for performance in each domain to campuses that did not meet the performance targets.

(c) *Met Alternative Standard*. Assigned for overall performance and for performance in each domain to alternative education campuses that met the performance targets.

(d) *Not Rated*. Assigned to campuses that—under certain, specific circumstances—did not receive a rating.

The overall design of the accountability system evaluated performance according to three domains:

(a) *Student Achievement Domain*. Evaluated performance across all subjects for all students, on both general and alternate assessments, College, Career, and Military Readiness (CCMR) indicators, and graduation rates.

(b) *Student Progress Domain*. Measured district and campus outcomes in two areas: the number of students that grew at least one year academically (or were on track) as measured by STAAR results and the achievement of all students relative to districts or campuses with similar economically disadvantaged percentages.

(c) *Closing the Gaps Domain*. Used disaggregated data to demonstrate differentials among racial/ethnic groups, socioeconomic backgrounds and other factors. The indicators included in this domain aligned the state accountability system with the Every Student Succeeds Act (ESSA).

2018-2019 Accountability Rating

The State again revised the accountability system for the 2018-2019 school year. Currently, districts and campuses receive letter grades both in an overall context, as well as for each respective domain evaluated:

- (a) *A (Exemplary Performance), B (Recognized Performance), C (Acceptable Performance), or D (In Need of Improvement)*: Assigned for overall performance and for performance in each domain to districts (including those evaluated under alternative education accountability (AEA)) that meet the performance target for the letter grade.
- (b) *F (Unacceptable Performance)*. Assigned for overall performance and for performance in each domain to districts (including AEAs) that do not meet the performance target to earn at least a D.
- (c) *Not Rated*. Assigned to districts that—under certain, specific circumstances—do not receive a rating.

To learn more about the A–F accountability system, visit <https://tea.texas.gov/A-F/>.

The current accountability system evaluates performance in the following three domains:

- (a) *Student Achievement*. Evaluates performance across all subjects for all students, on both general and alternate assessments, College, Career, and Military Readiness (CCMR) indicators, and graduation rates.
- (b) *School Progress*. Measures district and campus outcomes in two areas: the number of students that grew at least one year academically (or are on track) as measured by STAAR results and the achievement of all students relative to districts or campuses with similar economically disadvantaged percentages.
- (c) *Closing the Gaps*. Uses disaggregated data to demonstrate differentials among racial/ethnic groups, domain's construction, align the state accountability system with the Every Student Succeeds Act (ESSA).

Distinction designations are awarded to campuses in the following areas:

- Academic Achievement in English Language Arts/Reading
- Academic Achievement in Mathematics
- Academic Achievement in Science
- Academic Achievement in Social Studies
- Top 25 Percent: Comparative Academic Growth
- Top 25 Percent: Comparative Closing the Gaps
- Postsecondary Readiness

For the 2019-20 and 2020-21 school year all Texas districts and campuses were labeled Not Rated: Declared State of Disaster. For the 2021-22 school year all Texas districts and campuses were labeled A, B, C or Not Rated: Senate Bill 1365. TEA has announced preliminary plans to implement an updated A-F accountability ratings framework for the 2023 accountability ratings. The 2022-2023 accountability reports are not yet publicly available. The release of these reports is pending judicial ruling. Below is a table containing the 2021-22 accountability ratings.

ACCOUNTABILITY RATINGS				
ACCOUNTABILITY DOMAIN	DOMAIN 1: STUDENT ACHIEVEMENT	DOMAIN 2: STUDENT PROGRESS	DOMAIN 3: CLOSING THE GAPS	OVERALL
Harmony Public Schools (Houston South) (District) (101-846)	B (89)	A (94)	B (85)	A (92)
1. Harmony Science Academy – Houston ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	A (93)	A (95)	B (88)	A (93)
2. Harmony School of Innovation – Houston ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	A (90)	A (94)	A (92)	A (93)
3. Harmony School of Ingenuity – Houston	B (84)	A (91)	C (78)	B (87)
4. Harmony School of Science – Houston ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾	C (74)	A (92)	B (81)	B (89)
5. Harmony School of Fine Arts and Technology – Houston	NR (60)	A (90)	C (75)	B (86)
6. Harmony School of Exploration – Houston ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾⁽⁶⁾	B (85)	A (96)	B (87)	A (93)
Harmony Public Schools (Houston North) (District) (101-858)	B (89)	A (93)	B (89)	A (92)
1. Harmony School of Excellence – Houston ⁽²⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	A (90)	A (92)	A (98)	A (94)
2. Harmony School of Endeavor- Houston ⁽⁴⁾	NR (58)	B (80)	C (73)	C (78)
3. Harmony Science Academy – Bryan	NR (58)	C (72)	NR (68)	C (71)
4. Harmony School of Technology – Houston ⁽¹⁾⁽²⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	B (81)	A (92)	A (93)	A (92)
5. Harmony School of Enrichment – Houston	C (73)	A (92)	C (78)	B (88)
6. Harmony School of Advancement High School – Houston ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾	A (90)	A (91)	B (84)	B (89)
7. Harmony School of Discovery – Houston ⁽²⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	A (94)	A (94)	A (90)	A (93)
8. Harmony School of Achievement – Houston ⁽¹⁾⁽²⁾⁽⁶⁾	B (89)	A (96)	A (94)	A (95)
9. Harmony Science Academy- Cypress ⁽¹⁾⁽²⁾⁽⁴⁾	C (78)	A (91)	B (82)	B (88)

ACCOUNTABILITY RATINGS				
ACCOUNTABILITY DOMAIN	DOMAIN 1: STUDENT ACHIEVEMENT	DOMAIN 2: STUDENT PROGRESS	DOMAIN 3: CLOSING THE GAPS	OVERALL
Harmony Public Schools (Houston West) (District) (101-862)⁽⁶⁾	A (95)	A (95)	A (95)	A (95)
1. Harmony Science Academy- Sugar Land <small>(1)(2)(3)(4)(5)(6)(7)</small>	A (92)	A (96)	A (100)	A (97)
2. Harmony School of Innovation – Sugar Land High School ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	A (96)	A (95)	A (90)	A (94)
3. Harmony Science Academy – Katy ⁽¹⁾⁽²⁾⁽⁵⁾⁽⁶⁾	A (91)	A (95)	A (92)	A (94)
4. Harmony Science Academy – Beaumont ⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	B (86)	A (92)	B (87)	A (91)
5. Harmony School of Innovation – Katy ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾	A (96)	A (94)	B (88)	A (94)
6. Harmony School of Excellence – Sugar Land ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	A (92)	A (93)	A (99)	A (95)
Harmony Public Schools (North Texas) (District) (161-807)	B (89)	A (93)	B (83)	A (90)
1. Harmony Science Academy – Waco	NR (57)	B (89)	C (70)	B (83)
2. Harmony Science Academy – Dallas ⁽²⁾	B (88)	A (91)	C (77)	B (87)
3. Harmony School of Innovation – Carrollton	C (72)	B (86)	C (77)	B (83)
4. Harmony Science Academy – Garland	C (74)	A (90)	C (78)	B (86)
5. Harmony School of Innovation – Garland ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	A (91)	A (92)	B (82)	B (89)
6. Harmony School of Innovation – Dallas	A (91)	A (92)	B (80)	B (88)
7. Harmony Science Academy – Fort Worth	C (75)	B (85)	C (77)	B (83)
8. Harmony Science Academy – Grand Prairie ⁽⁴⁾⁽⁵⁾	C (74)	A (92)	B (80)	B (88)
9. Harmony Science Academy – Euless ⁽²⁾⁽⁵⁾⁽⁶⁾	A (94)	A (93)	B (88)	A (92)
10. Harmony School of Excellence – Dallas	B (87)	A (91)	C (78)	B (87)
11. Harmony School of Innovation – Fort Worth ⁽⁴⁾	A (93)	A (92)	A (92)	A (93)
12. Harmony School of Innovation – Euless ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	B (88)	A (95)	A (90)	A (94)
13. Harmony Science Academy – Carrollton ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾	A (90)	A (91)	B (84)	B (89)
14. Harmony School of Innovation – Waco	B (81)	A (91)	C (73)	B (86)
15. Harmony Science Academy – Plano	C (73)	B (89)	C (77)	B (85)
16. Harmony School of Innovation – Grand Prairie	NR (56)	B (89)	C (74)	B (85)

ACCOUNTABILITY RATINGS				
ACCOUNTABILITY DOMAIN	DOMAIN 1: STUDENT ACHIEVEMENT	DOMAIN 2: STUDENT PROGRESS	DOMAIN 3: CLOSING THE GAPS	OVERALL
Harmony Public Schools (Central Texas) (District) (227-816)	B (88)	A (92)	B (83)	B (89)
1. Harmony Science Academy – Austin	NR (58)	B (86)	C (75)	B (83)
2. Harmony Science Academy – Pflugerville ⁽⁵⁾	B (88)	A (91)	B (84)	B (89)
3. Harmony School of Excellence – Austin	B (80)	B (88)	C (71)	B (83)
4. Harmony School of Innovation – Austin	NR (67)	A (92)	C (78)	B (88)
5. Harmony School of Science – Austin ⁽¹⁾⁽⁵⁾	C (79)	A (92)	B (81)	B (89)
6. Harmony School of Endeavor – Austin ⁽¹⁾⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾	A (94)	A (94)	B (86)	A (92)
7. Harmony Science Academy – Cedar Park	A (90)	A (92)	A (96)	A (93)
Harmony Public Schools (West Texas) (District) (071-806)	B (89)	A (94)	B (88)	A (92)
1. Harmony Science Academy – El Paso ⁽²⁾⁽³⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	A (95)	A (94)	A (94)	A (95)
2. Harmony School of Excellence – El Paso ⁽¹⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	B (89)	A (96)	A (96)	A (96)
3. Harmony School of Innovation – El Paso ⁽²⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	B (88)	A (91)	B (84)	B (89)
4. Harmony Science Academy – Lubbock	NR (69)	B (88)	C (73)	B (84)
5. Harmony Science Academy – Odessa ⁽⁵⁾	C (72)	B (89)	B (81)	B (87)
6. Harmony School of Science – El Paso ⁽¹⁾	C (76)	B (85)	C (73)	B (81)
Harmony Public Schools (South Texas) (District) (015-828)	B (87)	B (89)	B (83)	B (87)
1. Harmony Science Academy – San Antonio ⁽⁵⁾	B (87)	A (91)	B (83)	B (89)
2. Harmony School of Innovation – San Antonio	NR (58)	NR (65)	NR (66)	NR (65)
3. Harmony Science Academy – Laredo ⁽²⁾⁽⁴⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	C (79)	A (91)	A (100)	A (94)
4. Harmony School of Innovation – Laredo	NR (58)	B (88)	C (74)	B (84)
5. Harmony Science Academy – Brownsville	NR (59)	B (85)	C (74)	B (82)
6. Harmony School of Excellence – Laredo ⁽¹⁾⁽²⁾⁽³⁾⁽⁵⁾⁽⁶⁾⁽⁷⁾	B (88)	A (92)	B (84)	A (90)
7. Harmony School of Innovation – Brownsville ⁽⁵⁾	B (89)	A (93)	B (84)	A (90)
8. Harmony School of Excellence – San Antonio	NR (58)	B (85)	C (71)	B (81)

Source: Harmony, from information made available by the TEA.

⁽¹⁾ Received distinction of Academic Achievement in Reading/ELA.

⁽²⁾ Received distinction of Academic Achievement in Mathematics.

⁽³⁾ Received distinction of Academic Achievement in Science.

⁽⁴⁾ Received distinction of Academic Achievement in Social Studies.

⁽⁵⁾ Received distinction for Comparative Academic Growth.

⁽⁶⁾ Received distinction for Comparative Closing the Gaps.

⁽⁷⁾ Received distinction for Postsecondary Readiness.

The table following compares Harmony’s districts with other traditional school districts from which Harmony obtains a substantial number of students. The following tables are based on the 2021-22 TEA Accountability Ratings of other charter districts and ISDs that Harmony believes are its primary competitors. Scores for the 2022-23 school year have not been released by TEA due to litigation.

COMPETITION				
DISTRICT NAME	INDEX 1: STUDENT ACHIEVEMENT	INDEX 2: STUDENT PROGRESS	INDEX 3: CLOSING THE GAPS	OVERALL
HARMONY (SOUTH HOUSTON)	B (89)	A (94)	B (86)	A (92)
HARMONY (NORTH HOUSTON)	B (89)	A (93)	B (89)	A (92)
HARMONY (WEST HOUSTON)	A (95)	A (95)	A (95)	A (95)
HARMONY (NORTH TEXAS)	B (89)	A (93)	B (83)	A (90)
HARMONY (CENTRAL TEXAS)	B (88)	A (92)	B (83)	B (89)
HARMONY (WEST TEXAS)	B (89)	A (94)	B (88)	A (92)
HARMONY (SOUTH TEXAS)	B (87)	B (89)	B (83)	B (87)
IDEA	B (89)	B (89)	B (88)	B (89)
YES PREP	B (85)	A (91)	C (76)	B (87)
UPLIFT	B (86)	B (89)	B (80)	B (86)
KIPP TEXAS	B (84)	A (90)	C (76)	B (86)
INTERNATIONAL LEADERSHIP	B (83)	B (89)	C (78)	B (86)
AUSTIN ISD	B (89)	B (89)	B (86)	B (88)
ALDINE ISD	NR (63)	B (80)	NR	C (77)
BEAUMONT ISD	NR (62)	C (73)	NR	NR (67)
BROWNSVILLE ISD	B (89)	A (94)	B (86)	A (92)
BRYAN ISD	C (79)	A (90)	C (76)	B (86)
COLLEGE STATION ISD	B (89)	B (89)	B (89)	B (89)
DALLAS ISD	C (78)	B (89)	C (78)	B (86)
ECTOR COUNTY ISD	C (73)	B (85)	C (76)	B (82)
EL PASO ISD	B (81)	B (89)	B (82)	B (87)
FORT BEND ISD	B (89)	B (89)	B (88)	B (89)
FORT WORTH ISD	NR (69)	B (83)	C (71)	C (79)
GARLAND ISD	B (86)	B (89)	B (83)	B (87)
GRAND PRAIRIE ISD	C (76)	B (85)	C (76)	B (82)
HOUSTON ISD	C (78)	B (89)	B (86)	B (88)
HURST-EULESS BEDFORD ISD	B (89)	A (92)	A (95)	A (93)
LAREDO ISD	B (88)	A (94)	B (83)	A (91)
LUBBOCK ISD	B (82)	B (89)	B (83)	B (87)
SAN ANTONIO ISD	C (74)	B (89)	C (74)	B (85)
WACO ISD	NR (66)	C (79)	NR (650)	C (75)

FEDERAL ACCOUNTABILITY MEASURES

Title I of the Elementary and Secondary Education Act of 1965, as reauthorized by the Every Student Succeeds Act (“*ESSA*”) of 2015, requires each state to submit a plan outlining its statewide accountability system to the U.S. Department of Education (the “*USDOE*”). The plan submitted by the State was approved by USDOE in March 2018 (the “Texas Plan”).

Under the Texas Plan, the TEA will maintain rigorous, yet achievable goals for all student groups; create stronger alignment between all State and federal program areas; shift the proficiency level for students from the “Approaches” label on STAAR to the “Meets” label; and better align federal funding with priorities within TEA’s strategic plan. Certain information regarding State assessments, including accountability and transparency metrics, is set forth above under “—**STUDENT PERFORMANCE AND ACCOUNTABILITY RATINGS**” in this Appendix B.

Any failure of Harmony to meet the requirements of ESSA or the Texas Plan may have a material adverse effect on the ability of Harmony the ability of Harmony to generate revenues to make debt service payments on the Bonds and any other obligations of Harmony.

On March 27, 2020 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Assessment requirements in section 1111(b)(2) for the school year 2019-2020.
- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) that are based on data from the 2019-2020 school year.
- Report card provisions related to assessments and accountability in section 1111(h) based on data from the 2019-2020 school year. These include:
 - Section 1111(h)(1)(C)(i) (accountability system description);
 - Section 1111(h)(1)(C)(ii) (assessment results);
 - Section 1111(h)(1)(C)(iii)(I) (other academic indicator results);
 - Section 1111(h)(1)(C)(iv) (English language proficiency results);
 - Section 1111(h)(1)(C)(v) (school quality or student success indicator results);
 - Section 1111(h)(1)(C)(vi) (progress toward meeting long-term goals and measurements of interim progress);
 - Section 1111(h)(1)(C)(vii) (percentage of students assessed and not assessed);
 - Section 1111(h)(1)(C)(xi) (number and percentage of students with the most significant cognitive disabilities taking an alternate assessment); and
 - Section 1111(h)(2)(C) with respect to all waived requirements in section 1111(h)(1)(C) as well as 1111(h)(2)(C)(i)-(ii) (information showing how students in a school district and each school, respectively, achieved on the academic assessments compared to students in the State and school district).

On April 6, 2021 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Accountability and school identification requirements in sections 1111(c)(4) and 1111(d)(2)(C)-(D) for the 2020-2021 school year.
- Report card provisions related to accountability in section 1111(h) based on data from the 2020-2021 school year. These include:

- Section 1111(h)(1)(C)(i)(I)-(IV) and (VI) (Accountability system description, other than the list of comprehensive, targeted, and additional targeted support and improvement schools).
- Section 1111(h)(1)(C)(iii)(I) (Other Academic indicator results for schools that are not high schools).
- Section 1111(h)(1)(C)(v) (School Quality or Student Success indicator results).
- Section 1111(h)(1)(C)(vi) (Progress toward meeting long-terms goals and measurements of interim progress).
- Section 1111(h)(2)(C) with respect, at the local educational agency (LEA) and school levels, to all waived requirements in section 1111(h)(1)(C).

On April 22, 2022 the U.S. Department of Education waived the following requirements under the ESSA for Texas schools:

- Alternate Academic Achievement Assessments under 1111(d)(2)(D)(i)(I) for the 2020-2021 school year.

No waivers have been made since April 22, 2022.

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FINANCIAL AND OPERATIONS INFORMATION

Statement of Financial Position

The following is derived from Harmony's audited financial statements for the fiscal years ended June 30, 2023, June 30, 2022, and June 30, 2021.

Assets	FYE June 30, 2023	FYE June 30, 2022	FYE June 30, 2021
Current Assets:			
Cash	\$ 59,626,565	\$ 43,354,024	\$ 56,037,114
Restricted Cash	59,586,753	79,036,905	38,504,774
Investments	100,711,879	94,199,284	92,251,640
Receivables	90,779,176	94,513,380	72,314,141
Other receivables	3,900,536	2,638,462	5,157,896
Prepays	2,169,338	1,980,191	1,424,440
Total Current Assets:	316,774,247	315,722,246	265,690,005
Property and Equipment:			
Land	127,031,724	96,410,321	72,942,651
Building and improvements	544,805,590	407,056,275	392,351,505
Furniture and equipment	61,698,574	47,072,680	39,666,586
Construction in progress	48,278,072	111,836,433	27,848,819
Right-of-use asset under lease	128,651,099	126,884,513	124,592,421
	910,465,059	789,260,222	657,401,982
Less: Accumulated depreciation and amortization	(212,685,012)	(182,622,578)	(159,123,281)
	697,780,047	606,637,644	498,278,701
Other Assets:			
Deposits	274,709	274,709	274,709
Total Assets	\$ 1,014,829,003	\$ 922,634,599	\$ 764,243,415
Liabilities			
Current Liabilities:			
Accounts payable	\$ 24,470,578	\$ 25,912,828	\$ 13,215,825
Accrued liabilities	361,844	2,535,681	4,994,096
Wages payable	46,543,536	41,670,981	34,819,675
Payroll taxes payable	15,928,238	14,942,285	14,010,125
Interest payable	11,124,539	8,761,689	6,935,567
Deferred revenue	243,649	907,988	85,815
Current portion of lease liability	6,250,932	5,543,271	4,679,044
Current portion of bonds payable	10,475,000	6,870,000	6,625,000
Total Current Liabilities	115,398,316	107,144,723	85,365,147
Long-Term Liabilities:			
Lease liability net of current portion	103,565,397	108,575,604	112,117,256
Notes payable	107,719,040	33,865,977	64,200,157
Bonds payable net of premium, discount, issuance costs	517,835,587	529,910,799	373,207,875
Total Liabilities	\$ 844,518,340	\$ 779,497,103	\$ 634,890,435
Net Assets:			
Without donor restriction	\$ 63,760,283	\$ 42,837,950	\$ 32,353,181
With donor restriction	106,550,380	100,299,546	96,999,799
Total Net Assets	\$ 170,310,663	\$ 143,137,496	\$ 129,352,980
Total Liabilities and Net Assets	\$ 1,014,829,003	\$ 922,634,599	\$ 764,243,415

Source: Harmony, from its audited financial statements.

Statements of Activities

The following is derived from Harmony's audited financial statements for the fiscal years ended June 30, 2023, June 30, 2022, and June 30, 2021.

	FYE June 30, 2023	FYE June 30, 2022	FYE June 30, 2021
Support and Revenue			
Federal grants	\$ 104,214,415	\$ 97,056,703	\$ 45,628,418
State and local grants	419,779,298	385,646,588	381,898,886
Donations	11,175,731	8,941,677	840,105
Interest income	3,250,863	1,261,320	1,092,791
Other income	10,533,314	9,188,170	7,118,312
Net assets released from restrictions	-	-	-
Total Revenues	<u>\$ 548,953,621</u>	<u>\$ 502,094,458</u>	<u>\$ 436,578,512</u>
Expenses			
Salaries	\$ 312,360,146	\$ 295,053,800	\$ 245,105,976
Employee benefits	37,511,235	32,274,590	26,662,149
Payroll tax expense	5,301,943	5,355,299	4,564,280
Professional fees	42,684,322	41,415,652	25,042,207
Occupancy	2,546,464	3,817,218	3,763,951
Equipment lease	2,869,620	3,136,934	3,664,915
Supplies	19,256,224	23,217,387	30,197,307
Interest	29,950,174	22,962,486	22,708,802
Repairs and maintenance	15,502,015	14,474,714	10,355,763
Utilities	7,752,910	6,581,176	5,728,536
Travel	2,746,365	1,584,042	311,024
Insurance	2,886,063	2,256,855	1,719,514
Other expense	10,894,479	8,626,148	6,852,234
Depreciation and amortization	29,810,643	22,958,387	18,933,804
Amortization of bond issuance costs	-	531,083	263,104
Total Expenses	<u>522,072,603</u>	<u>484,245,771</u>	<u>405,873,566</u>
Change in net assets from operations	<u>26,881,018</u>	<u>17,848,687</u>	<u>3,704,946</u>
Non-Operating Revenues (Expenses)			
Extraordinary items	85,989	-	-
Gain (Loss) on sale of investments	206,160	(4,064,171)	(985,727)
Total Non-Operating Revenues (Expenses)	<u>292,149</u>	<u>(4,064,171)</u>	<u>(985,727)</u>
Total Change in net assets	<u>27,173,167</u>	<u>13,748,516</u>	<u>29,719,219</u>
Net Assets, Beginning of Year	<u>143,137,496</u>	<u>129,352,980</u>	<u>99,633,761</u>
Net Assets, End of Year	<u>\$ 170,310,663</u>	<u>\$ 143,137,496</u>	<u>\$ 129,352,980</u>

Source: Harmony, from its audited financial statements.

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Statements of Financial Position for the Unaudited Nine-Month Periods Ended March 31, 2024, and March 31, 2023

The following is derived from Harmony's unaudited nine-month financial statements for the nine-month periods ended March 31, 2024, and March 31, 2023.

	March 31, 2024	March 31, 2023
	(Unaudited)	(Unaudited)
REVENUES		
5700 LOCAL REVENUE	\$23,340,876	\$18,614,593
5800 STATE REVENUE	338,294,547	315,779,564
5900 FEDERAL REVENUE	55,603,358	61,204,293
Total Revenues	\$417,238,780	\$395,598,451
EXPENDITURES		
11-INSTRUCTION	\$189,601,298	\$191,918,506
12-INSTR RES&MEDIA SVCS	11,516	10,766
13-CURR DEV & INST STF DEV	19,551,996	19,862,417
21-CURR DEV & ADMIN	2,519,090	3,882,775
23-SCHOOL LEADERSHIP	35,517,678	34,672,218
31-COUNSELING AND EVALUATION SVCS	9,647,839	8,839,784
33-HEALTH SERVICES	271,665	226,179
34-TRANSPORTATION	1,095,376	791,621
35-FOOD SERVICES	12,490,051	11,227,340
36-CO-CUR/EXTRA CURR STU	3,333,177	3,434,740
41-GENERAL ADMIN	24,900,314	23,491,292
51-PLAN MAINT/ OPR PLANT	51,919,637	41,089,046
52-SECURITY & MONITORING SVCS	3,068,812	2,755,021
53- DATA PROCESSING SVCS	7,755,879	7,152,102
61-COMMUNITY SERVICES	1,500	-
71- DEBT SERVICES	21,457,675	21,922,229
Total Expenditures	\$383,143,503	\$371,276,035
Change in Net Assets	\$34,095,277	\$24,322,415
Net Assets, Beginning of Year	\$170,267,132	\$143,058,768
Net Assets, End Of Period	\$204,362,410	\$167,381,183
Non-Operating Revenues (Expenses)		
Gain(Loss) on Sale of Real and Personal Pro	\$3,437,291	-
Gain(Loss) on Early Extinguishment of Bonds	-	-
Unrealized Gain(Loss) on Investments	(1,248,666)	\$499,585
Total Non-Operating Revenues (Expenses)	\$2,188,624	\$499,585
Total Change in Net Assets	\$36,283,902	\$24,822,001
Net Assets, Beginning of Year	170,267,132	143,058,768
Net Assets, Ending of Year	\$206,551,034	\$167,880,769

Statements of Activities for the Unaudited Nine-Month Periods Ended March 31, 2024, and March 31, 2023

The following is derived from Harmony's unaudited nine-month financial statements for the nine-month periods ended March 31, 2024, and March 31, 2023.

<u>ASSETS</u>	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Assets:		
Cash	\$167,403,308	\$152,191,135
Restricted Cash	52,368,249	58,012,113
Receivable	79,318,075	78,345,521
Other Receivable	397,434	1,714,230
Land	129,905,338	127,031,724
Buildings and Improvements	667,110,011	559,664,718
Capital Lease Purchase - Buildings	128,651,099	126,884,513
Capital Lease Purchase - Furniture & Equipment	11,197,830	11,197,830
Furniture and Equipment	57,426,110	46,306,727
Accumulated Depreciation	(234,620,464)	(195,881,698)
Security Deposits	-	-
Other Assets	14,354	37,148.16
Total Assets	\$1,059,171,343	\$965,503,960
 <u>LIABILITIES</u>		
Liabilities:		
Accounts Payable	\$15,914,590	\$9,983,828
Accrued Liabilities	281,989	1,520,691
Wages Payable	51,685,438	51,046,171
Capital Lease Payable	108,543,627	112,904,732
Interest Payable	2,331,307	2,982,954
Notes Payable	156,027,769	89,378,434
Bonds Payable Net of Discount	517,835,589	529,910,797
Total Liabilities	\$852,620,308	\$797,727,606
 Net Assets:	 \$206,551,034	 \$167,776,354
Total Liabilities and Net Assets	\$1,059,171,343	\$965,503,960

	March 31, 2024 (Unaudited)	March 31, 2023 (Unaudited)
Unrestricted Cash Balance	\$167,403,308	\$152,191,135

Financial Information

Audited financial statements for Harmony for the fiscal years ending June 30, 2023, June 30, 2022 and June 30, 2021 are included herein as **APPENDIX C**.

Debt Summary

Below is a list of the long-term outstanding debt obligations of Harmony as of the Closing Date.

DEBT SUMMARY⁽¹⁾		
TYPE OF DEBT	ORIGINAL AMOUNT	OUTSTANDING AMOUNT
Series 2010Q Master Note/Bonds	\$39,910,000	\$39,910,000
Series 2011Q Master Note/Bonds	5,085,000	5,085,000
Series 2014A Master Note/Bonds	101,555,000	76,865,000
Series 2014Q Master Note/Bonds	8,880,000	8,880,000
Series 2015 Master Note/ Bonds	106,745,000	101,275,000
Series 2016A Master Note/ Bonds	55,405,000	46,790,000
Series 2017 Master Note/Bonds	40,540,000	33,455,000
Series 2021A Master Note/Bonds	147,025,000	145,930,000
Series 2021B Master Note/Bonds	4,350,000	2,180,000
Series 2021C Master Note/Bonds	22,170,000	19,875,000
Series 2024 Master Note/Bonds	212,440,000	212,440,000
A&R LOC Master Note dated March 30, 2023	<u>200,000,000</u>	<u>58,189,057⁽²⁾</u>
TOTAL	\$944,105,000	\$750,874,057

⁽¹⁾ See also “APPENDIX C – FINANCIAL STATEMENTS” to the Official Statement. Does not exclude payments that will be made by reserves or REPO or SLGS Interests on QSCB Sinking Funds.

⁽²⁾ Current amount, may increase if Harmony chooses to draw on the line of credit for ongoing projects between the date of this Official Statement and the closing of the Bonds. See “PLAN OF FINANCE – Future Financing.”

CONFLICTS POLICY

Harmony’s bylaws prohibit Harmony from making any loan to a director or officer of Harmony. Harmony is also prohibited from borrowing money from or otherwise transacting business with a member, director, officer, or committee member of Harmony unless the transaction is described fully in a legally binding instrument and is in the best interests of Harmony. Harmony is further prohibited from borrowing money from or otherwise transacting business with a director, officer, or committee member of Harmony without full disclosure of all relevant facts and without the approval of the Board of Directors, not including the vote of any person having a personal interest in the transaction. Additionally, the Board of Directors is subject to the conflict of interest provisions set forth in Section 12.1054 of the Texas Education Code, as amended.

Harmony’s bylaws also prohibit contracts and transactions that would result in denial of its tax exemption under the Code. The Code and related Treasury Regulations contain provisions governing “excess benefit” transactions (as set forth in Section 4958 of the Code). Those provisions provide for penalty taxes and, in extreme cases, revocation of 501(c)(3) status, for, among other things, above fair market value transactions with “disqualified persons.” Loss of tax-exempt status by Harmony could result in loss of tax exemption for federal income tax purposes of interest on the Bonds. See “RISK FACTORS — Loss of Tax-Exempt Status.”

In addition to the foregoing, Harmony has adopted a Conflicts of Interest Policy which, among other things, (a) requires directors, officers and employees to exercise their duties honestly, in good faith and with a high standard of diligence and care, (b) requires directors and officers to comply with State law governing conflicts of interest among charter

school and charter holder board members and officers and (c) requires the directors and officers to file an affidavit relating to certain conflicts of interest.

CERTAIN BUSINESS RELATIONSHIPS

Harmony has and may occasionally hire and retain, from time to time, personnel related to members of the Board, the advisory board or officers of Harmony. Any such relationships must, and do, satisfy the Conflicts Policy described above. In addition, spouses and other relatives of superintendents, principals, assistant principals and other employees of Harmony may occasionally also serve in various capacities with Harmony. Specifically, Harmony has an appointed board member of HEF, and such board member (Mr. Robert Schulman) also acts as Harmony's General Counsel. See **APPENDIX B – "HARMONY PUBLIC SCHOOLS AND THE CHARTER SCHOOLS – BOARD OF DIRECTORS."**

Bond Counsel has served as counsel to both Harmony and HEF in the negotiation of the lease agreements between Harmony and Harmony. At the request of Harmony, Bond Counsel took the necessary steps to create HEF as a supporting organization of Harmony and to obtain its 501(c)(3) designation from the Internal Revenue Service. Upon creation, the board of directors of Harmony took the necessary steps to waive any legal conflict surrounding Bond Counsel's ongoing representation of HEF. Under the bylaws of HEF, at least one of the members of Harmony's board of directors is appointed by HEF.

On February 22, 2020, the Board approved the creation of the Harmony Education Solutions ("*HES*"), a limited liability company. The Board serves as the Board of HES. As of June 30, 2020, HES has received a license to sub-license Harmony's intellectual property and accompanying services. Harmony applied to the TEA for approval of the trademark licensing transaction between HES and Harmony as required by Senate Bill 1454 passed by the Texas 86th Legislature. A percentage, ranging from 2 percent to 10 percent, of the licensing revenue generated by HES will be remitted to Harmony. These payments will be considered related party transactions.

PROJECTED REVENUES AND EXPENDITURES

The Official Statement and this **APPENDIX B** contain certain "forward-looking" statements of the type described in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Although Harmony believes that the assumptions upon which the forward-looking statements contained herein are based are reasonable, any of the assumptions could prove to be inaccurate and, as a result, the forward-looking statements based on those assumptions could also be incorrect. All phases of the operations of the Charter Schools by Harmony involve risks and uncertainties, many of which are outside of Harmony's control and any one of which, or a combination of which, could materially affect Harmony's results with respect to the Charter Schools' operations. Factors that could cause actual results to differ from those expected include, but are not limited to, general economic conditions; the willingness of the State to fund public schools including charter schools at present or increased levels; competitive conditions within the Charter Schools' service area; lower-than-projected enrollment; unanticipated expenses; changes in government regulation including changes in the law governing charter schools in Texas; future claims for accidents against Harmony and the extent of insurance coverage for such claims; and other risks discussed herein. See "**RISK FACTORS**" in the Official Statement.

Harmony is providing the following Projected Revenues and Expenses table for illustrative purposes only. These projections have been prepared by Harmony, based on Harmony's operating history with respect to charter schools and its assumptions about future State funding levels and future operations of the Charter Schools, including student enrollment and expenses. Harmony's projections have not been independently verified by any party other than Harmony. Harmony's projections have not been prepared in accordance with generally accepted accounting principles ("*GAAP*"). No feasibility studies have been conducted with respect to operations of Harmony pertinent to the Bonds. The Underwriters have not independently verified Harmony's projections and make no representations nor give any assurances that such projections, or the assumptions underlying them, are complete or correct.

NO REPRESENTATION OR ASSURANCE CAN BE GIVEN THAT HARMONY WILL REALIZE REVENUES IN AMOUNTS SUFFICIENT TO MAKE ALL REQUIRED PAYMENTS REPRESENTING DEBT SERVICE ON THE BONDS. THE REALIZATION OF FUTURE REVENUES DEPENDS ON, AMONG OTHER THINGS, THE MATTERS DESCRIBED IN “**RISK FACTORS**” IN THE OFFICIAL STATEMENT, AND FUTURE CHANGES IN ECONOMIC AND OTHER CONDITIONS THAT ARE UNPREDICTABLE AND CANNOT BE DETERMINED AT THIS TIME. THE UNDERWRITERS MAKE NO REPRESENTATION AS TO THE ACCURACY OF THE PROJECTIONS CONTAINED HEREIN, NOR AS TO THE ASSUMPTIONS ON WHICH THE PROJECTIONS ARE BASED.

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	Audited	Audited	Audited	Projected	Projected	Projected	Projected	Projected
	2020-2021	2021-2022	2022-2023	2023-2024	2024-2025	2025-2026	2026-2027	2027-2028
Grade Levels	K-12	K-12	K-12	K-12	K-12	K-12	K-12	K-12
#Campus	58	60	65	66	70	73	73	73
Enrollment ⁽¹⁾	36,508	36,708	40,156	41,483	43,198	44,827	45,148	46,051
Average Daily Attendance ⁽²⁾	35,048	35,240	38,550	39,824	41,470	43,034	43,342	44,209
Revenue								
Local (Interest Inc., Grants, Gifts, Other)	\$ 6,350,436	\$ 16,690,695	\$ 22,259,136	\$ 28,994,714	\$ 33,793,420	\$ 35,067,773	\$ 35,318,888	\$ 36,025,266
State Funding ⁽³⁾	\$ 381,898,886	\$ 385,646,588	\$ 419,779,298	\$ 433,651,375	\$ 451,579,493	\$ 468,608,591	\$ 471,964,233	\$ 481,403,518
Federal Funding*	\$ 45,628,418	\$ 97,056,703	\$ 104,214,415	\$ 95,321,220	\$ 64,762,012	\$ 67,704,193	\$ 68,689,013	\$ 70,562,794
Sub Total Revenue	433,877,740	499,393,986	546,252,849	557,967,309	550,134,926	571,380,557	575,972,135	587,991,578
Anticipated Direct Subsidy	2,700,772	2,700,772	2,700,772	2,700,772	2,700,772	2,700,772	2,700,772	2,700,772
TOTAL REVENUE⁽⁶⁾⁽⁷⁾	\$ 436,578,512	\$ 502,094,758	\$ 548,953,621	\$ 560,668,081	\$ 552,835,697	\$ 574,081,329	\$ 578,672,907	\$ 590,692,350
Operating Expenditures								
Payroll Costs ⁽⁴⁾	\$ 276,332,405	\$ 332,683,689	\$ 355,173,324	\$ 368,584,264	\$ 368,133,457	\$ 382,015,799	\$ 385,751,362	\$ 395,466,389
Buildings' Leases ⁽⁵⁾	\$ 11,407,107	\$ 12,376,794	\$ 12,975,270	\$ 11,543,936	\$ 11,504,508	\$ 10,085,884	\$ 7,437,159	\$ 6,790,077
Supplies & Materials	\$ 30,197,307	\$ 23,217,387	\$ 19,256,224	\$ 19,892,567	\$ 19,892,567	\$ 20,642,718	\$ 20,790,537	\$ 21,206,348
Other Operating Costs	\$ 46,294,141	\$ 70,047,328	\$ 74,906,968	\$ 77,382,353	\$ 78,797,738	\$ 81,769,207	\$ 82,354,746	\$ 84,001,840
TOTAL OPERATING EXPENSES	\$ 364,230,960	\$ 438,325,198	\$ 462,311,786	\$ 477,403,120	\$ 478,328,271	\$ 494,513,608	\$ 496,333,804	\$ 507,464,654
Net Revenues Available for Debt Service	\$ 72,347,552	\$ 63,769,560	\$ 86,641,835	\$ 83,264,961	\$ 74,507,426	\$ 79,567,721	\$ 82,339,103	\$ 83,227,695
Annual Interest Payment ⁽⁸⁾	22,708,802	22,962,486	29,950,174	24,767,361	28,080,712	30,892,847	33,887,611	33,787,611
Annual Principal Payment ⁽⁹⁾	12,807,505	13,550,674	13,112,779	13,424,404	14,865,537	18,356,470	20,375,312	19,720,556
Annual Debt Coverage	2.04	1.75	2.01	2.18	1.73	1.62	1.52	1.56
Lease Adjusted Debt Coverage	1.78	1.56	1.78	1.91	1.58	1.51	1.46	1.49
Maximum Annual Debt Service	\$ 36,549,818	46,605,322	\$ 46,605,322	\$ 47,030,911	\$ 47,030,911	\$ 47,030,911	\$ 47,030,911	\$ 47,030,911
MADS Coverage	1.98	1.37	1.86	1.77	1.58	1.69	1.75	1.77
Leased Adjusted MADS Coverage	1.75	1.29	1.67	1.62	1.47	1.57	1.65	1.67
Depreciation and Amortization ⁽¹⁰⁾	18,933,804	22,958,387	29,810,643	29,810,643	32,323,464	34,323,464	34,323,464	34,323,464
Total Expenses⁽⁶⁾⁽⁷⁾	405,873,566	484,246,071	522,072,603	531,981,124	538,732,447	559,729,919	564,544,879	575,575,729
Change in Net Assets	30,704,946	17,848,687	26,881,018	28,686,957	14,103,251	14,351,410	14,128,028	15,116,620
Loss on Early Extinguishment of Bonds	(985,727)	(4,064,171)	292,149	-	-	-	-	-
Beginning Net Asset Balance	99,633,762	129,352,981	143,137,497	170,310,663	198,997,620	213,100,871	227,452,282	241,580,310
Ending Net Assets Balance	129,352,981	143,137,497	170,310,663	198,997,620	213,100,871	227,452,282	241,580,310	256,696,930
Change in Net Assets/State Revenue Margin	8%	5%	6%	7%	3%	3%	3%	3%

* Preliminary, Subject to Change

This information has been prepared by HPS

Revenue Assumptions

- (1) Projected enrollment is for 70 campuses in year 2024-25, 73 campuses in 2025-26 and later
- (2) Average attendance rate is 96%
- (3) Projected revenues based on state funding per student in ADA of approx. \$11,000

Expense Assumptions

- (4) Payroll cost is equal to approx. 65% of the total revenue in projected years.
- (5) Buildings' lease numbers based on the leased facilities that are already under the contract. FASB new lease treatment was fully implemented in 2019-20. Lease numbers are from the related footnotes in the audited financial report.
- (6) Increase on revenue and expenditure due to growth on enrollment and new campuses.
- (7) ESSER and other grants are included in both revenue and expenditures which offset each other at the end of each year. amount of revenue is received and expensed in the same year).
- (8) 2024 bond debt figures are included, net of capitalized interest. The audited years also included the interest payments of line of credit.
- (9) Annual principal number includes the sinking fund deposits in projected years
- (10) Depreciation and Amortization number also includes amortization of bond premium in projected years

Except as described above, the foregoing projections assume current fiscal policies of Harmony are continued, with considerations of historical information as well as known events and conditions that affect the projection periods. The projections may be used to assess whether projected cash inflows will be sufficient to sustain Harmony's services and to meeting financial obligations as they come due. However, it is important to note that the projections of cash inflows, cash outflows, and accrued financial obligations based on current policy do not represent a forecast or a prediction of the most likely outcome.

Financial projections may be based upon assumptions regarding changes in social, economic and demographic events and conditions that are inherently subject to uncertainties. Therefore, readers are cautioned that actual future financial results of Harmony may be significantly different from the financial projections that are reported.

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APPENDIX C
FINANCIAL STATEMENTS

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HARMONY PUBLIC SCHOOLS

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2023



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HARMONY PUBLIC SCHOOLS

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HARMONY PUBLIC SCHOOLS

071-806

101-858

015-828

101-846

227-816

161-807

101-862

(Federal Employer Identification Number: 76-0615245)

CERTIFICATE OF BOARD

June 30, 2023

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Harmony Public Schools was review and ✓approved ___disapproved for the year ended June 30, 2023, at a meeting of the governing body of said charter school on the 11th day of November, 2023



Signature of Board Treasurer



Signature of Board President

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Harmony Public Schools

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying the consolidated financial statements of Harmony Public Schools (a nonprofit organization) ("HPS"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of HPS as of June 30, 2023, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 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 HPS 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 opinion.

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 HPS's ability to continue as a going concern *within one year after the date that the financial statements are available to be issued*.

To the Board of Directors of
Harmony Public Schools

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. 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 Standard* 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 consolidated 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 consolidated 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 consolidated 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 HPS'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 consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the HPS'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The *Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Harmony Public Schools' June 30, 2022 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 12, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023 is consistent, in all material respects, with the audited financial statements from which it has been derived.

To the Board of Directors of
Harmony Public Schools

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2023, on our consideration of the HPS'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 HPS'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 HPS's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas

November 11, 2023



FINANCIAL STATEMENTS



HARMONY PUBLIC SCHOOLS
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 59,626,565	\$ 43,354,024
Restricted cash	59,586,753	79,036,905
Investments	100,711,879	94,199,284
Receivables	90,779,176	94,513,380
Other receivables	3,900,536	2,638,462
Prepays	<u>2,169,338</u>	<u>1,980,191</u>
Total Current Assets	<u>316,774,247</u>	<u>315,722,246</u>
Property and Equipment:		
Land	127,031,724	96,410,321
Buildings and improvements	544,805,590	407,056,275
Furniture and equipment	61,698,574	47,072,680
Construction in progress	48,278,072	111,836,433
Right-of-use asset under lease	<u>128,651,099</u>	<u>126,884,513</u>
	910,465,059	789,260,222
Less: Accumulated depreciation and amortization	<u>(212,685,012)</u>	<u>(182,622,578)</u>
	697,780,047	606,637,644
Other Assets:		
Deposits	<u>274,709</u>	<u>274,709</u>
Total Assets	<u>\$ 1,014,829,003</u>	<u>\$ 922,634,599</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 24,470,578	\$ 25,912,828
Accrued liabilities	361,844	2,535,681
Wages payable	46,543,536	41,670,981
Payroll taxes payable	15,928,238	14,942,285
Interest payable	11,124,539	8,761,689
Deferred revenue	243,649	907,988
Current portion of lease liability	6,250,932	5,543,271
Current portion of bonds payable	<u>10,475,000</u>	<u>6,870,000</u>
Total Current Liabilities	<u>115,398,316</u>	<u>107,144,723</u>
Long-Term Liabilities:		
Lease liability net of current portion	103,565,397	108,575,604
Notes payable	107,719,040	33,865,977
Bonds payable net of premium, discount, issuance costs and current portion	<u>517,835,587</u>	<u>529,910,799</u>
Total Liabilities	<u>844,518,340</u>	<u>779,497,103</u>
Net Assets:		
Without donor restrictions	63,760,283	42,837,950
With donor restrictions	<u>106,550,380</u>	<u>100,299,546</u>
Total Net Assets	<u>170,310,663</u>	<u>143,137,496</u>
Total Liabilities and Net Assets	<u>\$ 1,014,829,003</u>	<u>\$ 922,634,599</u>

HARMONY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022
Support and Revenue				
Federal grants	\$ -	\$ 104,214,415	\$ 104,214,415	\$ 97,056,703
State aid, state grants and local grants	-	419,779,298	419,779,298	385,646,588
Donations	11,175,731	-	11,175,731	8,941,677
Interest Income	3,250,863	-	3,250,863	1,261,320
Other income	8,882,809	1,650,505	10,533,314	9,188,170
Net assets released from restrictions	519,685,533	(519,685,533)	-	-
Total Revenues	542,994,936	5,958,685	548,953,621	502,094,458
Expenses				
Salaries	312,360,146	-	312,360,146	295,053,800
Employee benefits	37,511,235	-	37,511,235	32,274,590
Payroll tax expense	5,301,943	-	5,301,943	5,355,299
Professional fees	42,684,322	-	42,684,322	41,415,652
Occupancy	2,546,464	-	2,546,464	3,817,218
Equipment costs	2,869,620	-	2,869,620	3,136,934
Supplies	19,256,224	-	19,256,224	23,217,387
Interest	29,950,174	-	29,950,174	22,962,486
Repairs & maintenance	15,502,015	-	15,502,015	14,474,714
Utilities	7,752,910	-	7,752,910	6,581,176
Travel	2,746,365	-	2,746,365	1,584,042
Insurance	2,886,063	-	2,886,063	2,256,855
Other expense	10,894,479	-	10,894,479	8,626,148
Depreciation and amortization	29,810,643	-	29,810,643	22,958,387
Amortization of bond issuance costs	-	-	-	531,083
Total Expenses	522,072,603	-	522,072,603	484,245,771
Change in net assets from operations	20,922,333	5,958,685	26,881,018	17,848,687
Non-Operating Revenues (Expenses)				
Extraordinary items	-	85,989	85,989	-
Gain (Loss) on sale of investments	-	206,160	206,160	(4,064,171)
Total Non-Operating Revenues (Expenses)	-	292,149	292,149	(4,064,171)
Total change in net assets	20,922,333	6,250,834	27,173,167	13,784,516
Net Assets, Beginning of Year	42,837,950	100,299,546	143,137,496	129,352,980
Net Assets, End of Year	\$ 63,760,283	\$ 106,550,380	\$ 170,310,663	\$ 143,137,496

HARMONY PUBLIC SCHOOLS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 27,173,167	\$ 13,784,516
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of capital assets and right-to-use assets	29,810,643	23,499,297
Amortization - premium on bonds	(2,100,936)	(2,112,258)
Amortization - bond issuance costs	500,727	531,083
(Increase) Decrease in receivables	3,734,204	(22,199,239)
(Increase) Decrease in other receivables	(1,262,074)	2,519,434
(Increase) Decrease in prepaids	(189,147)	1,980,191
Increase (Decrease) in accounts payable	(1,442,250)	12,697,003
Increase (Decrease) in wages payable	4,872,555	6,851,306
Increase (Decrease) in payroll taxes payable	985,953	932,160
Increase (Decrease) in accrued liabilities	(2,173,837)	(2,458,415)
Increase (Decrease) in deferred revenue	(664,339)	(3,771,056)
Increase (Decrease) in interest payable	2,362,850	1,826,122
Net Cash Provided (Used) by Operating Activities	<u>61,607,516</u>	<u>34,080,144</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(120,953,049)	(131,858,240)
Purchase of investments	(6,512,595)	(1,947,644)
Net Cash Provided (Used) by Investing Activities	<u>(127,465,644)</u>	<u>(133,805,884)</u>
Cash flows from Financing Activities		
Proceeds from bonds, net of premium and bond issuance costs	-	193,756,382
Proceeds from loans	73,853,063	-
Repayment of loans	-	(30,334,180)
Repayment of bonds	(6,870,000)	(33,169,996)
Payments on lease liability	(4,302,546)	(2,677,425)
Net Cash Provided (Used) by Financing Activities	<u>62,680,517</u>	<u>127,574,781</u>
Net increase (decrease) in cash	(3,177,611)	27,849,041
Cash at Beginning of Year	122,390,929	94,541,888
Cash at End of Year	<u>\$ 119,213,318</u>	<u>\$ 122,390,929</u>
Cash Per the Statement of Financial Position		
Cash	\$ 59,626,565	\$ 43,354,024
Restricted Cash	59,586,753	79,036,905
Total Cash per the Statement of Financial Position	<u>\$ 119,213,318</u>	<u>\$ 122,390,929</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 28,734,723</u>	<u>\$ 22,951,088</u>



HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

Harmony Public Schools ("HPS"), a nonprofit organization, provides curricula for students in grades kindergarten through 12. The school was incorporated in the State of Texas in September 1999, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that HPS was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501 (c)(3).

Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, HPS operates as part of the state public school system subject to all federal and state laws and rules governing public schools. HPS is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

Note 2 - Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include all of HPS's accounts. All significant intercompany balances and transactions have been eliminated.

B. Support and Revenue

Per the Texas Education Agency, revenues, generally, that are reported on the statement of activities may be presented in three broad categories.

- Local and intermediate sources such as contributions received from charter holder constituents, funds received pursuant to grants from local governmental and nongovernmental entities, and other sources, such as income from investments.
- State sources such as Foundation School Program funding and other formula or state grants.
- Federal sources such as funding through formula or discretionary grants awarded to the charter holder by the federal or state government

Support and revenue are recorded based on the accrual method.

C. Cash Donations and Donated Services

Cash donations are considered to be available for use without donor restrictions unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the organization.

D. Comparative Totals and Reclassifications

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30 of the prior year, from which the summarized information was derived. In addition, Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. These changes were between the ROU asset, net of amortization and the related liability. The reclassifications had no impact on previously reported net assets.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. Contributions

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-For-Profit Entities-605 Revenue Recognition*, contributions received are recorded as support with or without donor restrictions depending on the existence or nature of any donor restrictions.

F. Property and Equipment

Property and equipment purchased by HPS is recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$5,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of five to thirty-nine years for depreciable assets. Gains and losses on retired or sold property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

G. Pledges and Accounts Receivable

Contributions are recognized when the donor makes a promise to give to HPS which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor- restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

H. Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. The Texas Education Agency mandates a specific account coding that requires open enrollment charter schools to record expenses to a unique combination of function and object. Generally, HPS records its expenses based on direct allocation by assigning each expense to a functional category based on direct usage. See Note 19. for more information.

I. Income Taxes

HPS qualifies as a tax-exempt organization under section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

J. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks. The cash accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. HPS has secured pledged collateral at 100% of its bank balances. HPS has not experienced any losses on such accounts.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets. The Academy classifies its marketable debt securities as "held to maturity" if it has the positive intent and ability to hold the securities to maturity. All other marketable securities are classified as "available for sale." Realized gains and losses and unrealized gains and losses, determined using the specific identification method, are included in the change in net assets.

L. Fair Value Measurements

FASB ASC 820 *Fair Value Measurements and Disclosures* establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2: Significant direct or indirect, observable inputs other than quoted prices;
- Level 3: Unobservable inputs based on assumptions of the reporting entity.

The fair value measurement of assets and liabilities within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

M. Estimates

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

N. Compensated Absences

Permanent employees of HPS accumulate and vest paid-time-off at varying rates depending on exempt status and hourly rate. It is HPS' policy to accrue accumulated paid-time-off at year-end.

O. Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as either without donor restrictions or with donor restrictions.

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

O. Net Assets (continued)

In accordance with state law, a charter holder is entitled to receive state aid for the charter school based on student attendance; however, before the charter holder may reclassify state aid from net assets with donor restrictions to net assets without donor restrictions, it must meet a two part test.

1. First, the charter school must demonstrate that it expended state aid for the benefit of its students.
2. Second, the charter school must expend state aid consistent with TEC, §45.105(c).

As described in Note 13., the majority of HPS' revenue is comprised of state aid from the Texas Education Agency.

P. New Accounting Pronouncements

In September 2020, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2020-07, Presentation Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets. The standard requires nonprofits to expand their financial statement presentation and disclosure of contributed nonfinancial assets, including in-kind contributions. The standard includes disclosure of information on an entity's policies on contributed nonfinancial assets about monetization and utilization during the reporting period, information on donor-imposed restrictions, and valuation techniques. The new standard, as amended, is to be applied retrospectively, to annual reporting periods beginning after June 15, 2021, and interim periods within annual reporting periods beginning after June 15, 2022. The Organization early adopted the standard on October 1, 2020. The standard did not have a material impact on the financial statements.

Note 3 - Defined Pension Plan

Plan Description

The charter school contributes to the Teacher Retirement System of Texas ("TRS"), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. 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.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223- 8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Defined Pension Plan (continued)

Plan Description (continued)

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The TRS Annual Comprehensive Financial Report available dated August 31, 2022 and August 31, 2021 indicated the following:

TRS Pension Fund	TRS Plan Fiduciary				Percent Funded
	Total Plan Assets	Net Position	Total Pension Liability	Net Pension Liability	
2022	\$ 207,621,897,538	\$ 184,185,617,196	\$ 243,553,045,455	\$ 59,367,428,259	75.62%
2021	223,172,755,137	201,807,002,496	227,273,463,630	25,466,461,134	88.79%
2020	184,361,870,581	165,416,245,243	218,974,205,084	53,557,959,841	75.54%
2019	181,800,159,205	157,978,199,075	209,961,325,288	51,983,126,213	75.24%
2018	176,942,453,923	154,568,902,000	209,611,329,000	55,042,427,000	73.74%

Funding Policy

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 2020 thru 2025. Measurement years for TRS begin on September 1st and end on August 31st

	Contribution Rates	
	2023	2022
Member	8.00%	8.00%
Non-employer contributing agency	8.00%	7.75%
Employers	8.00%	7.75%

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).

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Defined Pension Plan (continued)

Funding Policy (continued)

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 1.5 percent of the member's salary beginning in fiscal year 2020, 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.

HPS employee contributions to the system for the year ended June 30, 2023 and June 30, 2022 were \$23,432,519 and \$20,955,522, respectively and were equal to the required contributions for the year. Total covered payroll was \$292,926,715 and 265,878,298. Amounts paid as pension surcharges and Non-OASDI for 2023 were \$74,400 and \$5,219,005, respectively. Amounts paid as pension surcharges and Non-OASDI required amounts in 2022 were \$93,669 and \$4,438,722, respectively.

Other contributions made from federal and private grants contributed at a rate of 8.0% and 7.75% for 2023 and 2022. Contributions totaled \$4,956,669 and \$3,292,221 for the years ended June 30, 2023 and 2022. The charter school's contributions into this plan do not represent more than 5% of the total contributions to the plan and the charter school was not assessed a surcharge. During fiscal years 2023 and 2022, the School also paid contributions related to amount above the statutory minimum totaling \$6,732,129 and \$5,786,290, respectively.

Note 4 - Defined Other Post-Employment Benefit Plan

Plan Description

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

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Defined Other Post-Employment Benefit Plan (continued)

Plan Description (continued)

Similar to the TRS Pension Plan discussed in Note C, charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer OPEB plans is different from single-employer OPEB plans. Assets contributed to a multi-employer OPEB plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The TRS Annual Comprehensive Financial Report available dated August 31, 2022

TRS Care Other Post-Employment Benefits (OPEB)	TRS-Care Plan		Fiduciary Net		Percent Funded
	Total Plan Assets	Position	Total OPEB Liability	Net OPEB Liability	
2022	\$ 3,308,391,215	\$ 3,117,937,218	\$ 27,061,942,520	\$ 23,944,005,302	11.52%
2021	2,733,911,371	2,539,242,470	41,113,711,083	38,574,468,613	6.18%
2020	2,146,681,144	1,996,317,932	40,010,833,815	38,014,515,883	4.99%
2019	1,475,508,564	1,292,022,349	48,583,247,239	47,291,224,890	2.66%
2018	1,001,649,953	798,574,633	50,729,490,103	49,930,915,470	1.57%

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; on the Internet at <https://www.trs.texas.gov/TRS%20Documents/acfr-2022.pdf>, or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter 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.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Defined Other Post-Employment Benefit Plan (continued)

Benefits Provided

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

TRS-Care Plan 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 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2023	2022
Active Employee	0.65%	0.65%
Employers	0.75%	0.75%
Federal/Private Funding remitted by Employers	1.25%	1.25%

In fiscal year 2023, HPS contributed a total of \$2,196,404 of which, \$1,978,188 was for federally funded employees. Employees contributed a total of \$1,903,886 and \$1,712,337 in fiscal years 2023 and 2022, respectively. Covered payroll for TRS-Care for fiscal years 2023 and 2022 was \$292,926,715 and \$265,878,298, respectively. In fiscal year 2022, HPS contributed a total of \$1,978,188 of which, \$561,752 was for federally funded employees. Employees contributed a total \$1,712,337.

Note 5 - Budget

The official school budget is prepared for adoption for required for all funds in the aggregate. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 6 - Investments

Investments presented below have been measured using Level 1 and Level 2 inputs as described in Note 2 L. above, Fair Value Measurements.

Fair Value Measurements as of June 30, 2023:

<u>Type of Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Money Market/Commercial Paper	\$ 9,809,655	\$ -	\$ -	\$ 9,809,655
Certificates of Deposit	37,806,865	-	-	37,806,865
US Government Agencies	53,095,359	-	-	53,095,359
Total Investments at Fair Value:	<u>\$ 100,711,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 100,711,879</u>

Fair Value Measurements as of June 30, 2022 were as follows:

<u>Type of Investment</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Totals</u>
Money Market/Commercial Paper	\$ 1,135,681	\$ -	\$ -	\$ 1,135,681
Certificates of Deposit	30,428,154	-	-	30,428,154
US Government Agencies	62,635,449	-	-	62,635,449
Total Investments at Fair Value:	<u>\$ 94,199,284</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,199,284</u>

Unrealized gains totaled \$296,479 in 2023. In fiscal year 2022, HPS unrealized losses of \$1,112,033.

Certificate of Deposits

West Texas, North Texas, and Houston North hold several certificates of deposits with six-month maturities that totaled \$38.8 million and \$28.3 million as of June 30, 2023 and June 30, 2022, respectively. The interest rates range from 0.03% to 3.18%. The certificates of deposit mature between May 2023 and November 2040.

Note 7 - Notes Payable

HPS's obligations under notes payable consist of the following:

On December 18, 2020, HPS entered into a loan under the Supplemental Master Trust Indenture No. 29. HPS can draw up to \$100,000,000 on the loan. On February 25, 2023, HPS amended the loan agreement maximum loan amount to \$150,000,000 and no case shall it exceed \$200,000,000. Interest is due and payable semi-annually on June and December of each year. The maturity date is December 18, 2023. As of June 30, 2023 and 2022, the balance as of the loan was \$107,719,040 and \$33,865,977, respectively. The interest rate is 1.45% spread plus London Interbank Offered Rate (LIBOR) for one month. The line of credit matures in April 2026.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases

HPS accounts for leases in accordance with FASB ASC 842. HPS is the lessee for all of its leases.

At the inception of a contract, we assess whether the contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, HPS assess whether:

- The contract involved the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- HPS has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- HPS has the right to direct the use of the asset. HPS has the right when it has decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, HPS has the right to direct the use of the asset if either HPS has the right to operate the assets or HPS designed the asset in a way that predetermined how and for what purpose it will be used.

A contract may contain multiple lease components; if so, HPS allocates the consideration in a contract to each lease component based on each component's relative stand-alone price. HPS is required to account for the right-to-use land and other assets separately unless the effect of doing so would be insignificant to the overall accounting for the transaction.

After separate lease components are identified, HPS applies the following steps to each separate lease component:

- Determine the lease term, generally calculated beginning at the lease commencement date
- Determine the lease payments, which may include fixed payments, variable lease payments, amount HPS will probably owe under residual value guarantees and payments related to renewal or termination options that HPS are reasonably certain to exercise.
- Determine the discount rate for the lease based on information available at lease commencement. For HPS, the discount rate implicit in the lease unless that rate cannot be readily determined, in which case we are required to use the incremental borrowing rate which ranges from 3% to 5%.

Finance Leases

HPS classifies leases as finance leases if they are not short-term leases (see below) and they meet any of the following criteria:

- The lease transfers ownership of the underlying asset to HPS by the end of the lease term.
- The lease grants HPS an option to purchase the underlying asset that HPS is reasonably certain to exercise.
- The lease term is for a major part of the remaining economic life of the underlying asset. If the commencement date is at or near the end of the underlying asset's economic life, this test does not apply.
- The present value of the sum of (1) the lease payments and (2) any lessee residual value guarantee not reflected in the lease payments equal or exceed substantially all of the underlying asset's fair value.
- The underlying asset is of such specialized nature that is expected to have no alternative use to the lessor at the end of the lease term.

For finance leases, HPS recognizes a right-of-use (ROU) asset and a lease liability at lease commencement.

The finance lease ROU asset is initially measured at cost, which comprises the sum of (1) the initial amount of the finance lease liability, (2) initial direct costs incurred (incremental costs that would not have been incurred if the lease had not been obtained) and (3) any lease payments made before or at lease commencement, (4) reduced for any lease incentives received.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Finance Leases (continued)

Subsequent to commencement, HPS measures the ROU asset at cost, less accumulated amortization and any accumulated impairment losses.

HPS amortizes the finance ROU asset on a straight-line basis over the period from the commencement date to the earlier (2) the end of the useful life of the ROU asset or (2) the end of the lease term. However, if the lease transfers ownership of the underlying asset to us, or if we are reasonably certain to exercise a purchase option to acquire the underlying, HPS amortizes the ROU asset to the end of the underlying asset’s useful life. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The finance lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the discount rate determined at commencement. Subsequent to commencement, we measure the finance lease liability on an amortized cost basis using the effective interest method. The lease liability is remeasured when (1) there is a change in future lease payment arising from a change in a rate or index, (2) there is a change in the estimate of the amount HPS expects to pay under a residual value guarantee or (3) if we change our assessment of whether we will exercise a purchase , extension or termination option.

Finance lease ROU assets are included in property and equipment, net in the consolidated financial statement of HPS and in each District in the Statement of Financial Position. Finance lease liabilities are included in the current portion of long-term debt and long-term debt, net. Amortization on the ROU assets is included in the properly functional expense based on the use of the buildings.

HPS leases several buildings under twelve finance lease agreements. The leases expire in 2046 and 2048. The following is a schedule of future minimum payment required under HPS’s finance lease liabilities together with their present value as of June 30, 2023.

<u>Year Ending June 30</u>	
2024	\$ 6,643,597
2025	6,650,018
2026	6,589,016
2027	6,466,175
2028	6,312,994
Thereafter	<u>142,134,550</u>
Total Payments Due Under Finance	
lease liabilities	174,796,350
Less interest paid	<u>(79,407,516)</u>
Total Finance Lease Liabilities	<u><u>\$ 95,388,834</u></u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Finance Leases (continued)

ROU assets under finance lease for fiscal years 2023 and 2022, net are as follows:

	FY 2023
Buildings	\$ 102,124,280
Accumulated amortization	<u>(16,671,229)</u>
	<u>\$ 85,453,051</u>

	FY 2022
Buildings	\$ 102,124,280
Accumulated amortization	<u>(13,458,798)</u>
	<u>\$ 88,665,482</u>

Finance lease costs and cash paid for fiscal year 2023 is disclosed below:

Finance Lease Costs	
Amortization of right-of-use assets	\$ 3,212,430
Interest on lease liabilities	<u>4,799,626</u>
Total Financing Lease Costs	<u>\$ 8,012,056</u>

Cash Paid for Finance Leases	
Operating cash flows from finance leases (interest paid)	\$ 4,799,626
Financing cash flows from finance leases	<u>1,834,045</u>
Total Cash Paid for Finance Leases	<u>\$ 6,633,671</u>

Finance lease costs and cash paid for fiscal year 2022 is disclosed below:

Finance Lease Costs	
Amortization of right-of-use assets	\$ 2,805,696
Interest on lease liabilities	<u>4,853,259</u>
Total Financing Lease Costs	<u>\$ 7,658,955</u>

Cash Paid for Finance Leases	
Operating cash flows from finance leases (interest paid)	4,858,104
Financing cash flows from finance leases	<u>1,162,728</u>
Total Cash Paid For Finance Leases	<u>\$ 6,020,832</u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Operating Leases

HPS classifies leases as operating leases if they are not short-term leases (see below) or finance lease (see above).

For operating leases, HPS recognizes the ROU asset and a lease liability at lease commencement; the initial liability and ROU asset are calculated the same for operating leases as described above for finance leases. Subsequent to commencement, HPS measures operating ROU assets at (1) the carrying amount of the operating lease liability, (2) plus unamortized initial direct costs and any prepaid lease payments, (3) less any accrued lease payments and the unamortized balance of any lease incentives received. However, if an operating lease ROU asset is impaired, HPS measures the ROU asset on a straight-line basis from the date of the impairment to the earlier of the end of the ROU asset's useful life or the end of the lease term. Operating lease ROU assets are included in property equipment since the operating leases pertain to buildings.

HPS has 11 buildings under 11 separate operating leases. The following is a schedule of future minimum payments required under HPS' operating lease liabilities together with their present value as of June 30, 2023.

<u>Year Ending June 30,</u>	<u>Amount</u>
2024	\$ 4,900,339
2025	4,854,490
2026	3,496,868
2027	970,984
2028	477,083
Thereafter	<u>1,105,350</u>
Total Payments Due Under Operating Lease Liabilities	\$ 15,805,114
Less discount to present value	<u>(1,377,620)</u>
	<u><u>\$ 14,427,494</u></u>

Operating Lease Costs for FY 2023

Periodic lease cost	\$ 4,963,214
Change to lease liability	<u>7,281,308</u>
Adjustment to the right-of-use asset	<u>\$ (2,318,094)</u>
Rental Payments during fiscal year 2023	\$ 5,120,936
Accretion of lease liability	<u>(2,645,129)</u>
Decrease in operating lease liability	<u>\$ 2,475,807</u>
Beginning of operating lease liability	\$ 16,903,301
Decrease in operating lease liability	<u>(2,475,807)</u>
Ending operating lease liability as of June 30, 2023	<u><u>\$ 14,427,494</u></u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Operating Leases

In 2022, HPS had lease modifications which increased the lease liability.

Operating Lease Costs for FY 2022	
Periodic lease cost	\$ 4,288,514
Accretion of lease liability	<u>7,656,371</u>
Adjustment to the right-of-use asset	<u>\$ (3,367,857)</u>
Rental Payments during fiscal year 2022	\$ 3,445,536
Accretion of lease liability	<u>(75,886)</u>
Decrease in operating lease liability	<u>\$ 3,369,650</u>
Beginning operating lease liability	\$ 20,272,951
Decrease in operating lease liability	<u>(3,369,650)</u>
Ending operating lease liability as of June 30, 2022	<u>\$ 16,903,301</u>

Fiscal Year 2023	
Buildings	\$ 26,526,821
Accumulated Amortization	<u>(13,354,064)</u>
	<u>\$ 13,172,757</u>

Fiscal Year 2022	
Buildings	\$ 24,760,233
Accumulated Amortization	<u>(9,269,382)</u>
Right-to-Use Asset, net	<u>\$ 15,490,851</u>

HPS cash paid for operating leases \$5,120,936 in FY 2023 and \$3,445,536 in fiscal year 2022.

Note 9 - Restricted Cash

Restricted cash at June 30, 2023 and June 30, 2022, consisted of project fund, debt service fund, debt service reserve fund, and sinking fund bond cash accounts. These funds are to be solely used in the construction and acquisition of new facilities and repayment of bond liabilities and cannot be used for normal operating expenditures.

Note 10 - Bonds Payable

HPS has secured bond financing pursuant to Chapter 53 of the Texas Education Code of "Qualified Tax Exempt" Education Revenue Series Bonds, 2012A, 2014A, 2015, 2016A and 2017A in the amounts of: \$31,350,000; \$101,555,000; \$106,745,000; \$55,405,000; and \$40,540,000, respectively. HPS has also received proceeds from Taxable Educational Revenue Bonds, Q Series (Qualified School Construction Bonds) 2010Q, 2011Q, and 2014Q in the amounts of \$39,910,000; \$5,085,000; and \$8,880,000, respectively.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 10 - Bonds Payable (continued)

The bonds are limited obligations of the issuer, payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. HPS also issued three new bonds during fiscal year 2022. The bonds of \$173,545,001 were issued at a premium of \$25,314,989 and bond issuance costs of \$7,301,803 and the bonds issued in the current year mature between fiscal year 2026 and 2051. There were no new bonds in fiscal year 2023. The Bonds payable at June 30, 2023, consist of the following:

2010 Q Bonds, 8.13% interest; Principal is deposited annually to a sinking fund account; interest is due in semi-annual installments, commencing February 15, 2011; bond matures in 2027.	\$ 39,910,000
2011Q Bonds, 8.75% interest; principal is deposited annually to a sinking fund account; interest is due in semi-annual installments, commencing November 15, 2011; maturity dates range from 2014 to 2026.	5,085,000
2014A Bonds, 1.5% - 5% interest; principal due annually commencing February 15, 2015; interest due semi-annually commencing February 15, 2015; maturity dates range from 2015 to 2044.	80,055,000
2014Q Bonds, 4.733% interest; principal due annually commencing February 15, 2017; interest due semi-annually commencing February 15, 2015; maturity dates range from 2017 to 2036.	8,880,000
2015 Bonds, 2% - 5% interest; principal due annually commencing February 15, 2016; interest due semi-annually commencing February 15, 2016; maturity dates range from 2016 to 2041.	101,866,975
2016A Bonds, 2% - 5% interest; principal due annually commencing February 15, 2017; interest due semi-annually commencing August 15, 2016; maturity dates range from 2017 to 2046.	47,950,000
2017A Bonds, 3.0% - 5.0% interest; principal due annually commencing February 15, 2020; interest due in semi-annual installments, commencing February 15, 2018; maturity dates range from 2020 to 2047.	34,985,000
2021A Education Revenue Bonds (Tax Exempt), 3.0%-4.0%; principal due annually commencing February 15, 2024; interest due in semi-annual installments, commencing February 15, 2024.	147,025,000
2021B Ed Rev Bonds (Taxable) 3.0%-4.0%; principal due annually commencing February 15, 2024; interest due in semi-annual installments, commencing February 15, 2024.	4,350,000
2021C Ed Rev Refunding Bonds, 3.0%-4.0%; principal due annually commencing February 15, 2022; interest due in semi-annual installments, commencing February 15, 2022.	<u>20,615,000</u>
Total	490,721,975
Plus original issue premium (unamortized)	48,902,552
Less issuance costs on debt (unamortized)	(11,313,940)
Less current portion of debt	(10,475,000)
	<u>\$ 517,835,587</u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 10 - Bonds Payable (continued)

Future maturities of bonds payable over the next five years are as follows:

Year Ending	Principal	Interest	Total
2024	\$ 10,475,000	\$ 22,767,362	\$ 33,242,362
2025	10,875,000	22,356,292	33,231,292
2026	16,385,000	21,918,842	38,303,842
2027	51,850,000	20,950,854	72,800,854
2028	16,095,000	17,154,766	33,249,766
Thereafter	385,041,975	159,675,989	544,717,964
Total	490,721,975	\$ 264,824,105	\$ 755,546,080
Plus original issue premium	48,902,552		
Less issuance cost on debt	(11,313,940)		
Amount of Bonds Net of Discount and Premium	\$ 528,310,587		

HPS refunded bonds 2012A with the 2021C Refunding bonds. The 2021C Bond proceeds of \$25,034,270 plus the remaining cash held for debt service from the 2012A bonds of \$2,848,602 were placed in escrow. The refunding resulted in a net present value savings of \$6.8 million.

Note 11 - Bond Sinking Fund Obligations

HPS is required to deposit amounts restricted to the repayment of principal into three sinking funds on an annual basis. The sinking funds are restricted to the retirement of debt issued with respect to the 2010Q series, 2011Q series, and 2014Q series of bonds. Future sinking fund obligations of notes payable are as follows:

Year Ending June 30,	Deposits
2024	\$ 3,061,130
2025	3,059,565
2026	3,261,754
2027	2,998,958
2028	455,312
Thereafter	4,031,330
Total	\$ 16,868,049

Note 12 - Bond Debt Covenants

The bond agreements contain certain restrictions and covenants. HPS is required to maintain a ratio of available revenue (without excluding any discretionary expenses incurred during the fiscal year) that must be equal to 1.10 times the annual debt service requirements. HPS's minimum available excess revenue requirements totaled \$30,885,898 and \$27,556,614 for fiscal years 2023 and 2022. For fiscal years 2023 and 2022, HPS met the covenant requirements holding available revenue of \$56.1 million and \$59.0 million, respectively. Additionally, HPS needs to maintain an operating reserve that covers 45 days of budgeted expenses at the end of each fiscal year. For the fiscal years 2023 and 2022, HPS was required to have \$64.5 million and \$57.2 million, respectively, in operating accounts. For 2023 and 2022, HPS met the covenant with an available cash balance of \$160.3 million and \$137.6 million.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 13 - State Aid Revenue and State and Federal Receivables

During fiscal year 2023 and 2022, HPS earned approximately \$417.8 million and \$383.5 million in State Aid (Per Capita and Foundation School Program), which made up 76.0 percent and 76.3 percent of total revenue in 2023 and 2022, respectively. As of June 30, 2023 and 2022, HPS had outstanding receivables and the various are shown below.

	<u>2023</u>	<u>2022</u>
Due from TEA - Federal Grants	\$ 6,985,864	\$ 6,473,283
Due from TEA - State Aid	69,791,632	69,036,453
Due from TEA - State Grants	338,440	75,790
Due from Federal Government	9,078,552	15,268,687
Due from Other	4,584,688	3,659,167
	<u>\$ 90,779,176</u>	<u>\$ 94,513,380</u>

Note 14 - Commitments and Contingencies

HPS receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Note 15 - Health Care Coverage

During the years ended June 30, 2022 and 2023, employees of HPS were covered by a group insurance plan. The money will make health benefits contributions towards the employee’s selected plan monthly as shown in the table below:

Role/Salary Band	HPS Contribution
0.5 and 1	\$825
2 and 3	\$625
4	\$425
5 and 6	\$325
Teacher	\$325
Non-exempt	\$325

Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

Note 16 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2023 and 2022 are as follows:

	<u>As of June 30, 2023</u>	<u>As of June 30, 2022</u>
Federal funds	\$ 10,650,950	\$ 6,947,398
State funds	91,722,136	89,336,029
Local funds	4,177,294	4,016,119
Total with Donor Restrictions	<u>\$ 106,550,380</u>	<u>\$ 100,299,546</u>

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 16 - Net Assets with Donor Restrictions (continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	For the Year Ended June 30, 2023	For the Year Ended June 30, 2022
State funds	\$ 415,471,118	\$ 378,298,392
Federal funds	104,214,415	97,056,703
Total Restrictions Released	\$ 519,685,533	\$ 475,355,095

Note 17 - Lawsuits and Contingencies

HPS is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the company.

Note 18 - Elimination Entries

Description	Balance Before Eliminations	Eliminations	Consolidated Balance
Revenue	\$ 581,689,007	\$ (32,735,386)	\$ 548,953,621
Expenses	554,807,989	(32,735,386)	522,072,603
Change in Operating Net Assets	\$ 26,881,018	\$ -	\$ 26,881,018

Eliminations consist of the following:

Central office allocation	31,767,894
Harmony Education Solutions	57,492
Rental income	910,000
Total	\$ 32,735,386

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 19 - Functional Expenses

The District’s expenses are coded directly to the functional category as established by the Texas Education Agency. Below expenses are reflected by functional category and natural classification or object class.

Expense by Functional Category	Expenses by Object Class					Total	FY 2022
	Payroll Costs	Contracted Services	Supplies and Materials	Other Operating Costs	Debt (Interest and fees)		
11 Instruction	\$ 242,920,907	\$ 11,132,984	\$ 13,814,896	\$ 2,060,296	\$ -	\$ 269,929,083	\$ 257,977,766
12 Instructional resources and media services	-	-	9,699	1,244	-	10,943	19,393
13 Curriculum development and instructional staff development	26,798,971	1,685,704	380,480	981,083	-	29,846,238	29,897,426
21 Instructional leadership	2,192,726	3,206,698	94,175	73,186	-	5,566,785	5,541,215
23 School leadership	41,623,305	22,109	433,094	1,214,591	-	43,293,099	39,945,162
31 Guidance, counseling and evaluation services	11,835,479	2,173,916	97	-	-	14,009,492	13,745,198
33 Health services	115,514	12,164	216,811	15,718	-	360,207	612,617
34 Student Transportation	-	1,326,797	-	-	-	1,326,797	1,171,309
35 Food service	2,349,795	13,259,952	171,923	61,078	-	15,842,748	13,313,064
36 Cocurricular/Extracurricular activities	-	431,285	1,366,917	3,405,930	-	5,204,132	3,759,860
41 General administration	20,382,040	6,469,454	419,932	3,980,755	-	31,252,181	28,589,566
51 Plant maintenance and operations	1,788,321	25,130,338	2,184,876	33,866,258	-	62,969,793	54,963,752
52 Security and monitoring services	192,519	3,463,505	58,166	101,626	-	3,815,816	2,825,234
53 Data processing services	4,973,747	3,040,425	100,688	575,785	-	8,690,645	8,390,640
61 Community services	-	-	4,470	-	-	4,470	-
71 Debt service	-	-	-	-	29,950,174	29,950,174	23,493,569
	<u>\$ 355,173,324</u>	<u>\$ 71,355,331</u>	<u>\$ 19,256,224</u>	<u>\$ 46,337,550</u>	<u>\$ 29,950,174</u>	<u>\$ 522,072,603</u>	<u>\$ 484,245,771</u>

Note 20- Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	June 30, 2023	June 30, 2022
Cash and cash equivalents	\$ 10,031,362	\$ 10,119,723
Receivables	4,584,688	3,659,167
	<u>\$ 14,616,050</u>	<u>\$ 13,778,890</u>

Per the Texas Education Agency, Foundation School Program revenues should be classified as revenue with donor restrictions. However, the funds do not have a time restriction, but must be used for education purposes in accordance with State law. As such, there are cash, investments and receivables that are due from the State and are available for use for educational purposes. As part of HPS’ liquidity management practice, we monitor the cash on daily and monthly basis and invest cash in excess of requirements in short-term investments and CDs.

Note 21 - Subsequent Events

As of the date of this report, HPS did not have any subsequent events to report.

HARMONY PUBLIC SCHOOLS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 22 - Related Party Transactions.

HPS' success has received both national and international recognition for its curriculum, programs, training, operations and administration. The HPS Board finds that marketing of these products (i.e. intellectual property) would create revenue for HPS. As such, on February 22, 2020, the HPS Board approved the creation of the Harmony Education Solutions (HES), a limited liability company. The Board of HPS serves as the Board of HES. As of June 30, 2020, HES has received a license to sub-license Harmony's intellectual property and accompanying services. HPS applied to the Texas Education Agency for approval of the trademark licensing transaction between HES and HPS as required by Senate Bill 1454 passed by the Texas 86th Legislature. A percentage, ranging from 2 percent to 10 percent, of the licensing revenue generated by HES will be remitted to HPS. These payments will be considered related party transactions. Below are the revenues and expense for HES for fiscal years 2023 and 2022.

	2023	2022
Revenues	\$ 1,023,096	\$ 812,202
Expenses	<u>1,055,086</u>	<u>767,633</u>
Operating Net Income	<u>\$ (31,990)</u>	<u>\$ 44,569</u>

During fiscal year 2023, 10% of certain HES revenues were remitted to HPS totaling \$36,661, which was eliminated as part of the consolidation process. Below are the total revenues and expenses of both HPS and HES after all eliminations:

	HPS	HES	Elimination	HPS with Elimination of HES
Revenues	\$ 548,953,621	\$ 1,023,096	\$ (57,492)	\$ 549,919,225
Expenses	<u>522,072,603</u>	<u>1,055,086</u>	<u>(57,492)</u>	<u>523,070,197</u>
Operating Net Income	<u>\$ 26,881,018</u>	<u>\$ (31,990)</u>	<u>\$ -</u>	<u>\$ 26,849,028</u>

The assets and liabilities for fiscal year 2023 were \$175,652 and \$129,012, respectively. In fiscal year 2022, HES' assets and liabilities were \$117,003 and \$38,373, respectively.

Note 23 – Extraordinary Item

During fiscal year 2023, there were two buildings in North Texas that were damaged by flood. This was considered infrequent and unusual by management and as such, the gain of \$85,989 was considered extraordinary. The buildings were repaired and HPS determined that the assets were not impaired.

**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Harmony Public Schools

We have audited the consolidated financial statements of Harmony Public Schools as of and for the year ended June 30, 2023, and our report thereon dated November 11, 2023, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules for individual charter schools beginning on page 33 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Whitley Penn LLP

Houston, Texas
November 11, 2023



HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 6,689,665	\$ 5,290,145
Restricted cash	9,074,638	8,637,279
Investments	10,411,370	9,300,804
Receivables	9,446,258	9,771,785
Other receivables	71,382	135,591
Prepays	121,791	100,702
Total Current Assets	<u>35,815,104</u>	<u>33,236,306</u>
Property and Equipment:		
Land	19,547,334	7,225,861
Buildings and improvements	65,692,786	63,020,761
Furniture and equipment	5,700,894	4,723,088
Construction in progress	889,219	1,542,937
	<u>91,830,233</u>	<u>76,512,647</u>
Less: Accumulated depreciation	<u>(29,534,382)</u>	<u>(26,856,923)</u>
	<u>62,295,851</u>	<u>49,655,724</u>
Total Assets	<u>\$ 98,110,955</u>	<u>\$ 82,892,030</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 923,359	\$ 1,226,485
Accrued liabilities	78,747	45,036
Wages payable	4,288,487	3,870,657
Payroll taxes payable	1,451,050	1,336,469
Interest payable	1,392,667	1,069,868
Deferred revenue	19,535	99,527
Current portion of bonds payable	1,699,497	1,114,601
Total Current Liabilities	<u>9,853,342</u>	<u>8,762,643</u>
Long-Term Liabilities:		
Notes payable net of current portion	13,505,304	172,837
Bonds payable net of premium, discount, issuance costs and current portion	<u>55,333,068</u>	<u>57,192,312</u>
Total Liabilities	<u>78,691,714</u>	<u>66,127,792</u>
Net Assets:		
Without donor restrictions	13,745,877	12,008,286
With donor restrictions	<u>5,673,364</u>	<u>4,755,952</u>
Total Net Assets	<u>19,419,241</u>	<u>16,764,238</u>
Total Liabilities and Net Assets	<u>\$ 98,110,955</u>	<u>\$ 82,892,030</u>

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022
Revenues				
Local Support:				
5740	\$ 2,057,859	\$ -	\$ 2,057,859	\$ 1,848,827
5750	255,724	38,082	293,806	409,547
Total Local Support	2,313,583	38,082	2,351,665	2,258,374
State Program Revenues:				
5810	-	38,351,558	38,351,558	38,978,892
5820				
		151,973	151,973	158,988
5830				
	-	12,461	12,461	40,460
Total State Program Revenues	-	38,515,992	38,515,992	39,178,340
Federal Program Revenues:				
5920				
		10,953,320	10,953,320	10,172,909
5930				
		221,319	221,319	237,428
5940				
	-	674,180	674,180	779,891
Total Federal Program Revenues	-	11,848,819	11,848,819	11,190,228
Net Assets Released from Restrictions:				
	49,663,960	(49,663,960)	-	-
Total Revenues	51,977,543	738,933	52,716,476	52,626,942
Expenses				
11	25,846,810	-	25,846,810	25,578,410
12	8,778	-	8,778	4,993
13				
	3,709,413	-	3,709,413	3,320,774
21	400,449	-	400,449	384,843
23	4,142,065	-	4,142,065	4,351,647
31	1,690,034	-	1,690,034	1,659,095
33	16,377	-	16,377	52,354
34	-	-	-	-
35	1,234,542	-	1,234,542	1,132,146
36	503,201	-	503,201	443,692
41	2,609,745	-	2,609,745	2,853,735
51	5,703,435	-	5,703,435	5,970,124
52	394,631	-	394,631	426,787
53	799,590	-	799,590	783,631
71	3,180,882	-	3,180,882	2,668,119
Total Expenses	50,239,952	-	50,239,952	49,630,350

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Change in net assets from operations	\$ 1,737,591	\$ 738,933	\$ 2,476,524	\$ 2,996,592
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	178,476	178,476	(485,710)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>178,476</u>	<u>178,476</u>	<u>(485,710)</u>
Total change in net assets	<u>1,737,591</u>	<u>917,409</u>	<u>2,655,000</u>	<u>2,510,882</u>
Net Assets, Beginning of Year	<u>12,008,286</u>	<u>4,755,955</u>	<u>16,764,241</u>	<u>14,253,356</u>
Net Assets, End of Year	<u>\$ 13,745,877</u>	<u>\$ 5,673,364</u>	<u>\$ 19,419,241</u>	<u>\$ 16,764,238</u>

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	\$ 2,655,000	\$ 2,510,882
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,677,459	2,382,943
Amortization - premium on bonds	(209,430)	(237,062)
Amortization - bond issuance costs	49,696	64,575
(Increase) Decrease in receivables	325,527	(2,231,911)
(Increase) Decrease in other receivables	64,209	(14,890)
(Increase) Decrease in prepaids	(21,089)	34,175
Increase (Decrease) in accounts payable	(303,126)	(60,039)
Increase (Decrease) in wages payable	417,830	278,391
Increase (Decrease) in payroll taxes payable	114,581	(13,705)
Increase (Decrease) in accrued liabilities	33,711	45,000
Increase (Decrease) in interest payable	322,799	(93,770)
Increase (Decrease) in deferred revenue	(79,992)	80,155
Net Cash Provided (Used) by Operating Activities	6,047,175	2,744,744
Cash Flows from Investing Activities		
Purchase of fixed assets	(15,317,586)	(2,020,131)
Purchase of investment	(1,110,566)	141,092
Net Cash Provided (Used) by Investing Activities	(16,428,152)	(1,879,039)
Cash Flows from Financing Activities		
Bond reclassification	-	13,472,632
Repayment of loans	(172,837)	(845,656)
Repayment of bonds	(1,114,611)	(14,104,718)
Proceeds from loans	13,505,304	172,837
Net Cash Provided (Used) by Financing Activities	12,217,856	(1,304,905)
Net increase (decrease) in cash	1,836,879	(439,200)
Cash at Beginning of Year	13,927,424	14,366,624
Cash at End of Year	\$ 15,764,303	\$ 13,927,424
Cash Per the Statement of Financial Position		
Cash	\$ 6,689,665	\$ 5,290,145
Restricted Cash	9,074,638	8,637,279
Total Cash per the Statement of Financial Position	\$ 15,764,303	\$ 13,927,424
Supplemental Disclosures		
Cash paid during the year for:		
Interest	\$ 2,985,471	\$ 2,904,594

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll costs	\$ 32,491,653	\$ 31,816,733
6200 Professional and contracted services	8,753,130	9,515,094
6300 Supplies and materials	1,947,024	2,352,407
6400 Other operating costs	3,867,263	3,277,997
6500 Debt	<u>3,180,882</u>	<u>2,668,119</u>
Total Expenses	<u>\$ 50,239,952</u>	<u>\$ 49,630,350</u>

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 102,195	\$ 15,266,109	\$ 395,999
1120	Investments	-	10,411,370	-
1510	Land and improvements	-	19,547,334	-
1520	Buildings and improvements	-	65,692,786	-
1539	Furniture and equipment	-	5,682,070	18,824
1580	Construction in progress	-	889,219	-
Total Property and Equipment		\$ 102,195	\$ 117,488,888	\$ 414,823

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

		Budgeted Amounts		Actual Amounts	Variance from Final Budget
		Original	Final		
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 1,863,804	\$ 2,052,591	\$ 2,057,859	\$ 5,268
5750	Revenue from curricular	411,582	411,582	293,806	(117,776)
Total Local Support		<u>2,275,386</u>	<u>2,464,173</u>	<u>2,351,665</u>	<u>(112,508)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	38,887,393	38,420,488	38,351,558	(68,930)
5820	State program revenues distributed by Texas Education Agency	161,967	420,929	151,973	(268,956)
5830	State program revenues from State of Texas Government Agencies	72,469	164,787	12,461	(152,326)
Total State Program Revenues		<u>39,121,829</u>	<u>39,006,204</u>	<u>38,515,992</u>	<u>(490,212)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	10,515,320	11,692,557	10,953,320	(739,237)
5930	Federal revenue distributed by other state of Texas Government Agencies (other than TEA)	7,686	80,155	221,319	141,164
5940	Federal revenues distributed directly from the Federal Government	107,500	272,141	674,180	402,039
Total Federal Program Revenues		<u>10,630,506</u>	<u>12,044,853</u>	<u>11,848,819</u>	<u>(196,034)</u>
Total Revenues		<u>52,027,721</u>	<u>53,515,230</u>	<u>52,716,476</u>	<u>(798,754)</u>
Expenses					
11	Instruction	28,014,890	26,238,319	25,846,810	391,509
12	Instructional resources and media services	3,500	8,795	8,778	17
13	Curriculum development and instructional staff development	3,737,933	4,021,286	3,709,413	311,873
21	Instructional leadership	373,841	407,343	400,449	6,894
23	School leadership	4,034,281	4,465,635	4,142,065	323,570
31	Guidance, counseling and evaluation services	454,612	1,940,668	1,690,034	250,634
33	Health services	110,700	101,117	16,377	84,740
35	Food service	1,224,818	1,531,615	1,234,542	297,073
36	Cocurricular/Extracurricular activities	449,068	543,884	503,201	40,683
41	General administration	2,489,792	2,766,577	2,609,745	156,832
51	Plant maintenance and operations	6,624,611	5,941,999	5,703,435	238,564
52	Security and monitoring services	308,500	445,144	394,631	50,513
53	Data processing services	701,039	815,000	799,590	15,410
71	Debt service	2,722,388	3,162,940	3,180,882	(17,942)
Total Expenses		<u>51,249,973</u>	<u>52,390,322</u>	<u>50,239,952</u>	<u>2,150,370</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	178,476	178,476
Total Non-Operating Revenues (Expenses)		<u>-</u>	<u>-</u>	<u>178,476</u>	<u>178,476</u>
Change in net assets		<u>777,748</u>	<u>1,124,908</u>	<u>2,655,000</u>	<u>1,530,092</u>
Net Assets, Beginning of Year as Restated		<u>16,764,241</u>	<u>16,764,241</u>	<u>16,764,241</u>	<u>-</u>
Net Assets, End of Year		<u>\$ 17,541,989</u>	<u>\$ 17,889,149</u>	<u>\$ 19,419,241</u>	<u>\$ 1,530,092</u>

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2023

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
RES B BLK 2 WESTWOOD CENTER SEC 1	9421 W SAM HOUSTON PKY S, Houston, TX 77099	\$ 8,233,028	\$ -	\$ 8,660,076	\$ -
RES B5-A BLK 2 WESTWOOD CENTER SEC 01	9421 W SAM HOUSTON PKY S, Houston, TX 77099	5,706,340	-	7,670,973	-
RES A BLK 1 HARMONY SCHOOL OF INGENUITY 5.2540 AC	10555 STELLA LINK RD, Houston, TX 77025	7,257,130	-	9,946,706	-
LTS 1 THRU 5 BLK 10 MARILYN ESTATES SEC 5 1.2856 AC	5435 S BRAESWOOD BLVD, Houston, TX 77096	1,316,321	-	1,377,467	-
RES F1-A SOUTH POINT BUSINESS PARK SEC 1	9115 KIRBY DR, Houston, TX 77054	10,557,328	-	12,101,645	-
RES F SOUTH POINT BUSINESS PARK SEC 1	0 KIRBY DR, Houston, TX 77054	472,356	-	-	-
RES B4 BLK 2 WESTWOOD CENTER SEC 1 4.6300 AC	9303 W SAM HOUSTON PKY S 77036	6,304,215	-	11,058,052	-
Note (1)	Note (1)	-	-	34,425,201	-
Total		\$ 39,846,718	\$ -	\$ 85,240,120	\$ -

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

HOUSTON SOUTH

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2023

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$4,573,166
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$1,621,459
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 808,483
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PIC 25)	\$ 446,016

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Compensation	Yearly	N/A	\$ -	\$ -



HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 6,013,444	\$ 2,219,358
Restricted cash	8,405,837	8,274,275
Investments	5,037,517	6,472,154
Receivables	10,012,214	10,583,685
Other receivables	100,178	230,591
Prepays	<u>142,527</u>	<u>115,387</u>
Total Current Assets	<u>29,711,717</u>	<u>27,895,450</u>
Property and Equipment:		
Land	12,733,189	12,732,225
Buildings and improvements	37,939,617	37,000,017
Furniture and equipment	5,362,452	4,556,188
Construction in progress	3,784,977	1,868,761
Right-of-use asset under lease	<u>13,418,181</u>	<u>13,418,181</u>
	73,238,416	69,575,372
Less: Accumulated depreciation	<u>(22,399,247)</u>	<u>(18,808,001)</u>
	50,839,169	50,767,371
Other Assets:		
Deposits	<u>159,006</u>	<u>159,006</u>
Total Assets	<u>\$ 80,709,892</u>	<u>\$ 78,821,827</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,370,589	\$ 1,374,554
Accrued liabilities	5,000	5,000
Wages payable	4,789,332	4,647,333
Payroll taxes payable	1,654,087	1,664,597
Interest payable	995,237	729,606
Deferred revenue	30,618	162,644
Current portion of lease liability	2,261,644	2,084,294
Current portion of bonds payable	<u>987,901</u>	<u>648,040</u>
Total Current Liabilities	<u>12,094,408</u>	<u>11,316,068</u>
Long-Term Liabilities:		
Lease liability net of current portion	5,365,586	7,627,230
Notes payable	12,819,233	10,425,312
Bonds payable net of premium, discount, issuance costs and current portion	<u>35,150,022</u>	<u>36,231,242</u>
Total Liabilities	<u>65,429,249</u>	<u>65,599,852</u>
Net Assets:		
Without donor restrictions	6,186,265	4,876,304
With donor restrictions	<u>9,094,378</u>	<u>8,345,671</u>
Total Net Assets	<u>15,280,643</u>	<u>13,221,975</u>
Total Liabilities and Net Assets	<u>\$ 80,709,892</u>	<u>\$ 78,821,827</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022
Revenues				
Local Support:				
5740	\$ 1,264,373	\$ -	\$ 1,264,373	\$ 4,194,760
5750	317,182	187,569	504,751	429,277
	Total Local Support	187,569	1,769,124	4,624,037
State Program Revenues:				
5810	-	45,031,004	45,031,004	43,353,747
5820	-	236,515	236,515	228,259
5830	-	6,198	6,198	24,394
	Total State Program Revenues	45,273,717	45,273,717	43,606,400
Federal Program Revenues:				
5920	-	9,367,083	9,367,083	9,131,669
5930	-	262,465	262,465	239,412
5940	-	870,272	870,272	646,592
	Total Federal Program Revenues	10,499,820	10,499,820	10,017,673
Net Assets Released from Restrictions:				
	55,335,844	(55,335,844)	-	-
	Total Revenues	625,262	57,542,661	58,248,110
Expenses				
11	28,965,770	-	28,965,770	30,287,271
12	-	-	-	4,240
13	3,082,363	-	3,082,363	3,373,661
21	281,643	-	281,643	203,767
23	4,890,302	-	4,890,302	4,851,742
31	1,286,238	-	1,286,238	1,412,635
33	15,932	-	15,932	54,361
34	670,664	-	670,664	656,914
35	1,624,857	-	1,624,857	1,392,033
36	490,685	-	490,685	416,476
41	3,326,693	-	3,326,693	2,975,789
51	7,932,988	-	7,932,988	7,545,076
52	110,062	-	110,062	94,488
53	687,081	-	687,081	754,942
71	2,242,160	-	2,242,160	1,820,400
	Total Expenses	-	55,607,438	55,843,795

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Change in net assets from operations	\$ 1,309,961	\$ 625,262	\$ 1,935,223	\$ 2,404,315
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	123,445	123,445	(123,922)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>123,445</u>	<u>123,445</u>	<u>(123,922)</u>
Total Change in net assets	<u>1,309,961</u>	<u>748,707</u>	<u>2,058,668</u>	<u>2,280,393</u>
Net Assets, Beginning of Year	<u>4,876,304</u>	<u>8,345,671</u>	<u>13,221,975</u>	<u>10,941,582</u>
Net Assets, End of Year	<u>\$ 6,186,265</u>	<u>\$ 9,094,378</u>	<u>\$ 15,280,643</u>	<u>\$ 13,221,975</u>

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HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 2,058,668	\$ 2,280,393
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,591,246	3,397,132
Amortization - premium on bonds	(119,960)	(135,749)
Amortization - bond issuance costs	26,513	26,939
(Increase) Decrease in accounts receivable	571,471	(2,580,246)
(Increase) Decrease in other receivables	130,413	(70,116)
(Increase) Decrease in prepaids	(27,140)	67,531
Increase (Decrease) in deposits	-	-
Increase (Decrease) in accounts payable	(3,965)	405,611
Increase (Decrease) in wages payable	141,999	836,396
Increase (Decrease) in payroll taxes payable	(10,510)	181,590
Increase (Decrease) in deferred revenue	(132,026)	100,446
Increase (Decrease) in accrued liabilities	-	4,500
Increase (Decrease) in interest payable	265,631	49,544
Net Cash Provided (Used) by Operating Activities	<u>6,492,340</u>	<u>4,563,971</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(3,663,044)	(8,163,022)
Purchase of investment	1,434,637	69,607
Net Cash Provided (Used) by Investing Activities	<u>(2,228,407)</u>	<u>(8,093,415)</u>
Cash Flows from Financing Activities		
Reclassification of bonds	-	1,226,313
Proceeds from loan	2,393,921	6,074,302
Repayment of bonds	(647,912)	(993,874)
Payments on lease liability	(2,084,294)	(922,945)
Net Cash Provided (Used) by Financing Activities	<u>(338,285)</u>	<u>5,383,796</u>
Net increase (decrease) in cash	3,925,648	1,854,352
Cash at Beginning of Year	<u>10,493,633</u>	<u>8,639,281</u>
Cash at End of Year	<u>\$ 14,419,281</u>	<u>\$ 10,493,633</u>
Cash Per the Statement of Financial Position		
Cash	\$ 6,013,444	\$ 2,219,358
Restricted Cash	8,405,837	8,274,275
Total Cash per the Statement of Financial Position	<u>\$ 14,419,281</u>	<u>\$ 10,493,633</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 2,041,820</u>	<u>\$ 1,850,888</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll costs	\$ 36,209,767	\$ 37,225,681
6200 Professional and contracted services	10,699,638	9,955,856
6300 Supplies and materials	1,865,576	2,694,897
6400 Other operating costs	4,590,297	4,146,961
6500 Debt	<u>2,242,160</u>	<u>1,820,400</u>
Total Expenses	<u>\$ 55,607,438</u>	<u>\$ 55,843,795</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

		Ownership Interest		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1110	Cash	\$ 320,752	\$ 13,849,409	\$ 249,120
1120	Investments	-	5,037,517	-
1510	Land and improvements	-	12,733,189	-
1520	Buildings and improvements	1,124,900	36,586,517	228,200
1551	Right-to-use assets under leases	-	13,418,181	-
1539	Furniture and equipment	43,871	5,259,916	58,665
1580	Construction in progress	-	3,784,977	-
Total Property and Equipment		<u>\$ 1,489,523</u>	<u>\$ 90,669,706</u>	<u>\$ 535,985</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

		<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
		<u>Original</u>	<u>Final</u>		
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 380,908	\$ 1,354,831	\$ 1,264,373	\$ (90,458)
5750	Revenue from curricular	627,368	697,368	504,751	(192,617)
	Total Local Support	<u>1,008,276</u>	<u>2,052,199</u>	<u>1,769,124</u>	<u>(283,075)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	45,789,880	45,280,270	45,031,004	(249,266)
5820	State program revenues distributed by Texas Education Agency	239,231	523,910	236,515	(287,395)
5830	State program revenues distributed directly from other state agencies	88,797	202,247	6,198	(196,049)
	Total State Program Revenues	<u>46,117,908</u>	<u>46,006,427</u>	<u>45,273,717</u>	<u>(732,710)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	7,299,692	9,525,124	9,367,083	(158,041)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	8,649	93,366	262,465	169,099
5940	Federal revenues distributed directly from the Federal Government	323,000	560,595	870,272	309,677
	Total Federal Program Revenues	<u>7,631,341</u>	<u>10,179,085</u>	<u>10,499,820</u>	<u>320,735</u>
	Total Revenues	<u>54,757,525</u>	<u>58,237,711</u>	<u>57,542,661</u>	<u>(695,050)</u>
Expenses					
11	Instruction	29,948,420	29,067,506	28,965,770	101,736
12	Instructional resources and media services	-	-	-	-
13	Curriculum development and instructional staff development	2,742,410	3,141,605	3,082,363	59,242
21	Instructional leadership	254,405	275,027	281,643	(6,616)
23	School leadership	4,567,887	5,016,513	4,890,302	126,211
31	Guidance, counseling and evaluation services	387,229	1,265,915	1,286,238	(20,323)
33	Health services	13,141	17,099	15,932	1,167
34	Student (pupil) transportation	453,427	623,427	670,664	(47,237)
35	Food service	1,619,801	2,043,002	1,624,857	418,145
36	Cocurricular/Extracurricular activities	392,500	586,310	490,685	95,625
41	General administration	3,252,219	3,445,345	3,326,693	118,652
51	Plant maintenance and operations	7,305,047	8,080,469	7,932,988	147,481
52	Security and monitoring services	32,500	144,215	110,062	34,153
53	Data processing services	696,830	687,316	687,081	235
71	Debt service	2,175,913	2,226,279	2,242,160	(15,881)
	Total Expenses	<u>53,841,729</u>	<u>56,620,028</u>	<u>55,607,438</u>	<u>1,012,590</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	123,445	123,445
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>123,445</u>	<u>123,445</u>
	Change in net assets	<u>915,796</u>	<u>1,617,683</u>	<u>2,058,668</u>	<u>440,985</u>
	Net Assets, Beginning of Year	<u>13,221,975</u>	<u>13,221,975</u>	<u>13,221,975</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 14,137,771</u>	<u>\$ 14,839,658</u>	<u>\$ 15,280,643</u>	<u>\$ 440,985</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2023

<u>Description (list each parcel separately)</u>	<u>Property Address</u>	<u>Total Assessed Value</u>	<u>Ownership Interest - Local</u>	<u>Ownership Interest - State</u>	<u>Ownership Interest - Federal</u>
LOT A T S A ADDN	930 E RUNDBERG LN TX 78753	\$ 5,399,897	\$ 33,521	\$ 7,293,039	\$ -
S8861 - MACONDA PARK EAST SEC 1 BLK A RESUB (LT 1 BLK A RESU, BLOCK A, Lot 1B, ACRES 8.3017	13415 N FM 620, AUSTIN, TX 78759	21,490,672	-	16,236,049	-
LOT 3A BLK A ANDERSON MILL NAUMANN AMD LT 3 RESUB LTS 10 & 11 HATCH TRACT & LOT 6 BLK A ANDERSON MILL PARK	12200 ANDERSON MILL RD TX 78613	7,940,374	79,095	7,642,728	228,200
Note (1)	Note (1)	-	1,012,284	18,147,890	-
Total		<u>\$ 34,830,943</u>	<u>\$ 1,124,900</u>	<u>\$ 49,319,706</u>	<u>\$ 228,200</u>

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

CENTRAL TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2023

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$4,273,951
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$2,662,885
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$1,210,002
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PIC 25)	\$ 668,127

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A		\$ -



HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 7,367,037	\$ 2,906,598
Restricted cash	5,582,399	7,590,795
Investments	6,661,395	7,571,168
Receivables	12,302,435	12,872,015
Other receivables	589,770	160,631
Prepays	150,960	120,256
Total Current Assets	<u>32,653,996</u>	<u>31,221,463</u>
Property and Equipment:		
Land	14,062,589	8,172,338
Buildings and improvements	69,604,174	51,528,261
Furniture and equipment	6,877,508	5,492,091
Construction in progress	1,373,018	14,831,456
Right-of-use asset under financing lease	5,392,854	5,392,854
	<u>97,310,143</u>	<u>85,417,000</u>
Less: Accumulated depreciation and amortization	<u>(22,288,824)</u>	<u>(18,619,099)</u>
	75,021,319	66,797,901
Other Assets:		
Deposits	26,890	26,890
Total Assets	<u>\$ 107,702,205</u>	<u>\$ 98,046,254</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 2,320,591	\$ 2,812,203
Accrued liabilities	58,978	58,974
Wages payable	5,780,388	5,123,518
Payroll taxes payable	2,010,257	1,880,474
Interest payable	1,313,655	1,110,235
Deferred revenue	45,213	98,258
Current portion of lease liability	935,199	880,367
Current portion of bonds payable	1,279,095	838,850
Total Current Liabilities	<u>13,743,376</u>	<u>12,802,879</u>
Long-Term Liabilities:		
Lease liability net of current portion	1,448,512	2,383,712
Notes payable net of current portion	8,667,860	927,381
Bonds payable net of premium, discount, issuance costs and current portion	<u>65,701,015</u>	<u>67,183,034</u>
Total Liabilities	<u>89,560,763</u>	<u>83,297,006</u>
Net Assets:		
Without donor restrictions	5,032,535	2,664,154
With donor restrictions	<u>13,108,907</u>	<u>12,085,094</u>
Total Net Assets	<u>18,141,442</u>	<u>14,749,248</u>
Total Liabilities and Net Assets	<u>\$ 107,702,205</u>	<u>\$ 98,046,254</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022
Revenues				
Local Support:				
5740	\$ 2,444,057	\$ -	\$ 2,444,057	\$ 600,890
5750	358,251	149,664	507,915	449,310
	Total Local Support	149,664	2,951,972	1,050,200
State Program Revenues:				
5810	-	51,526,830	51,526,830	47,786,107
5820	-	140,970	140,970	263,776
5830	-	3,135	3,135	30,222
	Total State Program Revenues	51,670,935	51,670,935	48,080,105
Federal Program Revenues:				
5920	-	14,408,408	14,408,408	13,700,772
5930	-	252,011	252,011	227,453
5940	-	1,048,936	1,048,936	915,806
	Total Federal Program Revenues	15,709,355	15,709,355	14,844,031
Net Assets Released from Restrictions:				
	Restrictions satisfied by payments	(66,661,203)	-	-
	Total Revenues	868,751	70,332,262	63,974,336
Expenses				
11	35,992,491	-	35,992,491	35,071,036
12	95	-	95	171
13	4,420,997	-	4,420,997	4,101,066
21	276,216	-	276,216	247,821
23	5,754,491	-	5,754,491	5,338,822
31	1,725,879	-	1,725,879	1,549,220
33	83,846	-	83,846	53,513
34	247,521	-	247,521	85,187
35	2,482,604	-	2,482,604	2,061,680
36	574,730	-	574,730	383,112
41	3,505,933	-	3,505,933	4,115,209
51	7,398,095	-	7,398,095	6,580,169
52	696,254	-	696,254	432,093
53	959,379	-	959,379	955,576
71	2,976,599	-	2,976,599	2,284,514
	Total Expenses	-	67,095,130	63,259,189

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Change in net assets from operations	\$ 2,368,381	\$ 868,751	\$ 3,237,132	\$ 715,147
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	155,062	155,062	(123,751)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>155,062</u>	<u>155,062</u>	<u>(123,751)</u>
Total change in net assets	<u>2,368,381</u>	<u>1,023,813</u>	<u>3,392,194</u>	<u>591,396</u>
Net Assets, Beginning of Year	<u>2,664,154</u>	<u>12,085,094</u>	<u>14,749,248</u>	<u>14,157,852</u>
Net Assets, End of Year	<u>\$ 5,032,535</u>	<u>\$ 13,108,907</u>	<u>\$ 18,141,442</u>	<u>\$ 14,749,248</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,392,194	\$ 591,396
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of right-to-use assets under leases	3,669,725	2,917,003
Amortization - premium on bonds	(262,569)	(159,791)
Amortization - bond issuance costs	59,686	(98,687)
(Increase) Decrease in receivables	569,580	(3,441,975)
(Increase) Decrease in other receivables	(429,139)	77,824
(Increase) Decrease in prepaids	(30,704)	44,045
Increase (Decrease) in accounts payable	(491,612)	1,288,730
Increase (Decrease) in wages payable	656,870	584,123
Increase (Decrease) in payroll taxes payable	129,783	32,489
Increase (Decrease) in accrued liabilities	4	-
Increase (Decrease) in interest payable	203,420	239,662
Increase (Decrease) in deferred revenue	(53,045)	98,258
Net Cash Provided (Used) by Operating Activities	<u>7,414,193</u>	<u>2,173,077</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(11,893,143)	(15,983,729)
Purchase of investment	909,773	119,077
Net Cash Provided (Used) by Investing Activities	<u>(10,983,370)</u>	<u>(15,864,652)</u>
Cash Flows from Financing Activities		
Payment on lease liability	(880,368)	(335,390)
Proceeds from bonds and reclassification of bonds		20,673,183
Repayment of bonds	(838,891)	(818,064)
Repayment of loans	7,740,479	(4,650,560)
Net Cash Provided (Used) by Financing Activities	<u>6,021,220</u>	<u>14,869,169</u>
Net increase (decrease) in cash	2,452,043	1,177,594
Cash at Beginning of Year	<u>10,497,393</u>	<u>9,319,799</u>
Cash at End of Year	<u>\$ 12,949,436</u>	<u>\$ 10,497,393</u>
Cash Per the Statement of Financial Position		
Cash	\$ 7,367,037	\$ 2,906,598
Restricted Cash	5,582,399	7,590,795
Total Cash per the Statement of Financial Position	<u>\$ 12,949,436</u>	<u>\$ 10,497,393</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 2,937,677</u>	<u>\$ 2,109,551</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll costs	\$ 44,363,080	\$ 42,467,206
6200 Professional and contracted services	12,213,256	11,287,013
6300 Supplies and materials	2,330,427	2,858,637
6400 Other operating costs	5,211,768	4,361,819
6500 Debt	<u>2,976,599</u>	<u>2,284,514</u>
Total Expenses	<u>\$ 67,095,130</u>	<u>\$ 63,259,189</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 97,065	\$ 12,428,686	\$ 423,685
1120	Investments	-	6,661,395	-
1510	Land and improvements	-	14,062,589	-
1520	Buildings and improvements	60,542	69,436,756	106,876
1551	Right-of-use asset under financing lease	-	5,392,854	-
1539	Furniture and equipment	8,240	6,843,987	25,281
1580	Construction in progress	-	1,373,018	-
Total Property and Equipment		\$ 165,847	\$ 116,199,285	\$ 555,842

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 794,963	\$ 2,904,385	\$ 2,444,057	\$ (460,328)
5750	Revenue from curricular	717,353	817,353	507,915	(309,438)
Total Local Support		<u>1,512,316</u>	<u>3,721,738</u>	<u>2,951,972</u>	<u>(769,766)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	53,214,485	51,475,666	51,526,830	51,164
5820	State program revenues distributed by Texas Education Agency	141,947	441,662	140,970	(300,692)
5830	State program revenues distributed directly from other state agencies	92,418	210,554	3,135	(207,419)
Total State Program Revenues		<u>53,448,850</u>	<u>52,127,882</u>	<u>51,670,935</u>	<u>(456,947)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	13,405,093	14,727,796	14,408,408	(319,388)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	5,840	98,258	252,011	153,753
5940	Federal revenues distributed directly from the Federal Government	247,500	552,527	1,048,936	496,409
Total Federal Program Revenues		<u>13,658,433</u>	<u>15,378,581</u>	<u>15,709,355</u>	<u>330,774</u>
Total Revenues		<u>68,619,599</u>	<u>71,228,201</u>	<u>70,332,262</u>	<u>(895,939)</u>
Expenses					
11	Instruction	38,016,325	36,944,015	35,992,491	951,524
12	Instructional resources and media services	-	95	95	-
13	Curriculum development and instructional staff development	4,261,207	4,138,127	4,420,997	(282,870)
21	Instructional leadership	242,749	284,893	276,216	8,677
23	School leadership	5,732,941	6,239,814	5,754,491	485,323
31	Guidance, counseling and evaluation services	852,754	1,846,959	1,725,879	121,080
33	Health services	41,500	72,315	83,846	(11,531)
34	Student transportation	471,100	327,808	247,521	80,287
35	Food service	2,455,870	2,789,748	2,482,604	307,144
36	Cocurricular/Extracurricular activities	471,600	675,735	574,730	101,005
41	General administration	3,539,008	3,690,551	3,505,933	184,618
51	Plant maintenance and operations	7,507,648	7,694,396	7,398,095	296,301
52	Security and monitoring services	442,905	768,919	696,254	72,665
53	Data processing services	971,535	984,988	959,379	25,609
71	Debt service	2,548,168	2,974,630	2,976,599	(1,969)
Total Expenses		<u>67,555,310</u>	<u>69,432,993</u>	<u>67,095,130</u>	<u>2,337,863</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	155,062	155,062
Total Non-Operating Revenues (Expenses)		<u>-</u>	<u>-</u>	<u>155,062</u>	<u>155,062</u>
Change in net assets		<u>1,064,289</u>	<u>1,795,208</u>	<u>3,392,194</u>	<u>1,596,986</u>
Net Assets, Beginning of Year		<u>14,749,248</u>	<u>14,749,248</u>	<u>14,749,248</u>	<u>-</u>
Net Assets, End of Year		<u>\$ 15,813,537</u>	<u>\$ 16,544,456</u>	<u>\$ 18,141,442</u>	<u>\$ 1,596,986</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2023

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
NCB 19127 (NEW HARMONY SCIENCE ACADEMY),	8505 LAKESIDE PKWY SAN ANTONIO, TX 78245	\$ 12,663,840	\$ -	\$ -	\$ -
CB 5073D BLK 22 LOT 1 (HARMONY SCHOOL SUBD)	GLEN MONT DR SAN ANTONIO, TX 78239	332,690	-	-	-
LOT 1-A BLK 488 ED REPLAT	4401 SAN FRANCISCO AVE LAREDO, TX 78041	5,034,830	-	-	-
MANN SUBDIVISION LOT 1 BLK 1	1124 CENTRAL BLVD BROWNSVILLE, TX	1,347,577	-	4,903,935	-
EL JARDIN SUBDIVISION SHARE 19 BLK 15, 10 ACRES OUT OF 40.2500 ACRES	3451 DANA AVE BROWNSVILLE, TX	4,126,821	-	9,514,143	-
LOT 1-B BLK 489 ED REPLAT	SAN FRANCISCO AVE LAREDO, TX 78040	4,021,480	-	6,287,930	-
Note (1)	Note (1)	-	60,542	62,793,337	106,876
Total		\$ 27,527,238	\$ 60,542	\$ 83,499,345	\$ 106,876

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

SOUTH TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2023

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$4,632,378
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$3,529,327
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 777,906
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PIC 25)	\$1,215,109

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A		\$ -



HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 5,400,125	\$ 3,201,679
Restricted cash	6,488,776	9,594,706
Investments	14,766,925	15,153,952
Receivables	10,517,286	10,878,027
Other receivables	949,959	1,037,061
Prepays	145,233	114,198
Total Current Assets	<u>38,268,304</u>	<u>39,979,623</u>
Property and Equipment:		
Land	10,158,225	5,147,703
Buildings and improvements	43,686,949	17,594,915
Furniture and equipment	8,176,925	5,579,608
Construction in progress	22,106,577	25,748,598
Right-to-use asset	29,478,031	27,711,445
	<u>113,606,707</u>	<u>81,782,269</u>
Less: Accumulated depreciation and amortization	<u>(20,754,886)</u>	<u>(16,775,330)</u>
	92,851,821	65,006,939
Other Assets:		
Deposits	22,613	22,613
Total Assets	<u>\$ 131,142,738</u>	<u>\$ 105,009,175</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 4,706,356	\$ 4,586,362
Accrued liabilities	4,677	-
Wages payable	4,908,433	4,506,894
Payroll taxes payable	1,591,265	1,562,665
Interest payable	1,194,962	632,421
Deferred revenue	15,902	88,490
Current portion of lease liability	1,190,994	789,944
Current portion of bonds payable	318,951	209,333
Total Current Liabilities	<u>13,931,540</u>	<u>12,376,109</u>
Long-Term Liabilities:		
Lease liability	24,926,274	24,901,837
Notes payable	22,599,578	770,260
Bonds payable net of premium, discount, issuance costs and current portion	<u>49,243,008</u>	<u>49,686,313</u>
Total Liabilities	<u>110,700,400</u>	<u>87,734,519</u>
Net Assets:		
Without donor restrictions	3,248,531	959,983
With donor restrictions	<u>17,193,807</u>	<u>16,314,673</u>
Total Net Assets	<u>20,442,338</u>	<u>17,274,656</u>
Total Liabilities and Net Assets	<u>\$ 131,142,738</u>	<u>\$ 105,009,175</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022
Revenues				
Local Support:				
5740	\$ 1,970,382	\$ -	\$ 1,970,382	\$ 185,134
5750	396,128	306,046	702,174	486,211
	Total Local Support	306,046	2,672,556	671,345
State Program Revenues:				
5810	-	50,392,853	50,392,853	46,432,391
5820	-	238,134	238,134	177,814
5830	-	3,135	3,135	32,716
	Total State Program Revenues	50,634,122	50,634,122	46,642,921
Federal Program Revenues:				
5920	-	11,352,494	11,352,494	9,959,795
5930	-	363,588	363,588	255,847
5940	-	1,096,732	1,096,732	754,916
	Total Federal Program Revenues	12,812,814	12,812,814	10,970,558
Net assets released from restrictions:				
	Restrictions satisfied by payments	62,864,312	(62,864,312)	-
	Total Revenues	65,230,822	888,670	66,119,492
Expenses				
11	Instruction	31,696,438	-	31,696,438
12	Instructional resources and media services	-	-	473
13	Curriculum development and instructional staff development	3,881,525	-	3,881,525
21	Instructional leadership	323,681	-	323,681
23	School leadership	5,577,000	-	5,577,000
31	Guidance, counseling and evaluation services	1,169,741	-	1,169,741
33	Health services	37,211	-	37,211
34	Student transportation	52,235	-	52,235
35	Food service	2,349,823	-	2,349,823
36	Cocurricular/Extracurricular activities	633,823	-	633,823
41	General administration	3,539,922	-	3,539,922
51	Plant maintenance and operations	8,649,087	-	8,649,087
52	Security and monitoring services	706,312	-	706,312
53	Data processing services	1,037,754	-	1,037,754
71	Debt service	3,287,722	-	3,287,722
	Total Expenses	62,942,274	-	62,942,274

HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Change in net assets from operations	\$ 2,288,548	\$ 888,670	\$ 3,177,218	\$ 1,270,116
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on early extinguishment of bonds	-	(9,536)	(9,536)	(546,989)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(9,536)</u>	<u>(9,536)</u>	<u>(546,989)</u>
Total change in net assets	<u>2,288,548</u>	<u>879,134</u>	<u>3,167,682</u>	<u>723,127</u>
Net Assets, Beginning of Year	<u>959,983</u>	<u>16,314,673</u>	<u>17,274,656</u>	<u>16,551,529</u>
Net Assets, End of Year	<u>\$ 3,248,531</u>	<u>\$ 17,193,807</u>	<u>\$ 20,442,338</u>	<u>\$ 17,274,656</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,167,682	\$ 723,127
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of right-to-use assets under leases	3,979,556	2,417,950
Amortization - premium on bonds	(198,189)	(311,816)
Amortization - bond issuance costs	73,685	73,685
(Increase) Decrease in accounts receivable	360,741	(3,040,151)
(Increase) Decrease in other receivables	87,102	971,935
(Increase) Decrease in prepaids	(31,035)	41,137
Increase (Decrease) in due to state	-	-
Increase (Decrease) in accounts payable	119,994	2,408,472
Increase (Decrease) in wages payable	401,539	781,094
Increase (Decrease) in payroll taxes payable	28,600	90,794
Increase (Decrease) in deferred revenue	(72,588)	84,245
Increase (Decrease) in accrued liabilities	4,677	-
Increase (Decrease) in interest payable	562,541	452,231
Net Cash Provided (Used) by Operating Activities	<u>8,484,305</u>	<u>4,692,703</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(31,824,438)	(22,469,162)
Sale of investment	387,027	479,216
Net Cash Provided (Used) by Investing Activities	<u>(31,437,411)</u>	<u>(21,989,946)</u>
Cash Flows from Financing Activities		
Proceeds from bonds and reclassification of bonds	-	40,584,641
Repayment of loan	21,829,318	(13,369,591)
Repayment of bonds	(209,183)	(199,890)
Repayment of leases	425,487	(712,768)
Net Cash Provided (Used) by Financing Activities	<u>22,045,622</u>	<u>26,302,392</u>
Net increase (decrease) in cash	(907,484)	9,005,149
Cash at Beginning of Year	<u>12,796,385</u>	<u>3,791,236</u>
Cash at End of Year	<u>\$ 11,888,901</u>	<u>\$ 12,796,385</u>
Cash Per the Statement of Financial Position		
Cash	\$ 5,400,125	\$ 3,201,679
Restricted Cash	6,488,776	9,594,706
Total Cash per the Statement of Financial Position	<u>\$ 11,888,901</u>	<u>\$ 12,796,385</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 3,206,647</u>	<u>\$ 1,877,261</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll costs	\$ 40,231,314	\$ 36,696,592
6200 Professional and contracted services	12,055,755	12,643,149
6300 Supplies and materials	2,143,934	2,736,116
6400 Other operating costs	5,223,549	2,980,313
6500 Debt	<u>3,287,722</u>	<u>1,958,538</u>
Total Expenses	<u>\$ 62,942,274</u>	<u>\$ 57,014,708</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 338,442	\$ 10,798,143	\$ 752,316
1120	Investments	-	14,766,925	-
1510	Land and improvements	-	10,158,225	-
1520	Buildings and improvements	80,072	43,402,065	204,812
1551	Assets under capital lease	-	29,478,031	-
1539	Furniture and equipment	-	8,117,629	59,296
1580	Construction in progress	-	22,106,577	-
Total Property and Equipment		\$ 418,514	\$ 138,827,595	\$ 1,016,424

HARMONY PUBLIC SCHOOLS
WEST TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 199,704	\$ 1,920,545	\$ 1,970,382	\$ 49,837
5750	Revenue from curricular	802,337	967,943	702,174	(265,769)
	Total Local Support	<u>1,002,041</u>	<u>2,888,488</u>	<u>2,672,556</u>	<u>(215,932)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	52,460,730	50,357,833	50,392,853	35,020
5820	State program revenues distributed by Texas Education Agency	223,638	517,186	238,134	(279,052)
5830	State program revenues distributed directly from other state agencies	76,328	221,443	3,135	(218,308)
	Total State Program Revenues	<u>52,760,696</u>	<u>51,096,462</u>	<u>50,634,122</u>	<u>(462,340)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	9,448,622	11,902,916	11,352,494	(550,422)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	7,917	84,245	363,588	279,343
5940	Federal revenues distributed directly from the Federal Government	215,000	536,215	1,096,732	560,517
	Total Federal Program Revenues	<u>9,671,539</u>	<u>12,523,376</u>	<u>12,812,814</u>	<u>289,438</u>
	Total Revenues	<u>63,434,276</u>	<u>66,508,326</u>	<u>66,119,492</u>	<u>(388,834)</u>
Expenses					
11	Instruction	34,191,746	32,171,243	31,696,438	474,805
12	Instructional resources and media services	-	-	-	-
13	Curriculum development and instructional staff development	3,207,707	3,809,758	3,881,525	(71,767)
21	Instructional leadership	273,752	320,658	323,681	(3,023)
23	School leadership	4,981,845	5,612,263	5,577,000	35,263
31	Guidance, counseling and evaluation services	815,970	1,158,590	1,169,741	(11,151)
33	Health services	22,502	41,225	37,211	4,014
34	Student transportation	150,000	52,913	52,235	678
35	Food service	2,159,841	2,720,059	2,349,823	370,236
36	Cocurricular/Extracurricular activities	484,509	657,505	633,823	23,682
41	General administration	3,497,982	3,746,174	3,539,922	206,252
51	Plant maintenance and operations	8,380,198	9,509,881	8,649,087	860,794
52	Security and monitoring services	645,801	824,152	706,312	117,840
53	Data processing services	1,009,263	1,001,990	1,037,754	(35,764)
71	Debt service	2,563,946	3,457,466	3,287,722	169,744
	Total Expenses	<u>62,385,062</u>	<u>65,083,877</u>	<u>62,942,274</u>	<u>2,141,603</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(9,536)	(9,536)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(9,536)</u>	<u>(9,536)</u>
	Change in net assets	<u>1,049,214</u>	<u>1,424,449</u>	<u>3,167,682</u>	<u>1,743,233</u>
	Net Assets, Beginning of Year as Restated	<u>17,274,656</u>	<u>17,274,656</u>	<u>17,274,656</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 18,323,870</u>	<u>\$ 18,699,105</u>	<u>\$ 20,442,338</u>	<u>\$ 1,743,233</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2023

<u>Description (list each parcel separately)</u>	<u>Property Address</u>	<u>Total Assessed Value</u>	<u>Ownership Interest - Local</u>	<u>Ownership Interest - State</u>	<u>Ownership Interest - Federal</u>
CMP FURN MACH	5210 FAIRBANKS DR EL PASO, TX 79924	\$ 1,293,410	\$ -	\$ 4,128,737	\$ -
NANCY L 5 THRU 10 & ADA HOOD BLK 1 L 6 THRU 10 & OL 1 BLK E SEC 2 AB 489	1516 53RD ST, LUBBOCK, TX 79412	2,270,829	-	4,288,279	-
Note (1)	Note (1)	-	80,072	45,143,274	-
Total		<u>\$ 3,564,239</u>	<u>\$ 80,072</u>	<u>\$ 53,560,290</u>	<u>\$ -</u>

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

WEST TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2023

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$5,679,711
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$3,625,279
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 778,109
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PIC 25)	\$ 862,583

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A		\$ -



HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 9,316,681	\$ 8,967,042
Restricted cash	8,109,352	11,922,956
Investments	11,202,437	8,833,102
Receivables	14,956,520	15,303,758
Other receivables	306,438	422,694
Prepays	201,003	150,563
Total Current Assets	<u>44,092,431</u>	<u>45,600,115</u>
Property and Equipment:		
Land	35,251,230	27,853,037
Buildings and improvements	96,766,369	71,526,651
Furniture and equipment	9,826,254	7,118,988
Right-of-use asset	19,600,221	19,600,221
Construction in progress	9,292,910	21,304,703
	<u>170,736,984</u>	<u>147,403,600</u>
Less: Accumulated depreciation and amortization	<u>(33,184,240)</u>	<u>(28,453,142)</u>
	137,552,744	118,950,458
Other Assets:		
Deposits	5,500	5,500
Total Assets	<u>\$ 181,650,675</u>	<u>\$ 164,556,073</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 3,915,099	\$ 5,973,159
Wages payable	7,559,124	6,568,523
Payroll taxes payable	2,554,182	2,345,504
Interest payable	2,179,517	1,660,661
Deferred revenue	10,899	127,220
Current portion of lease liability	766,748	742,304
Current portion of bonds payable	1,580,261	1,036,175
Total Current Liabilities	<u>18,565,830</u>	<u>18,453,546</u>
Long-Term Liabilities:		
Lease liability	16,523,430	17,290,177
Notes payable net of current portion	23,338,625	7,456,431
Bonds payable net of premium, discount, issuance costs and current portion	102,148,886	104,096,317
Total Long-Term Liabilities	<u>142,010,941</u>	<u>128,842,925</u>
Total Liabilities	<u>160,576,771</u>	<u>147,296,471</u>
Net Assets:		
Without donor restrictions	6,353,527	2,783,866
With donor restrictions	14,720,377	14,475,736
Total Net Assets	<u>21,073,904</u>	<u>17,259,602</u>
Total Liabilities and Net Assets	<u>\$ 181,650,675</u>	<u>\$ 164,556,073</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

		<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	<u>2022</u>
		<u>Restrictions</u>	<u>Restrictions</u>		
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 3,187,270	\$ -	\$ 3,187,270	\$ 1,686,393
5750	Revenue from curricular	765,818	269,395	1,035,213	753,605
	Total Local Support	<u>3,953,088</u>	<u>269,395</u>	<u>4,222,483</u>	<u>2,439,998</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	-	70,287,827	70,287,827	61,665,187
5820	State program revenues distributed by Texas Education Agency	-	280,944	280,944	301,297
5830	State program revenues distributed directly from other state agencies	-	119,134	119,134	38,227
	Total State Program Revenues	<u>-</u>	<u>70,687,905</u>	<u>70,687,905</u>	<u>62,004,711</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	-	14,015,023	14,015,023	12,229,372
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	315,115	315,115	305,547
5940	Federal revenues distributed directly from the Federal Government	-	1,717,200	1,717,200	1,294,423
	Total Federal Program Revenues	<u>-</u>	<u>16,047,338</u>	<u>16,047,338</u>	<u>13,829,342</u>
Net assets released from restrictions:					
	Restrictions satisfied by payments	<u>86,566,239</u>	<u>(86,566,239)</u>	<u>-</u>	<u>-</u>
	Total Revenues	<u>90,519,327</u>	<u>438,399</u>	<u>90,957,726</u>	<u>78,274,051</u>
Expenses					
11	Instruction	45,756,530	-	45,756,530	42,338,624
12	Instructional resources and media services	966	-	966	5,213
13	Curriculum development and instructional staff development	5,124,629	-	5,124,629	4,840,329
21	Instructional leadership	288,812	-	288,812	267,550
23	School leadership	7,393,206	-	7,393,206	5,948,410
31	Guidance, counseling and evaluation services	1,984,556	-	1,984,556	2,107,050
33	Health services	122,912	-	122,912	147,555
34	Student (pupil) transportation	331,807	-	331,807	283,320
35	Food service	2,717,972	-	2,717,972	2,163,945
36	Cocurricular/Extracurricular activities	920,160	-	920,160	622,421
41	General administration	4,530,506	-	4,530,506	3,381,049
51	Plant maintenance and operations	10,279,325	-	10,279,325	8,114,719
52	Security and monitoring services	715,711	-	715,711	456,723
53	Data processing services	1,272,605	-	1,272,605	1,062,401
71	Debt service	5,509,969	-	5,509,969	4,097,437
	Total Expenses	<u>86,949,666</u>	<u>-</u>	<u>86,949,666</u>	<u>75,836,746</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Change in net assets from operations	\$ 3,569,661	\$ 438,399	\$ 4,008,060	\$ 2,437,305
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(193,758)	(193,758)	(581,843)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(193,758)</u>	<u>(193,758)</u>	<u>(581,843)</u>
Total Change in Net Assets	<u>3,569,661</u>	<u>244,641</u>	<u>3,814,302</u>	<u>1,855,462</u>
Net Assets, Beginning of Year	<u>2,783,866</u>	<u>14,475,736</u>	<u>17,259,602</u>	<u>15,404,140</u>
Net Assets, End of Year	<u>\$ 6,353,527</u>	<u>\$ 14,720,377</u>	<u>\$ 21,073,904</u>	<u>\$ 17,259,602</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,814,302	\$ 1,855,462
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	4,731,098	3,569,109
Amortization - premium on bonds	(466,543)	(322,517)
Amortization - bond issuance costs	99,608	103,438
(Increase) Decrease in receivables	347,238	(3,460,426)
(Increase) Decrease in other receivables	116,256	344,763
(Increase) Decrease in prepaids	(50,440)	55,149
Increase (Decrease) in deferred revenue	(116,321)	127,220
Increase (Decrease) in accounts payable	(2,058,060)	4,079,564
Increase (Decrease) in wages payable	990,601	1,552,369
Increase (Decrease) in payroll taxes payable	208,678	305,754
Increase (Decrease) in interest payable	518,856	546,778
Net Cash Provided (Used) by Operating Activities	<u>8,135,273</u>	<u>8,756,663</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(23,333,384)	(35,247,297)
Sale of investments	(2,369,335)	405,227
Net Cash Provided (Used) by Investing Activities	<u>(25,702,719)</u>	<u>(34,842,070)</u>
Cash Flows from Financing Activities		
Proceeds from bonds and reclassification of bonds	-	48,923,472
Lease liability payment	(742,303)	(662,003)
Repayment of loans	-	(11,492,469)
Repayment of bonds	(1,036,410)	(4,519,762)
Proceeds from notes payable	15,882,194	-
Net Cash Provided (Used) by Financing Activities	<u>14,103,481</u>	<u>32,249,238</u>
Net increase (decrease) in cash	(3,463,965)	6,163,831
Cash at Beginning of Year	<u>20,889,998</u>	<u>14,726,167</u>
Cash at End of Year	<u>\$ 17,426,033</u>	<u>\$ 20,889,998</u>
Cash Per the Statement of Financial Position		
Cash	\$ 9,316,681	\$ 8,967,042
Restricted Cash	<u>8,109,352</u>	<u>11,922,956</u>
Total Cash per the Statement of Financial Position	<u>\$ 17,426,033</u>	<u>\$ 20,889,998</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 5,366,579</u>	<u>\$ 3,949,285</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll Costs	\$ 55,891,983	\$ 50,695,881
6200 Professional and Contracted Services	15,549,200	12,258,150
6300 Supplies and Materials	3,387,693	3,574,630
6400 Other Operating Costs	6,610,821	5,210,648
6500 Debt	<u>5,509,969</u>	<u>4,097,437</u>
Total Expenses	<u>\$ 86,949,666</u>	<u>\$ 75,836,746</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 4,451,652	\$ 12,478,835	\$ 495,546
1120	Investments	-	11,202,437	-
1510	Land and improvements	-	35,251,230	-
1520	Buildings and improvements	452,955	96,308,141	5,273
1551	Right-of-use asset	-	19,600,221	-
1539	Furniture and equipment	-	9,663,987	162,267
1580	Construction in Progress	-	9,292,910	-
Total Property and Equipment		\$ 4,904,607	\$ 193,797,761	\$ 663,086

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

	Budgeted Amounts		Actual Amounts	Variance from	
	Original	Final		Final Budget	
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 570,445	\$ 3,278,509	\$ 3,187,270	\$ (91,239)
5750	Revenue from curricular	1,208,227	1,512,227	1,035,213	(477,014)
	Total Local Support	<u>1,778,672</u>	<u>4,790,736</u>	<u>4,222,483</u>	<u>(568,253)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	70,486,243	70,317,222	70,287,827	(29,395)
5820	State program revenues distributed by Texas Education Agency	287,541	634,448	280,944	(353,504)
5830	State program revenues distributed directly from other state agencies	114,189	260,501	119,134	(141,367)
	Total State Program Revenues	<u>70,887,973</u>	<u>71,212,171</u>	<u>70,687,905</u>	<u>(524,266)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	11,868,190	14,883,721	14,015,023	(868,698)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	13,031	127,220	315,115	187,895
5940	Federal revenues distributed directly from the Federal Government	324,500	731,086	1,717,200	986,114
	Total Federal Program Revenues	<u>12,205,721</u>	<u>15,742,027</u>	<u>16,047,338</u>	<u>305,311</u>
	Total Revenues	<u>84,872,366</u>	<u>91,744,934</u>	<u>90,957,726</u>	<u>(787,208)</u>
Expenses					
11	Instruction	45,952,186	45,684,036	45,756,530	(72,494)
12	Instructional resources and media services	11,100	966	966	-
13	Curriculum development and instructional staff development	4,332,736	4,581,174	5,124,629	(543,455)
21	Instructional leadership	260,046	285,030	288,812	(3,782)
23	School leadership	6,879,531	7,533,059	7,393,206	139,853
31	Guidance, counseling and evaluation services	1,241,971	2,345,865	1,984,556	361,309
33	Health services	117,364	148,804	122,912	25,892
34	Student (pupil) transportation	265,000	218,766	331,807	(113,041)
35	Food service	2,777,917	3,399,616	2,717,972	681,644
36	Cocurricular/Extracurricular activities	746,350	1,102,810	920,160	182,650
41	General administration	4,528,546	4,599,551	4,530,506	69,045
51	Plant maintenance and operations	9,906,329	10,259,341	10,279,325	(19,984)
52	Security and monitoring services	418,675	771,982	715,711	56,271
53	Data processing services	1,277,734	1,286,672	1,272,605	14,067
71	Debt service	4,747,156	5,616,972	5,509,969	107,003
	Total Expenses	<u>83,462,641</u>	<u>87,834,644</u>	<u>86,949,666</u>	<u>884,978</u>
	Change in net assets from operations	1,409,725	3,910,290	4,008,060	97,770
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments			(193,758)	(193,758)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(193,758)</u>	<u>(193,758)</u>
	Change in net assets	<u>1,409,725</u>	<u>3,910,290</u>	<u>3,814,302</u>	<u>(95,988)</u>
	Net Assets, Beginning of Year as Restated	<u>17,259,602</u>	<u>17,259,602</u>	<u>17,259,602</u>	
	Net Assets, End of Year	<u>\$ 18,669,327</u>	<u>\$ 21,169,892</u>	<u>\$ 21,073,904</u>	<u>\$ (95,988)</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2023

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
RES D2 & D3-A BLK 4 BROOKHOLLOW WEST SEC 3	7340 N GESSNER DR, HOUSTON, X 77040	\$ 4,877,806	\$ -	\$ 13,700,831	\$ -
TR 3A ABST 522 S LEEPER 1.6424 AC	5668 W LITTLE YORK RD, HOUSTON, TX 77091	1,450,717	-	4,668,158	-
TOWNSHIRE, BLOCK 2, LOT 2 - 3, ACRES .18	2031 S TEXAS AVE TX	3,212,281	-	5,304,907	-
TOWNSHIRE, BLOCK 2, LOT 2 - 3, ACRES .18	3171 N SAM HOUSTON PKWY W, HOUSTON, TX 77038	8,321,631	-	13,950,537	-
RES A BLK 1 UNIVERSITY ACRES 5.5117 AC	3171 N SAM HOUSTON PKWY W, HOUSTON, TX 77038	3,858,311	-	-	-
RES A1 BLK 1 UNIVERSITY ACRES 3.6100 AC	3203 N SAM HOUSTON PKWY W, HOUSTON, TX 77043	8,031,930	-	17,660,941	-
RES A2 BLK 1 UNIVERSITY ACRES 4.6783 AC	N SAM HOUSTON PKY W 77038	1,630,296	-	7,280,880	5,273
RES A BLK 1 PTH PROPERTIES ONE	6270 BARKER CYPRESS RD, HOUSTON, TX 77084	5,887,380	-	10,037,263	-
Note (1)	Note (1)	-	452,955	58,955,854	-
Total		\$ 37,270,352	\$ 452,955	\$131,559,371	\$ 5,273

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

HOUSTON NORTH

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2023

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$7,454,601
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$4,158,622
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$1,095,078
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PIC 25)	\$ 617,641

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A		\$ -



HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 14,743,147	\$ 10,712,822
Restricted cash	12,730,215	12,309,800
Investments	39,671,660	33,615,135
Receivables	20,900,669	23,685,929
Other receivables	924,955	444,947
Prepays	319,883	257,513
Total Current Assets	<u>89,290,529</u>	<u>81,026,146</u>
Property and Equipment:		
Land	25,199,461	25,199,461
Buildings and improvements	142,953,562	120,990,629
Furniture and equipment	14,963,323	13,082,468
Construction in progress	5,233,575	12,022,298
Right-of-use asset	44,354,285	44,354,285
	<u>232,704,206</u>	<u>215,649,141</u>
Less: Accumulated depreciation and amortization	<u>(60,275,506)</u>	<u>(53,028,419)</u>
	172,428,700	162,620,722
Other Assets:		
Deposits	60,700	60,700
Total Assets	<u>\$ 261,779,929</u>	<u>\$ 243,707,568</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 6,663,085	\$ 2,580,421
Accrued liabilities	47,779	227,200
Wages payable	11,028,449	10,311,681
Payroll taxes payable	3,818,012	3,767,028
Interest payable	2,662,293	2,197,863
Deferred revenue	34,874	241,124
Current portion of lease liability	695,995	664,671
Current portion of bonds payable	3,615,284	2,371,122
Total Current Liabilities	<u>28,565,771</u>	<u>22,361,110</u>
Long-Term Liabilities:		
Lease liability	40,495,227	41,165,928
Notes payable net of current portion	21,595,837	11,502,417
Bonds payable net of premium, discount, issuance costs and current portion	123,778,651	127,781,293
Total Long-Term Liabilities	<u>185,869,715</u>	<u>180,449,638</u>
Total Liabilities	<u>214,435,486</u>	<u>202,810,748</u>
Net Assets:		
Without donor restrictions	12,621,908	7,097,972
With donor restrictions	34,722,535	33,798,848
Total Net Assets	<u>47,344,443</u>	<u>40,896,820</u>
Total Liabilities and Net Assets	<u>\$ 261,779,929</u>	<u>\$ 243,707,568</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor</u>	<u>With Donor</u>	<u>Total</u>	<u>2022</u>
	<u>Restrictions</u>	<u>Restrictions</u>		
Revenues				
Local Support:				
5740	\$ 5,056,014	\$ -	\$ 5,056,014	\$ 3,289,021
5750	951,824	472,514	1,424,338	1,068,873
	<u>6,007,838</u>	<u>472,514</u>	<u>6,480,352</u>	<u>4,357,894</u>
Total Local Support				
State Program Revenues:				
5810	-	106,053,586	106,053,586	103,065,595
5820				
		496,985	496,985	524,818
5830				
	-	5,950	5,950	39,003
	<u>-</u>	<u>106,556,521</u>	<u>106,556,521</u>	<u>103,629,416</u>
Total State Program Revenues				
Federal Program Revenues:				
5920				
		19,869,555	19,869,555	19,256,033
5930				
		431,284	431,284	520,092
5940				
	-	1,728,333	1,728,333	1,324,777
	<u>-</u>	<u>22,029,172</u>	<u>22,029,172</u>	<u>21,100,902</u>
Total Federal Program Revenues				
Net assets released from restrictions:				
	127,874,435	(127,874,435)	-	-
	<u>127,874,435</u>	<u>(127,874,435)</u>	<u>-</u>	<u>-</u>
Total Revenues				
	<u>133,882,273</u>	<u>1,183,772</u>	<u>135,066,045</u>	<u>129,088,212</u>
Expenses				
11	66,368,740	-	66,368,740	66,281,126
12	-	-	-	3,923
13				
	7,913,353	-	7,913,353	7,886,046
21	406,561	-	406,561	385,436
23	11,022,185	-	11,022,185	11,473,874
31	4,362,544	-	4,362,544	4,157,816
33	41,675	-	41,675	174,071
34	24,570	-	24,570	60,393
35	3,876,389	-	3,876,389	3,588,966
36	1,140,742	-	1,140,742	778,662
41	7,002,792	-	7,002,792	6,558,151
51	15,267,708	-	15,267,708	13,826,124
52	698,692	-	698,692	578,176
53	1,959,617	-	1,959,617	1,759,933
61	4,470	-	4,470	-
71	8,268,299	-	8,268,299	7,530,257
	<u>128,358,337</u>	<u>-</u>	<u>128,358,337</u>	<u>125,042,954</u>
Total Expenses				

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Change in net assets from operations	\$ 5,523,936	\$ 1,183,772	\$ 6,707,708	\$ 4,045,258
Non-Operating Revenues (Expenses)				
7919 Extraordinary item	-	85,989	85,989	-
8989 Gain (Loss) on sale of investments	-	(346,074)	(346,074)	(1,851,899)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(260,085)</u>	<u>(260,085)</u>	<u>(1,851,899)</u>
Total Change in Net Assets	<u>5,523,936</u>	<u>923,687</u>	<u>6,447,623</u>	<u>2,193,359</u>
Net Assets, Beginning of Year	<u>7,097,972</u>	<u>33,798,848</u>	<u>40,896,820</u>	<u>38,703,461</u>
Net Assets, End of Year	<u>\$ 12,621,908</u>	<u>\$ 34,722,535</u>	<u>\$ 47,344,443</u>	<u>\$ 40,896,820</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 6,447,623	\$ 2,193,359
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization asset under leases	7,247,087	6,409,431
Amortization - premium on bonds	(484,655)	1,635,002
Amortization - bond issuance costs	97,249	(553,800)
(Increase) Decrease in receivables	2,785,260	(5,372,812)
(Increase) Decrease in other receivables	(480,008)	230,051
(Increase) Decrease in prepaids	(62,370)	96,567
Increase (Decrease) in accounts payable	4,082,664	(852,476)
Increase (Decrease) in wages payable	716,768	1,707,662
Increase (Decrease) in payroll taxes payable	50,984	224,098
Increase (Decrease) in accrued liabilities	(179,421)	(39,697)
Increase (Decrease) deferred revenue	(206,250)	241,124
Increase (Decrease) in interest payable	464,430	126,526
Net Cash Provided (Used) by Operating Activities	<u>20,479,361</u>	<u>6,045,035</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(17,055,065)	(10,977,001)
Sale of investments	(6,056,525)	(3,340,416)
Net Cash Provided (Used) by Investing Activities	<u>(23,111,590)</u>	<u>(14,317,417)</u>
Cash Flows from Financing Activities		
Proceeds from bonds		15,994,116
Repayment of loans	10,093,420	(2,893,742)
Repayment of bonds	(2,371,074)	(6,837,859)
Payments on leases	(639,377)	(568,143)
Net Cash Provided (Used) by Financing Activities	<u>7,082,969</u>	<u>5,694,372</u>
Net increase (decrease) in cash	4,450,740	(2,578,010)
Cash at Beginning of Year	<u>23,022,622</u>	<u>25,600,632</u>
Cash at End of Year	<u>\$ 27,473,362</u>	<u>\$ 23,022,622</u>
Cash Per the Statement of Financial Position		
Cash	\$ 14,743,147	\$ 10,712,822
Restricted Cash	12,730,215	12,309,800
Total Cash per the Statement of Financial Position	<u>\$ 27,473,362</u>	<u>\$ 23,022,622</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 8,071,723</u>	<u>\$ 7,267,482</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll costs	\$ 82,770,539	\$ 81,368,830
6200 Professional and contracted services	23,100,632	22,273,945
6300 Supplies and materials	4,055,592	5,344,781
6400 Other operating costs	10,163,275	8,525,141
6500 Debt	<u>8,268,299</u>	<u>7,530,257</u>
Total Expenses	<u>\$ 128,358,337</u>	<u>\$ 125,042,954</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

	Ownership Interest		
	Local	State	Federal
Cash	\$ 338,386	\$ 25,581,404	\$ 1,553,572
Investments	-	39,671,660	-
Land and improvements	-	25,199,461	-
Buildings and improvements	71,079	142,792,388	90,095
Right-of-use asset	-	44,354,285	-
Furniture and equipment	119,836	14,786,293	57,194
Construction in progress	-	5,233,575	-
Total Property and Equipment	\$ 529,301	\$ 297,619,066	\$ 1,700,861

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

		Budgeted Amounts		Actual Amounts	Variance from Final Budget
		Original	Final		
Revenues					
Local Support:					
5740	Other revenues from local sources	\$ 699,705	\$ 4,930,252	\$ 5,056,014	\$ 125,762
5750	Revenue from curricular	1,790,189	2,169,454	1,424,338	(745,116)
Total Local Support		<u>2,489,894</u>	<u>7,099,706</u>	<u>6,480,352</u>	<u>(619,354)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	105,890,628	106,098,869	106,053,586	(45,283)
5820	State program revenues distributed by Texas Education Agency	451,712	1,053,780	496,985	(556,795)
5830	State program revenues distributed by Texas Education Agency	196,521	449,387	5,950	(443,437)
Total State Program Revenues		<u>106,538,861</u>	<u>107,602,036</u>	<u>106,556,521</u>	<u>(1,045,515)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	18,142,619	21,303,343	19,869,555	(1,433,788)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	29,603	226,124	431,284	205,160
5940	Federal revenues distributed directly from the Federal Government	431,000	920,000	1,728,333	808,333
Total Federal Program Revenues		<u>18,603,222</u>	<u>22,449,467</u>	<u>22,029,172</u>	<u>(420,295)</u>
Total Revenues		<u>127,631,977</u>	<u>137,151,209</u>	<u>135,066,045</u>	<u>(2,085,164)</u>
Expenses					
11	Instruction	69,586,420	67,374,022	66,368,740	1,005,282
12	Instructional resources and media services	4,000	-	-	-
13	Curriculum development and instructional staff development	6,515,337	7,422,225	7,913,353	(491,128)
21	Instructional leadership	380,246	406,783	406,561	222
23	School leadership	10,276,971	11,059,622	11,022,185	37,437
31	Guidance, counseling and evaluation services	1,570,336	4,638,365	4,362,544	275,821
33	Health services	56,411	61,610	41,675	19,935
34	Student (pupil) transportation	20,000	24,570	24,570	-
35	Food service	4,212,109	4,769,579	3,876,389	893,190
36	Cocurricular/Extracurricular activities	1,047,500	1,414,199	1,140,742	273,457
41	General administration	7,170,178	7,104,109	7,002,792	101,317
51	Plant maintenance and operations	13,991,258	16,328,782	15,267,708	1,061,074
52	Security and monitoring services	402,092	792,317	698,692	93,625
53	Data processing services	1,867,541	2,009,541	1,959,617	49,924
61	Community services	-	-	4,470	(4,470)
71	Debt service	8,413,766	8,850,851	8,268,299	582,552
Total Expenses		<u>125,514,165</u>	<u>132,256,575</u>	<u>128,358,337</u>	<u>3,898,238</u>
Non-Operating Revenues (Expenses)					
7919		-	-	85,989	85,989
8989	Gain (Loss) on sale of investments	-	-	(346,074)	(346,074)
Total Non-Operating Revenues (Expenses)		<u>-</u>	<u>-</u>	<u>(260,085)</u>	<u>(260,085)</u>
Change in net assets		<u>2,117,812</u>	<u>4,894,634</u>	<u>6,447,623</u>	<u>1,552,989</u>
Net Assets, Beginning of Year		<u>40,896,820</u>	<u>40,896,820</u>	<u>40,896,820</u>	<u>-</u>
Net Assets, End of Year		<u>\$ 43,014,632</u>	<u>\$ 45,791,454</u>	<u>\$ 47,344,443</u>	<u>\$ 1,552,989</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2023

Description (list each parcel separately)	Property Address	Total Assessed	Ownership	Ownership	Ownership
		Value	Interest - Local	Interest - State	Interest - Federal
SKAGGS Block 1 Lot 1 Acres 4.885	1900 N VALLEY MILLS DR North Tx, TX 76710	\$ 2,523,330	\$ -	\$ 12,588,795	\$ -
FIREWHEEL BIBLE FELLOWSHIP 2 REP, BLK 1 LT 1R1 LESS ROW ACS 20.5558, INT 201000132710 DD05112010 CO-DC, 4810000101R00 2CG48100001	2302 FIREWHEEL PKWY, Garland, TX 75040	7,792,070	-	5,620,858	-
FORESTGATE INDUSTRIAL PARK REP, BLK B/8444 TR B.1 ACS 2.529, INT20070200128 DD05262007 CO-DC, 8444 00B 00B01 3DA8444 00B	11945 FORESTGATE DR, DALLAS, TX 75243	1,946,910	-	11,186,493	-
FORESTGATE INDUSTRIAL PARK REP, BLK B/8444 TR B ACS 3.051, IT201100141982 DD05252011 CO-DC, 8444 00B 00B00 3DA8444 00B	12005 FORESTGATE DR, DALLAS, TX 75243	2,976,590	-	-	-
HARMONY ADDITION PHASE 2 BLK A LOT 1	1024 W ROSEMEADE PKWY, Carrollton, TX 75007	13,223,321	-	23,014,149	-
HARMONY SCHOOL DALLAS (CDA), BLK C/8759, LOT 1	8080 PRESIDENT GEORGE BUSH HWY 75252	14,039,803	-	10,000,611	-
FIREWHEEL BIBLE FELLOWSHIP 2 REP, BLK 1 LT 1R1 LESS ROW ACS 20.5558, INT 201000132710 DD05112010 CO-DC, 4810000101R00 2CG48100001	2302 FIREWHEEL PKWY, Garland, TX 75040 SAME BUILDING WITH DIFFERENT ACCOUNT NUMBER	7,792,070	-	1,116,338	-
SOUTHWEST HILLS ADDITION Lot A4	5651 WESTCREEK DR, FORT WORTH, TX 76133	6,188,289	-	9,112,764	-
HARMONY SCHOOL, BLK 1 LT 1 ACS 5.305, INT200900228003 DD08052009 CO-DC, 0469788100100 5CP04697881	1102 NW 7TH ST, GRAND PRAIRIE, TX 75050	4,650,480	-	6,447,643	-
HARMONY, BLK E/8683 LT 1 ACS 17.6916, INT20080179207 DD05162008 CO-DC, 8683 00E 00100 5DA8683 00E	8120 W CAMP WISDOM RD, DALLAS, TX 75249	18,339,560	-	9,156,700	-
BLK 8683, TR 3 ACS 2.7594, INT20080179207 DD05162008 CO-DC, 8683 000 00300 5DA8683 000	8120 W CAMP WISDOM RD, DALLAS, TX 75249	120,180	-	-	-
BLK 8683, TR 4 ACS 0.438, INT201400139925 DD06052014 CO-DC, 8683 000 00300 5DA8683 000	8120 W CAMP WISDOM RD, DALLAS, TX 75249	6,570	-	-	-
HARMONY SCHOOL ADDITION Block 1 Lot 1	8100 S HULEN ST, Fort Worth, TX 76123	21,602,408	-	15,527,332	-
CHAPMAN J D Block 1 Lot 5 6 7 8 (HEB #6), Acres 4.3983	1110 S VALLEY MILLS DR North Tx, TX 76711	3,006,310	-	7,592,478	-
Note (1)	Note (1)	-	190,915	56,627,688	90,095
Total		\$ 104,207,891	\$ 190,915	\$ 167,991,849	\$ 90,095

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

NORTH TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2023

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$10,684,376
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$ 7,185,160
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ - \$ 1,753,204
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PIC 25)	\$ 1,505,405

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A		\$ -



HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 7,426,183	\$ 5,400,976
Restricted cash	9,145,486	20,656,927
Investments	5,967,423	7,468,165
Receivables	11,869,122	10,709,015
Other receivables	363,530	153,105
Prepays	150,022	102,554
Total Current Assets	<u>34,921,766</u>	<u>44,490,742</u>
Property and Equipment:		
Land	10,079,696	10,079,696
Buildings and improvements	85,027,512	43,676,408
Furniture and equipment	8,366,279	4,246,375
Construction in progress	5,597,796	33,400,878
Right-of-use asset under finance leases	16,407,527	16,407,527
	<u>125,478,810</u>	<u>107,810,884</u>
Less: Accumulated depreciation and amortization	(21,559,033)	(17,710,792)
	<u>103,919,777</u>	<u>90,100,092</u>
Total Assets	<u>\$ 138,841,543</u>	<u>\$ 134,590,834</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 3,933,129	\$ 6,651,834
Accrued liabilities	12,741	112,741
Wages payable	5,826,280	4,594,236
Payroll taxes payable	1,945,132	1,576,416
Interest payable	1,362,037	1,282,997
Deferred revenue	1,162	90,725
Current portion of lease liability	400,352	381,691
Current portion of bonds payable	952,769	624,867
Total Current Liabilities	<u>14,433,602</u>	<u>15,315,507</u>
Long-Term Liabilities:		
Financing lease liability, net of current portion	14,806,368	15,206,720
Notes payable	4,758,617	2,452,353
Bonds payable net of premium, discount, issuance costs and current portion	85,072,755	86,284,554
Total Long-Term Liabilities	<u>104,637,740</u>	<u>103,943,627</u>
Total Liabilities	<u>119,071,342</u>	<u>119,259,134</u>
Net Assets:		
Without donor restrictions	7,728,346	4,739,091
With donor restrictions	12,041,855	10,592,609
Total Net Assets	<u>19,770,201</u>	<u>15,331,700</u>
Total Liabilities and Net Assets	<u>\$ 138,841,543</u>	<u>\$ 134,590,834</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	Without Donor Restrictions	With Donor Restrictions	Total	2022
Revenues				
Local Support:				
5740	\$ 2,803,823	\$ -	\$ 2,803,823	\$ 2,742,941
5750	665,067	227,235	892,302	670,585
	Total Local Support	227,235	3,696,125	3,413,526
State Program Revenues:				
5810	-	56,231,088	56,231,088	42,164,458
5820	-	205,883	205,883	312,153
5830	-	3,135	3,135	28,084
	Total State Program Revenues	56,440,106	56,440,106	42,504,695
Federal Program Revenues:				
5920	-	7,781,170	7,781,170	7,212,654
5930	-	288,274	288,274	194,353
5940	-	1,352,423	1,352,423	1,234,466
	Total Federal Program Revenues	9,421,867	9,421,867	8,641,473
Net Assets Released from Restrictions:				
	Restrictions satisfied by payments	(64,804,688)	-	-
	Total Revenues	1,284,520	69,558,098	54,559,694
Expenses				
11	Instruction	-	35,264,259	28,436,213
12	Instructional resources and media services	1,104	1,104	380
13	Curriculum development and instructional staff development	3,501,601	3,501,601	2,813,363
21	Instructional leadership	10,182	10,182	-
23	School leadership	5,734,875	5,734,875	4,392,499
31	Guidance, counseling and evaluation services	1,779,827	1,779,827	1,484,018
33	Health services	42,254	42,254	54,360
35	Food service	1,553,003	1,553,003	994,328
36	Cocurricular/Extracurricular activities	940,791	940,791	656,206
41	General administration	3,406,259	3,406,259	2,836,809
51	Plant maintenance and operations	7,292,533	7,292,533	5,236,195
52	Security and monitoring services	462,160	462,160	286,813
53	Data processing services	1,122,158	1,122,158	817,301
71	Debt service	4,173,317	4,173,317	3,010,456
	Total Expenses	-	65,284,323	51,018,941

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Change in net assets from operations	\$ 2,989,255	\$ 1,284,520	\$ 4,273,775	\$ 3,540,753
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	164,726	164,726	(248,396)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>164,726</u>	<u>164,726</u>	<u>(248,396)</u>
Total Change in Net Assets	<u>2,989,255</u>	<u>1,449,246</u>	<u>4,438,501</u>	<u>3,292,357</u>
Net Assets, Beginning of Year	<u>4,739,091</u>	<u>10,592,609</u>	<u>15,331,700</u>	<u>12,039,343</u>
Net Assets, End of Year	<u>\$ 7,728,346</u>	<u>\$ 12,041,855</u>	<u>\$ 19,770,201</u>	<u>\$ 15,331,700</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 4,438,501	\$ 3,292,357
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of assets and right-to-use assets	3,850,117	2,140,515
Amortization - premium on bonds	(303,470)	(159,791)
Amortization - bond issuance costs	93,120	98,687
(Increase) Decrease in receivables	(1,160,107)	(9,539,971)
(Increase) Decrease in other receivables	(260,976)	(12,093)
(Increase) Decrease in prepaids	(47,468)	38,458
Increase (Decrease) in accounts payable	(2,718,705)	5,529,173
Increase (Decrease) in wages payable	1,232,044	1,098,180
Increase (Decrease) in payroll taxes payable	368,716	213,500
Increase (Decrease) in accrued liabilities	(100,000)	98,505
Increase (Decrease) in deferred revenue	(89,563)	90,725
Increase (Decrease) in interest payable	79,040	505,935
Net Cash Provided (Used) by Operating Activities	<u>5,381,249</u>	<u>3,394,180</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(17,667,926)	(35,786,002)
Sale (Purchase) of investments	1,500,742	83,994
Net cash Provided (Used) by Investing Activities	<u>(16,167,184)</u>	<u>(35,702,008)</u>
Cash Flows from Financing Activities		
Proceeds from bonds and reclassification of bonds	-	55,433,760
Payments on leases	(381,691)	523,824
Repayment of bonds	(624,872)	(5,475,934)
Proceeds from note payable	2,306,264	(3,447,465)
Net Cash Provided (Used) by Financing Activities	<u>1,299,701</u>	<u>47,034,185</u>
Net increase (decrease) in cash	(9,486,234)	14,726,357
Cash at Beginning of Year	<u>26,057,903</u>	<u>11,331,546</u>
Cash at End of Year	<u>\$ 16,571,669</u>	<u>\$ 26,057,903</u>
Cash Per the Statement of Financial Position		
Cash	\$ 7,426,183	\$ 5,400,976
Restricted Cash	9,145,486	20,656,927
Total Cash per the Statement of Financial Position	<u>\$ 16,571,669</u>	<u>\$ 26,057,903</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 4,054,621</u>	<u>\$ 2,885,711</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll costs	\$ 42,638,649	\$ 33,571,952
6200 Professional and contracted services	10,248,387	8,831,287
6300 Supplies and materials	2,833,155	2,428,374
6400 Other operating costs	5,390,815	3,176,872
6500 Debt	4,173,317	3,010,456
	<u>4,173,317</u>	<u>3,010,456</u>
Total Expenses	<u>\$ 65,284,323</u>	<u>\$ 51,018,941</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

		Ownership Interest		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1110	Cash	\$ -	\$ 16,237,916	333,753
1120	Investments	-	5,967,423	-
1510	Land and improvements	-	10,079,696	-
1520	Buildings and improvements	350,672	84,622,554	54,286
1551	Right-of-use asset	-	16,407,527	-
1539	Furniture and equipment	36,049	8,307,002	23,228
1580	Construction in Progress	-	5,597,796	-
	Total Property and Equipment	<u>\$ 386,721</u>	<u>\$ 147,219,914</u>	<u>\$ 411,267</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

		<u>Budgeted Amounts</u>			<u>Variance</u>
		<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>from Final</u>
					<u>Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 732,745	\$ 2,856,721	\$ 2,803,823	\$ (52,898)
5750	Revenue from curricular	1,346,377	1,387,889	892,302	(495,587)
	Total Local Support	<u>2,079,122</u>	<u>4,244,610</u>	<u>3,696,125</u>	<u>(548,485)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	56,882,189	55,718,664	56,231,088	512,424
5820	State program revenues distributed by Texas Education Agency	62,005	342,740	205,883	(136,857)
5830	State program revenue from State of Texas government agencies (other than TEA)	80,880	184,084	3,135	(180,949)
	Total State Program Revenues	<u>57,025,074</u>	<u>56,245,488</u>	<u>56,440,106</u>	<u>194,618</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	7,198,826	8,307,468	7,781,170	(526,298)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	9,845	90,725	288,274	197,549
5940	Federal revenues distributed directly from the Federal Government	216,500	574,669	1,352,423	777,754
	Total Federal Program Revenues	<u>7,425,171</u>	<u>8,972,862</u>	<u>9,421,867</u>	<u>449,005</u>
	Total Revenues	<u>66,529,367</u>	<u>69,462,960</u>	<u>69,558,098</u>	<u>95,138</u>
Expenses					
11	Instruction	37,371,893	34,954,347	35,264,259	(309,912)
12	Instructional resources and media services	600	1,104	1,104	-
13	Curriculum development and instructional staff development	2,918,307	3,314,485	3,501,601	(187,116)
21	Instructional leadership	-	10,182	10,182	-
23	School leadership	5,411,875	6,073,004	5,734,875	338,129
31	Guidance, counseling and evaluation services	1,049,424	1,969,910	1,779,827	190,083
33	Health services	143,800	129,799	42,254	87,545
35	Food service	1,962,103	2,156,543	1,553,003	603,540
36	Cocurricular/Extracurricular activities	905,350	1,119,213	940,791	178,422
41	General administration	3,395,766	3,514,586	3,406,259	108,327
51	Plant maintenance and operations	7,091,932	7,937,329	7,292,533	644,796
52	Security and monitoring services	249,800	504,836	462,160	42,676
53	Data processing services	1,075,346	1,184,904	1,122,158	62,746
71	Debt service	3,815,528	4,502,755	4,173,317	329,438
	Total Expenses	<u>65,391,724</u>	<u>67,372,997</u>	<u>65,284,323</u>	<u>2,088,674</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	164,726	164,726
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>164,726</u>	<u>164,726</u>
	Change in net assets	<u>1,137,643</u>	<u>2,089,963</u>	<u>4,438,501</u>	<u>2,348,538</u>
	Net Assets, Beginning of Year	<u>15,331,700</u>	<u>15,331,700</u>	<u>15,331,700</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 16,469,343</u>	<u>\$ 17,421,663</u>	<u>\$ 19,770,201</u>	<u>\$ 2,348,538</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2023

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
0101 JAS ALSTON, ACRES 5.006, Commercial Reserve A, The Shoppes At Eldridge Lake	13415 W Bellfort, Sugar Land, TX 77478	\$ 8,485,010	\$ -	\$ 8,084,515	\$ -
West Airport Commercial Subdivision Sec 1, BLOCK 1, ACRES 5.1, Reserve B-2 (Commercial),	13522 W Airport BLVD, Sugar Land, TX 77478	4,831,120	-	15,666,000	-
Grand Corner Reserves, BLOCK 1, ACRES 8, Unrestricted Reserve A (Part), In Fort Bend ESD No 4, Grand Corner Reserves Partial Replat No 1	22400 Grand Corner DR, Katy, TX 77494	18,826,970	-	12,680,339	-
CALDWOOD PLAZA BLOCK 1	4055 CALDER BEAUMONT, TX	1,612,810	-	4,735,906	-
Note (1)	Note (1)	-	350,672	53,535,490	54,286
Total		\$ 33,755,910	\$ 350,672	\$ 94,702,250	\$ 54,286

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

HOUSTON WEST

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2023

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$4,632,378
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30)	\$2,726,772
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 777,906
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PIC 25)	\$ 879,910

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2023

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A		\$ -



HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF FINANCIAL POSITION
June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets:		
Cash	\$ 2,505,831	\$ 4,544,392
Restricted cash	50,050	50,167
Investments	6,993,152	5,784,804
Receivables	774,672	709,166
Other receivables	583,124	47,851
Prepays	934,622	1,019,018
Total Current Assets	<u>11,841,451</u>	<u>12,155,398</u>
Property and Equipment:		
Buildings and improvements	3,134,621	1,718,633
Furniture and equipment	2,424,939	2,273,874
Construction in progress	-	1,116,802
	<u>5,559,560</u>	<u>5,109,309</u>
Less: Accumulated depreciation	<u>(2,688,894)</u>	<u>(2,370,872)</u>
	<u>2,870,666</u>	<u>2,738,437</u>
Other Assets:		
Deposits	<u>3,297</u>	<u>-</u>
Total Assets	<u>\$ 14,715,414</u>	<u>\$ 14,893,835</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 653,564	\$ 677,734
Accrued liabilities	122,383	2,078,433
Wages payable	2,283,160	2,048,140
Payroll taxes payable	871,470	809,229
Interest payable	24,171	78,038
Deferred revenue	85,446	-
Current portion of bonds payable	41,242	27,012
Total Current Liabilities	<u>4,081,436</u>	<u>5,718,586</u>
Long-term Liabilities:		
Notes payable net of current portion	433,986	158,986
Bonds payable net of premium, discount, issuance costs and current portion	<u>1,408,182</u>	<u>1,455,734</u>
Total Liabilities	<u>5,923,604</u>	<u>7,333,306</u>
Net Assets:		
Without donor restrictions	<u>8,791,810</u>	<u>7,560,529</u>
Total Net Assets	<u>8,791,810</u>	<u>7,560,529</u>
Total Liabilities and Net Assets	<u>\$ 14,715,414</u>	<u>\$ 14,893,835</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2022</u>
Revenues				
Local Support:				
Other Revenues from local sources	\$ 32,528,015	\$ -	\$ 32,528,015	\$ 28,783,029
Total Local Support	<u>32,528,015</u>	<u>-</u>	<u>32,528,015</u>	<u>28,783,029</u>
Federal Program Revenues:				
Federal revenues distributed directly from the Federal Government	-	5,845,230	5,845,230	6,462,496
Total Federal Program Revenues	<u>-</u>	<u>5,845,230</u>	<u>5,845,230</u>	<u>6,462,496</u>
Net assets released from restrictions:				
Restrictions satisfied by payments	5,845,230	(5,845,230)	-	-
Total Revenues	<u>38,373,245</u>	<u>-</u>	<u>38,373,245</u>	<u>35,245,525</u>
Expenses				
Instruction	355,757	-	355,757	297,078
Curriculum development and instructional staff development	4,245,840	-	4,245,840	5,091,972
Instructional leadership	3,214,673	-	3,214,673	3,504,862
School leadership	49,809	-	49,809	118,955
Guidance, counseling and evaluation services	10,673	-	10,673	10,453
Food services	3,558	-	3,558	3,484
General administration	22,150,134	-	22,150,134	19,270,982
Plant maintenance and operations	4,461,112	-	4,461,112	3,756,646
Security and monitoring services	31,994	-	31,994	32,253
Data processing services	2,441,007	-	2,441,007	2,640,458
Debt service	311,226	-	311,226	123,848
Total Expenses	<u>37,275,783</u>	<u>-</u>	<u>37,275,783</u>	<u>34,850,991</u>
Change in net assets from operations	\$ 1,097,462	\$ -	\$ 1,097,462	\$ 394,534
Non-Operating Revenues (Expenses)				
Gain (Loss) on sale of investments	133,819	-	133,819	(101,661)
Total Non-Operating Revenues (Expenses)	<u>133,819</u>	<u>-</u>	<u>133,819</u>	<u>(101,661)</u>
Total Change in Net Assets	<u>1,231,281</u>	<u>-</u>	<u>1,231,281</u>	<u>292,873</u>
Net Assets, Beginning of Year	<u>7,560,529</u>	<u>-</u>	<u>7,560,529</u>	<u>7,267,656</u>
Net Assets, End of Year	<u>\$ 8,791,810</u>	<u>\$ -</u>	<u>\$ 8,791,810</u>	<u>\$ 7,560,529</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,231,281	\$ 292,873
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	318,022	265,214
Amortization - premium on bonds	(7,482)	(2,470)
Amortization - bond issuance costs	1,172	7,826
(Increase) Decrease in receivables	(65,506)	1,148,695
(Increase) Decrease in other receivables	(535,273)	(30,081)
(Increase) Decrease in deposits	(3,297)	
(Increase) Decrease in prepaids	84,396	(932,813)
Increase (Decrease) in accounts payable	(24,170)	(103,310)
Increase (Decrease) in wages payable	235,020	90,030
Increase (Decrease) in payroll taxes payable	62,241	(80,183)
Increase (Decrease) in accrued liabilities	(1,956,050)	(2,603,820)
Increase (Decrease) in interest payable	(53,867)	(784)
Increase (Decrease) in deferred revenue	85,446	
Net Cash Provided (Used) by Operating Activities	<u>(628,067)</u>	<u>(1,948,823)</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(450,251)	(328,317)
Sale (purchase) of investments	(1,208,348)	94,559
Net Cash Provided (Used) by Investing Activities	<u>(1,658,599)</u>	<u>(233,758)</u>
Cash Flows from Financing Activities		
Proceeds from bonds	-	245,345
Proceeds from note payable	275,000	118,164
Repayment of bonds	(27,012)	(219,895)
Net Cash Provided (Used) by Financing Activities	<u>247,988</u>	<u>143,614</u>
Net increase (decrease) in cash	(2,038,678)	(2,038,967)
Cash at Beginning of Year	<u>4,594,559</u>	<u>6,633,526</u>
Cash at End of Year	<u>\$ 2,555,881</u>	<u>\$ 4,594,559</u>
Cash Per the Statement of Financial Position		
Cash	\$ 2,505,831	\$ 4,544,392
Restricted Cash	50,050	50,167
Total Cash per the Statement of Financial Position	<u>\$ 2,555,881</u>	<u>\$ 4,594,559</u>
Supplemental Disclosures		
Cash paid during the year for:		
Interest	<u>\$ 70,185</u>	<u>\$ 106,316</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2023
(With Comparative Totals for 2022)

	<u>2023</u>	<u>2022</u>
Expenses		
6100 Payroll costs	\$ 19,802,120	\$ 18,261,040
6200 Professional and contracted services	11,236,901	11,490,929
6300 Supplies and materials	683,950	1,204,577
6400 Other operating costs	5,241,586	3,770,597
6500 Debt	311,226	123,848
	<u>37,275,783</u>	<u>34,850,991</u>
Total Expenses	<u>\$ 37,275,783</u>	<u>\$ 34,850,991</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2023

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 2,505,831	\$ 50,050	\$ -
1120	Investments	-	6,993,152	-
1520	Buildings and improvements	-	3,134,621	-
1539	Furniture and equipment	-	2,424,939	-
Total Property and Equipment		\$ 2,505,831	\$ 12,602,762	\$ -

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2023

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 31,844,040	\$ 32,225,278	\$ 32,528,015	\$ 302,737
	Total Local Support	<u>31,844,040</u>	<u>32,225,278</u>	<u>32,528,015</u>	<u>302,737</u>
Federal Program Revenues:					
5940	Federal revenues distributed directly from the Federal Government	5,619,652	5,619,652	5,845,230	225,578
	Total Federal Program Revenues	<u>5,619,652</u>	<u>5,619,652</u>	<u>5,845,230</u>	<u>225,578</u>
	Total Revenues	<u>37,463,692</u>	<u>37,844,930</u>	<u>38,373,245</u>	<u>528,315</u>
Expenses					
11	Instruction	518,750	537,078	355,757	181,321
13	Curriculum development and instructional staff development	5,067,664	5,280,819	4,245,840	1,034,979
21	Instructional leadership	3,092,833	2,866,621	3,214,673	(348,052)
23	School leadership	87,500	49,809	49,809	-
31	Guidance, counseling and evaluation services	18,750	10,673	10,673	-
35	Food services	6,250	3,558	3,558	-
41	General administration	21,680,745	22,176,262	22,150,134	26,128
51	Plant maintenance and operations	4,432,762	4,406,430	4,461,112	(54,682)
52	Security and monitoring services	84,100	71,875	31,994	39,881
53	Data processing services	2,402,220	2,369,688	2,441,007	(71,319)
71	Debt service	72,118	72,117	311,226	(239,109)
81	Facilities acquisition and construction	-	27,418	-	27,418
	Total Expenses	<u>37,463,692</u>	<u>37,872,348</u>	<u>37,275,783</u>	<u>596,565</u>
Non-Operating revenues (expenses)					
8989	Gain (Loss) on sale of investments	-	-	133,819	133,819
	Total Non-Operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>133,819</u>	<u>133,819</u>
	Change in net assets	-	(27,418)	1,231,281	1,258,699
	Net Assets, Beginning of Year	<u>7,560,529</u>	<u>7,560,529</u>	<u>7,560,529</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 7,560,529</u>	<u>\$ 7,533,111</u>	<u>\$ 8,791,810</u>	<u>\$ 1,258,699</u>

FEDERAL AWARDS SECTION



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

To The Board of Directors of
Harmony Public Schools

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 Harmony Public Schools ("HPS") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 11, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HPS'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HPS's internal control. Accordingly, we do not express an opinion on the effectiveness of HPS's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HPS'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. These procedures performed included tests designed to verify Harmony Public School's compliance with the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) during the fiscal year ended June 30, 2023. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors of
Harmony Public Schools

Purpose of this Report

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

Whitley Penn LLP

Houston, Texas

November 11, 2023

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To The Board of Directors of
Harmony Public Schools

Report on Compliance for Each Major Federal Program

Opinion on Each Major Program

We have audited Harmony Public Schools' ("HPS") (a nonprofit organization) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of HPS's major federal programs for the year ended June 30, 2023. HPS'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, HPS's 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 June 30, 2023.

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 HPS 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 HPS'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 HPS's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HPS'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 HPS' 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 HPS'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 HPS'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 HPS's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

To the Board of Directors of
Harmony Public Schools

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.

Whitley Penn LLP

Houston, Texas
November 11, 2023

HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2023

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ?	No

Identification of major programs:

<u>Name of Federal Program or Cluster</u>	<u>Assistance Listing Number (ALN)</u>
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U.S. Federal Communications Commission

<i>Emergency Connectivity Fund</i>	32.009
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US Department of Education

<i>Training Instructional Leadership Team (TILT/TISL) and Teacher Incentive Fund</i>	84.374
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U
<i>TCLAS - ESSER III - COVID-19</i>	84.425U

US Department of Agriculture

Child Nutrition Cluster:	
<i>Supply Chain Assistance</i>	10.555
<i>School Breakfast Program (SBP)</i>	10.553
<i>National School Lunch Prg-NSLP</i>	10.555

Dollar Threshold Considered Between Type A and Type B Federal Programs	\$3,000,000
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Auditee qualified as low risk auditee?	Yes
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HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2023

II. Financial Statement Findings

None Reported

III. Federal Awards Findings and Questioned Costs

None Reported

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Direct:			
<i>Education Innovation and Research (EIR)</i>	84.411B	U411B180014	\$ 2,007,571
<i>Teacher and School Leader Incentive (TSL)</i>	84.374A	S374A200021	11,751,930
<i>Replication and Expansion of High-Quality Charter School</i>	84.282M	S282M230019	55,806
Pass-Through Texas Education Agency:			
<i>Title I 1003 School Improvement</i>	84.010A	22610141161807	5,938
<i>Title I 1003 School Improvement</i>	84.010A	23610141161807	50,518
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	23610101227816	1,177,357
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	23610101161807	3,190,829
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	23610101071806	1,808,821
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	23610101101846	2,555,674
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	23610101101858	2,458,549
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	23610101101862	1,419,007
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	23610101015828	2,668,656
<i>Total ALN 84.010</i>			<u>15,335,349</u>
<i>IDEA-B Formula</i>	84.027A	236600012278166000	645,111
<i>IDEA-B Formula</i>	84.027A	236600011618076000	1,497,565
<i>IDEA-B Formula</i>	84.027A	236600010718066000	696,634
<i>IDEA-B Formula</i>	84.027A	236600011018466000	580,048
<i>IDEA-B Formula</i>	84.027A	236600011018586000	889,218
<i>IDEA-B Formula</i>	84.027A	236600011018626000	640,066
<i>IDEA-B Formula</i>	84.027A	236600010158286000	701,035
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350012278165000	48,046
<i>Total Special Education Cluster (ALN 84.027)</i>			<u>5,697,723</u>
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	23694501227816	182,860
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part Teacher Leadership Cycle 2 Continuation</i>	84.367A	23694501161807	454,942
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part</i>	84.367A	226945797110009	55,892
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part</i>	84.367A	23694501071806	234,405
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part</i>	84.367A	23694501101846	267,478
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part</i>	84.367A	23694501101858	321,549
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part</i>	84.367A	23694501101862	202,602
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part</i>	84.367A	23694501015828	322,754
<i>Total ALN 84.367</i>			<u>2,042,482</u>

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

(1)	(2) Federal Assistance Listing Number	(2A) Pass-Through Entity Identifying Number	(3) Federal Expenditures
Federal Grantor/Pass Through Grantor Program Title			
U.S. Department of Education (continued)			
Pass-Through Texas Education Agency (continued):			
<i>Title III, Part A - ELA</i>	84.365A	23671001227816	230,415
<i>Title III, Part A - ELA</i>	84.365A	23671001161807	341,798
<i>Title III, Part A - ELA</i>	84.365A	23671001071806	155,282
<i>Title III, Part A - ELA</i>	84.365A	23671001101846	144,599
<i>Title III, Part A - ELA</i>	84.365A	23671001101858	182,824
<i>Title III, Part A - ELA</i>	84.365A	23671001101862	121,703
<i>Title III, Part A - ELA</i>	84.365A	23671001015828	204,777
<i>Total ALN 84.365</i>			1,381,398
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	23680101227816	101,727
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	23680101161807	229,631
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	23680101071806	122,727
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	23680101101846	155,497
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	23680101101858	150,882
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	23680101101862	88,243
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	23680101015828	174,460
<i>Total ALN 84.424</i>			1,023,167
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	22680101227816	1,914,302
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001161807	4,522,188
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001071806	1,656,037
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001101846	4,072,198
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001101858	1,451,511
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001101862	1,738,638
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425U	21521001015828	4,010,102

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education (continued)			
Pass-Through Texas Education Agency (continued):			
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001227816	3,354,396
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001161807	5,758,282
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001071806	4,351,964
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001101846	1,742,541
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001101858	5,692,543
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001101862	2,077,463
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001015828	3,776,291
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042227816	337,549
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042161807	204,288
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042071806	206,376
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042101846	257,667
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042101858	323,249
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042101862	318,009
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042015828	65,239
<i>Total ALN 84.425</i>			47,830,833
<i>22-23 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	23420006227816	37,042
<i>22-23 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	23420006161807	128,074
<i>22-23 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	23420006071806	46,930
<i>22-23 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	23420006101846	46,626
<i>22-23 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	23420006101858	90,736
<i>22-23 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	23420006101862	57,169
<i>22-23 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	23420006015828	93,699
<i>Total ALN 84.048</i>			500,276
<i>LEP Summer School</i>	84.369A	69552102	10,072
<i>LEP Summer School</i>	84.369A	69552202	11,833
<i>LEP Summer School</i>	84.369A	69552102	1,439
<i>LEP Summer School</i>	84.369A	69552202	8,875
<i>LEP Summer School</i>	84.369A	69552102	2,878
<i>LEP Summer School</i>	84.369A	69552202	2,958
<i>LEP Summer School</i>	84.369A	69552102	4,317
<i>LEP Summer School</i>	84.369A	69552202	4,438
<i>LEP Summer School</i>	84.369A	69552102	5,755
<i>LEP Summer School</i>	84.369A	69552202	5,917
<i>LEP Summer School</i>	84.369A	69552102	2,878
<i>LEP Summer School</i>	84.369A	69552202	2,958
<i>LEP Summer School</i>	84.369A	69552002	1,439
<i>LEP Summer School</i>	84.369A	69552002	4,438
<i>Total ALN 84.369</i>			70,195
Total U.S. Department of Education			87,696,729

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2023

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Direct:			
2021-23 COVID-19 PHW Supplemental Funding	93.354	HHS001101500001/ 223934017110004	4,920
2021-23 COVID-19 PHW Supplemental Funding	93.354	HHS001101500001/ 223934017110004	65,507
2021-23 COVID-19 PHW Supplemental Funding	93.354	HHS001101500001/22393 4017110020	42,921
Total ALN 93.354			<u>113,348</u>
Pass-Through Texas Education Agency:			
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	8,332
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	8,385
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	1,674
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	7,523
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	5,458
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	9,001
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	4,616
Total ALN 93.323			<u>44,989</u>
Total U.S. Department of Health and Human Services			<u>158,337</u>
U.S. Department of Agriculture			
Passed-Through Texas Department of Agriculture:			
<i>National School Lunch Program - USDA Commodities:</i>			
Supply Chain Assistance Grant	10.555	236TX400N8903	254,133
Supply Chain Assistance Grant	10.555	236TX400N8903	422,899
Supply Chain Assistance Grant	10.555	236TX400N8903	361,914
Supply Chain Assistance Grant	10.555	236TX400N8903	213,796
Supply Chain Assistance Grant	10.555	236TX400N8903	309,657
Supply Chain Assistance Grant	10.555	236TX400N8903	247,395
Supply Chain Assistance Grant	10.555	236TX400N8903	279,273
Passed-Through Texas Education Agency:			
<u>Federal Food Service Reimbursement:</u>			
School Breakfast Program (SBP)	10.553	236TX332N1099	191,034
School Breakfast Program (SBP)	10.553	236TX332N1099	591,304
School Breakfast Program (SBP)	10.553	236TX332N1099	286,860
School Breakfast Program (SBP)	10.553	236TX332N1099	190,727
School Breakfast Program (SBP)	10.553	236TX332N1099	496,981
School Breakfast Program (SBP)	10.553	236TX332N1099	396,363
School Breakfast Program (SBP)	10.553	236TX332N1099	168,333
National School Lunch Prg-NSLP	10.555	236TX332N1099	1,125,339
National School Lunch Prg-NSLP	10.555	236TX332N1099	2,827,993
National School Lunch Prg-NSLP	10.555	236TX332N1099	1,780,622
National School Lunch Prg-NSLP	10.555	236TX332N1099	926,590
National School Lunch Prg-NSLP	10.555	236TX332N1099	1,879,802
National School Lunch Prg-NSLP	10.555	236TX332N1099	1,946,235
National School Lunch Prg-NSLP	10.555	236TX332N1099	944,100
Total Child Nutrition Cluster (10.553,10.555)			<u>15,841,350</u>
Total U. S. Department of Agriculture			<u>15,841,350</u>
Federal Communications Commission:			
Direct Program:			
COVID-19 - Emergency Connectivity Fund	32.009	ECF202108682	16,100
COVID-19 - Emergency Connectivity Fund	32.009	ECF202108682	42,140
COVID-19 - Emergency Connectivity Fund	32.009	ECF202108682	111,300
COVID-19 - Emergency Connectivity Fund	32.009	ECF202108682	15,960
COVID-19 - Emergency Connectivity Fund	32.009	ECF202108682	184,800
COVID-19 - Emergency Connectivity Fund	32.009	ECF202108682	32,200
COVID-19 - Emergency Connectivity Fund	32.009	ECF202108682	115,500
Total ALN 32.009			<u>518,000</u>
Total Federal Communications Commission			<u>518,000</u>
Total Expenditures of Federal Awards			<u>\$ 104,214,416</u>



HARMONY PUBLIC SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of HPS under programs of the federal government for the year ended June 30, 2023. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of HPS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HPS.

Note 3 - Indirect Cost Rate

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. HPS has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 - Title I, Part A Transferability

As described in the U.S. Department of Education Cross-Cutting Section (ALN 84.000), Sections II.B.3 Activities *Allowed or Unallowed - Transferability (SEAs and LEAs)* and IV.3 *Other Information - Transferability* of the 2023 OMB Compliance Supplement, expenditures of funds should be included in the audit universe and total expenditures of the receiving program. For fiscal year 2023, HPS transferred 100% Title IV, Part A (ALN 84.424) and Title II, Part A (ALN 84.367A) expenditures to its Title I, Part A (ALN 84.010A) program as submitted to the Texas Education Agency in its consolidated application and as denoted on the Schedule of Expenditures of Federal Awards. As such, Title IV, Part A (ALN 84.424) and Title II, Part A (ALN 84.367A) were included as part of Title I, Part A (ALN 84.010).

HARMONY PUBLIC SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2023

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None Noted

HARMONY PUBLIC SCHOOLS

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2023

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

I. Corrective Action Plan

Not Applicable

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HARMONY PUBLIC SCHOOLS

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2022



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HARMONY PUBLIC SCHOOLS

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HARMONY PUBLIC SCHOOLS

071-806
101-858
015-828
101-846
227-816
161-807
101-862

(Federal Employer Identification Number: 76-0615245)

CERTIFICATE OF BOARD

June 30, 2022

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Harmony Public Schools was review and approved disapproved for the year ended June 30, 2022, at a meeting of the governing body of said charter school on the 12th day of November, 2022



Signature of Board Secretary



Signature of Board President

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Harmony Public Schools
Houston, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying the consolidated financial statements of Harmony Public Schools (a nonprofit organization) ("HPS"), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of HPS as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 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 HPS 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 opinion.

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 HPS's ability to continue as a going concern *within one year after the date that the financial statements are available to be issued*.

To the Board of Directors of
Harmony Public Schools

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 opinion. 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 Standard* 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 consolidated 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 consolidated 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 consolidated 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 HPS'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 consolidated financial statements.
- conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the HPS'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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The *Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the financial statements as a whole.

To the Board of Directors of
Harmony Public Schools

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2022, on our consideration of the HPS'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 HPS'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 HPS's internal control over financial reporting and compliance.

Whitley Penn LLP

Houston, Texas
November 12, 2022



FINANCIAL STATEMENTS



HARMONY PUBLIC SCHOOLS
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 43,354,024	\$ 56,037,114
Restricted cash	79,036,905	38,504,774
Investments	94,199,284	92,251,640
Receivables	94,513,380	72,314,141
Other receivables	2,638,462	5,157,896
Prepays	1,980,191	1,424,440
Total Current Assets	<u>315,722,246</u>	<u>265,690,005</u>
Property and Equipment:		
Land	96,410,321	72,942,651
Buildings and improvements	407,056,275	392,351,505
Furniture and equipment	47,072,680	39,666,586
Construction in progress	111,836,433	27,848,819
Right-of-use asset under lease	126,884,513	124,592,421
	<u>789,260,222</u>	<u>657,401,982</u>
Less: Accumulated depreciation and amortization	<u>(182,622,578)</u>	<u>(159,123,281)</u>
	606,637,644	498,278,701
Other Assets:		
Deposits	274,709	274,709
Total Assets	<u>\$ 922,634,599</u>	<u>\$ 764,243,415</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 25,912,828	\$ 13,215,825
Accrued liabilities	2,535,681	4,994,096
Wages payable	41,670,981	34,819,675
Payroll taxes payable	14,942,285	14,010,125
Interest payable	8,761,689	6,935,567
Deferred revenue	907,988	85,815
Current portion of lease liability	5,543,271	4,679,044
Current portion of bonds payable	6,870,000	6,625,000
Total Current Liabilities	<u>107,144,723</u>	<u>85,365,147</u>
Long-Term Liabilities:		
Lease liability net of current portion	108,575,604	112,117,256
Notes payable	33,865,977	64,200,157
Bonds payable net of premium, discount, issuance costs and current portion	529,910,799	373,207,875
Total Liabilities	<u>779,497,103</u>	<u>634,890,435</u>
Net Assets:		
Without donor restrictions	42,837,950	32,353,181
With donor restrictions	100,299,546	96,999,799
Total Net Assets	<u>143,137,496</u>	<u>129,352,980</u>
Total Liabilities and Net Assets	<u>\$ 922,634,599</u>	<u>\$ 764,243,415</u>

HARMONY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Support and Revenue				
Federal grants	\$ -	\$ 97,056,703	\$ 97,056,703	\$ 45,628,418
State and local grants	-	385,646,588	385,646,588	381,898,886
Donations	8,941,677	-	8,941,677	840,105
Interest Income	1,261,320	-	1,261,320	1,092,791
Other income	9,172,448	15,722	9,188,170	7,118,312
Net assets released from restrictions	475,355,095	(475,355,095)	-	-
Total Revenues	494,730,540	7,363,918	502,094,458	436,578,512
Expenses				
Salaries	295,053,800	-	295,053,800	245,105,976
Employee benefits	32,274,590	-	32,274,590	26,662,149
Payroll tax expense	5,355,299	-	5,355,299	4,564,280
Professional fees	41,415,652	-	41,415,652	25,042,207
Occupancy	3,817,218	-	3,817,218	3,763,951
Equipment costs	3,136,934	-	3,136,934	3,664,915
Supplies	23,217,387	-	23,217,387	30,197,307
Interest	22,962,486	-	22,962,486	22,708,802
Repairs & maintenance	14,474,714	-	14,474,714	10,355,763
Utilities	6,581,176	-	6,581,176	5,728,536
Travel	1,584,042	-	1,584,042	311,024
Insurance	2,256,855	-	2,256,855	1,719,514
Other expense	8,626,148	-	8,626,148	6,852,234
Depreciation and amortization	22,958,387	-	22,958,387	18,933,804
Amortization of bond issuance costs	531,083	-	531,083	263,104
Total Expenses	484,245,771	-	484,245,771	405,873,566
Change in net assets from operations	10,484,769	7,363,918	17,848,687	30,704,946
Non-Operating Revenues (Expenses)				
Gain (Loss) on sale of investments	-	(4,064,171)	(4,064,171)	(985,727)
Total Non-Operating Revenues (Expenses)	-	(4,064,171)	(4,064,171)	(985,727)
Total change in net assets	10,484,769	3,299,747	13,784,516	29,719,219
Net Assets, Beginning of Year	32,353,181	96,999,799	129,352,980	99,633,761
Net Assets, End of Year	\$ 42,837,950	\$ 100,299,546	\$ 143,137,496	\$ 129,352,980

HARMONY PUBLIC SCHOOLS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 13,784,516	\$ 29,719,219
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of assets under lease	23,499,297	20,386,689
Amortization - premium on bonds	(2,112,258)	(1,227,508)
Amortization - bond issuance costs	531,083	263,104
(Increase) Decrease in receivables	(22,199,239)	(7,214,861)
(Increase) Decrease in other receivables	2,519,434	(3,336,598)
(Increase) Decrease in deposits	-	(42,257)
(Increase) Decrease in prepaids	1,980,191	(1,275,438)
Increase (Decrease) in accounts payable	12,697,003	3,972,919
Increase (Decrease) in wages payable	6,851,306	5,486,937
Increase (Decrease) in payroll taxes payable	932,160	2,101,526
Increase (Decrease) in accrued liabilities	(2,458,415)	3,697,632
Increase (Decrease) in deferred revenue	(3,771,056)	9,140
Increase (Decrease) in interest payable	1,826,122	(104,865)
Net Cash Provided (Used) by Operating Activities	<u>34,080,144</u>	<u>52,435,639</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(131,858,240)	(50,093,609)
Purchase of investments	(1,947,644)	(6,795,203)
Net Cash Provided (Used) by Investing Activities	<u>(133,805,884)</u>	<u>(56,888,812)</u>
Cash flows from Financing Activities		
Proceeds from bonds, net of premium and bond issuance costs	193,756,382	-
Proceeds from loans		38,003,967
Repayment of loans	(30,334,180)	
Repayment of bonds	(33,169,996)	(6,315,000)
Payments on lease liability	(2,677,425)	(4,120,064)
Net Cash Provided (Used) by Financing Activities	<u>127,574,781</u>	<u>27,568,903</u>
Net increase (decrease) in cash	27,849,041	23,115,730
Cash at Beginning of Year	<u>94,541,888</u>	<u>71,426,158</u>
Cash at End of Year	<u>\$ 122,390,929</u>	<u>\$ 94,541,888</u>
Cash Per the Statement of Financial Position		
Cash	\$ 43,354,024	\$ 56,037,114
Restricted Cash	79,036,905	38,504,774
Total Cash per the Statement of Financial Position	<u>\$ 122,390,929</u>	<u>\$ 94,541,888</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 23,234,816</u>	<u>\$ 23,234,816</u>



HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS

Note 1 - Organization

Harmony Public Schools ("HPS"), a nonprofit organization, provides curricula for students in grades kindergarten through 12. The school was incorporated in the State of Texas in September 1999, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that HPS was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, HPS operates as part of the state public school system subject to all federal and state laws and rules governing public schools. HPS is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

Note 2 - Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include all of HPS's accounts. All significant intercompany balances and transactions have been eliminated.

B. Support and Revenue

Per the Texas Education Agency, revenues, generally, that are reported on the statement of activities may be presented in three broad categories.

- Local and intermediate sources such as contributions received from charter holder constituents, funds received pursuant to grants from local governmental and nongovernmental entities, and other sources, such as income from investments.
- State sources such as Foundation School Program funding and other formula or state grants.
- Federal sources such as funding through formula or discretionary grants awarded to the charter holder by the federal or state government

Support and revenue are recorded based on the accrual method.

C. Cash Donations and Donated Services

Cash donations are considered to be available for use without donor restrictions unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the organization.

D. Comparative Totals and Reclassifications

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30 of the prior year, from which the summarized information was derived. In addition, Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. These changes were between the ROU asset, net of amortization and the related liability. The reclassifications had no impact on previously reported net assets.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. Contributions

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-For-Profit Entities-605 Revenue Recognition*, contributions received are recorded as support with or without donor restrictions depending on the existence or nature of any donor restrictions.

F. Property and Equipment

Property and equipment purchased by HPS is recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$5,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of five to thirty-nine years for depreciable assets. Gains and losses on retired or sold property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

G. Pledges and Accounts Receivable

Contributions are recognized when the donor makes a promise to give to HPS which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor- restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

H. Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. The Texas Education Agency mandates a specific account coding that requires open enrollment charter schools to record expenses to a unique combination of function and object. Generally, HPS records its expenses based on direct allocation by assigning each expense to a functional category based on direct usage. See Note 19. for more information.

I. Income Taxes

HPS qualifies as a tax-exempt organization under section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

J. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks. The cash accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. HPS has secured pledged collateral at 100% of its bank balances. HPS has not experienced any losses on such accounts.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets. The Academy classifies its marketable debt securities as "held to maturity" if it has the positive intent and ability to hold the securities to maturity. All other marketable securities are classified as "available for sale." Realized gains and losses and unrealized gains and losses, determined using the specific identification method, are included in the change in net assets.

L. Fair Value Measurements

FASB ASC 820 *Fair Value Measurements and Disclosures* establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2: Significant direct or indirect, observable inputs other than quoted prices;
- Level 3: Unobservable inputs based on assumptions of the reporting entity.

The fair value measurement of assets and liabilities within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

M. Estimates

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

N. Compensated Absences

Permanent employees of HPS accumulate and vest paid-time-off at varying rates depending on exempt status and hourly rate. It is HPS' policy to accrue accumulated paid-time-off at year-end.

O. Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as either without donor restrictions or with donor restrictions.

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

O. Net Assets (continued)

In accordance with state law, a charter holder is entitled to receive state aid for the charter school based on student attendance; however, before the charter holder may reclassify state aid from net assets with donor restrictions to net assets without donor restrictions, it must meet a two part test.

1. First, the charter school must demonstrate that it expended state aid for the benefit of its students.
2. Second, the charter school must expend state aid consistent with TEC, §45.105(c).

As described in Note 13., the majority of HPS’ revenue is comprised of state aid from the Texas Education Agency.

Note 3 - Defined Pension Plan

Plan Description

The charter school contributes to the Teacher Retirement System of Texas ("TRS"), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. 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.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223- 8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The TRS Annual Comprehensive Financial Report available dated August 31, 2020 and August 31, 2021 indicated the following:

TRS Pension Fund	TRS Plan Fiduciary			Percent Funded
Total Plan Assets	Net Position	Total Pension Liability	Net Pension Liability	
2021 \$ 223,172,755,137	\$ 201,807,002,496	\$ 227,273,463,630	\$ 25,466,461,134	88.79%
2020 184,361,870,581	165,416,245,243	218,974,205,084	53,557,959,841	75.54%
2019 181,800,159,205	157,978,199,075	209,961,325,288	51,983,126,213	75.24%
2018 176,942,453,923	154,568,902,000	209,611,329,000	55,042,427,000	73.74%

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 3 - Defined Pension Plan (continued)

Funding Policy

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 2020 thru 2025. Measurement years for TRS begin on September 1st and end on August 31st

	Contribution Rates	
	Measurement Year	
	2022	2021
Member	8.00%	7.70%
Non-employer contributing agency	7.75%	7.50%
Employers	7.75%	7.50%

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 1.5 percent of the member’s salary beginning in fiscal year 2020, 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.

HPS employee contributions to the system for the year ended June 30, 2022 and June 30, 2021 were \$20,955,522 and \$17,605,574, respectively and were equal to the required contributions for the year. Total covered payroll was \$265,878,298 and \$228,577,121. Amounts paid as pension surcharges and Non-OASDI for 2022 were \$93,669 and \$4,438,722, respectively. Amounts paid as pension surcharges and Non-OASDI required amounts in 2021 were \$95,616 and \$3,621,366, respectively.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 3 - Defined Pension Plan (continued)

Funding Policy (continued)

Other contributions made from federal and private grants contributed at a rate of 7.50% and 7.50% for 2022 and 2021. Contributions totaled \$3,292,221 and \$1,247,812 for the years ended June 30, 2022 and 2021. The charter school's contributions into this plan do not represent more than 5% of the total contributions to the plan and the charter school was not assessed a surcharge. During fiscal years 2022 and 2021, the School also paid contributions related to amount above the statutory minimum totaling \$5,786,290 and \$4,685,419, respectively.

Note 4 - Defined Other Post-Employment Benefit Plan

Plan Description

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

Similar to the TRS Pension Plan discussed in Note C, charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer OPEB plans. Assets contributed to a multi-employer OPEB plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The TRS Annual Comprehensive Financial Report available dated August 31, 2020

TRS Care Other Post-Employment Benefits (OPEB)	Total Plan Assets	TRS-Care Plan Fiduciary Net Position	Total OPEB Liability	Net OPEB Liability	Percent Funded
2021	\$ 2,733,911,371	\$ 2,539,242,470	\$ 41,113,711,083	\$ 38,574,468,613	6.18%
2020	2,146,681,144	1,996,317,932	40,010,833,815	38,014,515,883	4.99%
2019	1,475,508,564	1,292,022,349	48,583,247,239	47,291,224,890	2.66%
2018	1,001,649,953	798,574,633	50,729,490,103	49,930,915,470	1.57%

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; on the Internet at <https://www.trs.texas.gov/TRS%20Documents/acfr-2021.pdf>, or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter 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.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 4 - Defined Other Post-Employment Benefit Plan (continued)

Benefits Provided

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

TRS-Care Plan Premium Rates		
	<u>Medicare</u>	<u>Non-Medicare</u>
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 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. 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.

	<u>Contribution Rates</u>	
	<u>2022</u>	<u>2021</u>
Active Employee	0.65%	0.65%
Employers	0.75%	0.75%
Federal/Private Funding remitted by Employers	1.25%	1.25%

In fiscal year 2022, HPS contributed a total of \$1,978,188 of which, \$561,752 was for federally funded employees. Employees contributed a total \$1,712,337 in fiscal year 2022. Covered payroll for TRS-Care for fiscal year 2022 was \$265,878,298. In fiscal year 2021, HPS contributed a total of \$1,918,780 of which, \$209,900 was for federally funded employees. Employees contributed a total \$1,419,806. Covered payroll for TRS-Care for fiscal year 2020 was \$228,577,121.

Note 5 - Budget

The official school budget is prepared for adoption for required for all funds in the aggregate. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 6 - Investments

Investments presented below have been measured using Level 1 and Level 2 inputs as described in Note 2 L. above, Fair Value Measurements.

Fair Value Measurements as of June 30, 2022

Type of Investment	Level 1	Level 2	Level 3	Totals
Money Market/Commercial Paper	\$ 1,135,681	\$ -	\$ -	\$ 1,135,681
Certificates of Deposit	30,428,154	-	-	30,428,154
US Government Agencies	62,635,449	-	-	62,635,449
Total Investments at Fair Value:	<u>\$ 94,199,284</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 94,199,284</u>

Fair Value Measurements as of June 30, 2021 were as follows:

Type of Investment	Level 1	Level 2	Level 3	Totals
Money Market/Commercial Paper	\$ 1,135,681	\$ -	\$ -	\$ 1,135,681
Certificates of Deposit	30,428,154	-	-	30,428,154
US Government Agencies	60,687,805	-	-	60,687,805
Total Investments at Fair Value:	<u>\$ 92,251,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,251,640</u>

Unrealized losses totaled \$1,112,033 in 2022. In fiscal year 2021, HPS realized losses of \$985,727.

Certificate of Deposits

West Texas, North Texas, and Houston North hold several certificates of deposits with six-month maturities that totaled \$28.3 million and \$30.4 million as of June 30, 2022 and June 30, 2021, respectively. The interest rates range from 0.03% to 3.18%. The certificates of deposit mature between July 2022 and November 2040.

Note 7 - Notes Payable

HPS's obligations under notes payable consist of the following:

On December 18, 2020, HPS entered into a loan under the Supplemental Master Trust Indenture No. 29. HPS can draw up to \$100,000,000 on the loan. Interest is due and payable semi-annually on June and December of each year. The maturity date is December 18, 2023. As of June 30, 2022 and 2021, the balance as of the loan was \$33,865,977 and \$64,200,157, respectively. The interest rate is 1.45% spread plus London Interbank Offered Rate (LIBOR) for one month.

On June 1, 2019, HPS entered into a loan under the Supplemental Master Trust Indenture No. 27. HPS can draw up to \$35,000,000 on the loan. Interest is due and payable semi-annually on June and December of each year. The maturity date is June 26, 2021. As of June 30, 2019, the balance as of the loan was \$6,843,752. The interest rate is 1.45% spread plus London Interbank Offered Rate (LIBOR) for one month. HPS increased its line of credit to \$60 million. The amount drawn on the loan during fiscal year 2020 was \$26,196,190. The line of credit matures in April 2023.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases

HPS accounts for leases in accordance with FASB ASC 842. HPS is the lessee for all of its leases.

At the inception of a contract, we assess whether the contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, HPS assess whether:

- The contract involved the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- HPS has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- HPS has the right to direct the use of the asset. HPS has the right when it has decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, HPS has the right to direct the use of the asset if either HPS has the right to operate the assets or HPS designed the asset in a way that predetermined how and for what purpose it will be used.

A contract may contain multiple lease components; if so, HPS allocates the consideration in a contract to each lease component based on each component's relative stand-alone price. HPS is required to account for the right-to-use land and other assets separately unless the effect of doing so would be insignificant to the overall accounting for the transaction.

After separate lease components are identified, HPS applies the following steps to each separate lease component:

- Determine the lease term, generally calculated beginning at the lease commencement date
- Determine the lease payments, which may include fixed payments, variable lease payments, amount HPS will probably owe under residual value guarantees and payments related to renewal or termination options that HPS are reasonably certain to exercise.
- Determine the discount rate for the lease based on information available at lease commencement. For HPS, the discount rate implicit in the lease unless that rate cannot be readily determined, in which case we are required to use the incremental borrowing rate which ranges from 3% to 5%.

Finance Leases

HPS classifies leases as finance leases if they are not short-term leases (see below) and they meet any of the following criteria:

- The lease transfers ownership of the underlying asset to HPS by the end of the lease term.
- The lease grants HPS an option to purchase the underlying asset that HPS is reasonably certain to exercise.
- The lease term is for a major part of the remaining economic life of the underlying asset. If the commencement date is at or near the end of the underlying asset's economic life, this test does not apply.
- The present value of the sum of (1) the lease payments and (2) any lessee residual value guarantee not reflected in the lease payments equal or exceed substantially all of the underlying asset's fair value.
- The underlying asset is of such specialized nature that is expected to have no alternative use to the lessor at the end of the lease term.

For finance leases, HPS recognizes a right-of-use (ROU) asset and a lease liability at lease commencement.

The finance lease ROU asset is initially measured at cost, which comprises the sum of (1) the initial amount of the finance lease liability, (2) initial direct costs incurred (incremental costs that would not have been incurred if the lease had not been obtained) and (3) any lease payments made before or at lease commencement, (4) reduced for any lease incentives received.

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Finance Leases (continued)

Subsequent to commencement, HPS measures the ROU asset at cost, less accumulated amortization and any accumulated impairment losses.

HPS amortizes the finance ROU asset on a straight-line basis over the period from the commencement date to the earlier (2) the end of the useful life of the ROU asset or (2) the end of the lease term. However, if the lease transfers ownership of the underlying asset to us, or if we are reasonably certain to exercise a purchase option to acquire the underlying, HPS amortizes the ROU asset to the end of the underlying asset’s useful life. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The finance lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the discount rate determined at commencement. Subsequent to commencement, we measure the finance lease liability on an amortized cost basis using the effective interest method. The lease liability is remeasured when (1) there is a change in future lease payment arising from a change in a rate or index, (2) there is a change in the estimate of the amount HPS expects to pay under a residual value guarantee or (3) if we change our assessment of whether we will exercise a purchase , extension or termination option.

Finance lease ROU assets are included in property and equipment, net in the consolidated financial statement of HPS and in each District in the Statement of Financial Position. Finance lease liabilities are included in the current portion of long-term debt and long-term debt, net. Amortization on the ROU assets is included in the properly functional expense based on the use of the buildings.

HPS leases several buildings under twelve finance lease agreements. The leases expire in 2046 and 2048. The following is a schedule of future minimum payment required under HPS’s finance lease liabilities together with their present value as of June 30, 2022.

<u>Year Ending June 30</u>	
2023	6,633,671
2024	6,643,597
2025	6,650,018
2026	6,589,016
2027	6,466,175
Thereafter	<u>148,447,543</u>
Total payments due under finance	
lease liabilities	181,430,020
Less discount to present value	<u>(84,214,446)</u>
Total finance lease liabilities	<u>\$ 97,215,574</u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Finance Leases (continued)

ROU assets under finance lease for fiscal years 2022 and 2021, net are as follows:

	FY 2022
Buildings	\$ 102,124,280
Accumulated amortization	<u>(13,458,798)</u>
	<u>\$ 88,665,482</u>
	FY 2021
Buildings	\$ 99,832,188
Accumulated amortization	<u>(10,252,025)</u>
	<u>\$ 89,580,163</u>

Finance lease costs and cash paid for fiscal year 2022 is disclosed below:

Finance Lease Costs	
Amortization of right-of-use assets	\$ 3,206,772
Interest on lease liabilities	<u>4,881,508</u>
Total financing lease costs	<u>\$ 8,088,280</u>
Cash Paid for Finance Leases	
Operating cash flows from finance leases (interest paid)	\$ 4,879,795
Financing cash flows from finance leases	<u>1,599,868</u>
Total cash paid for finance leases	<u>\$ 6,479,663</u>

Finance lease costs and cash paid for fiscal year 2021 is disclosed below:

Finance Lease Costs	
Amortization of right-of-use assets	\$ 2,805,696
Interest on lease liabilities	<u>4,853,259</u>
Total financing lease costs	<u>\$ 7,658,955</u>
Cash Paid for Finance Leases	
Operating cash flows from finance leases (interest paid)	4,858,104
Financing cash flows from finance leases	<u>1,162,728</u>
Total cash paid for finance leases	<u>\$ 6,020,832</u>

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Operating Leases

HPS classifies leases as operating leases if they are not short-term leases (see below) or finance lease (see above).

For operating leases, HPS recognizes the ROU asset and a lease liability at lease commencement; the initial liability and ROU asset are calculated the same for operating leases as described above for finance leases. Subsequent to commencement, HPS measures operating ROU assets at (1) the carrying amount of the operating lease liability, (2) plus unamortized initial direct costs and any prepaid lease payments, (3) less any accrued lease payments and the unamortized balance of any lease incentives received. However, if an operating lease ROU asset is impaired, HPS measures the ROU asset on a straight-line basis from the date of the impairment to the earlier of the end of the ROU asset's useful life or the end of the lease term. Operating lease ROU assets are included in property equipment since the operating leases pertain to buildings.

HPS has 11 buildings under 11 separate operating leases. The following is a schedule of future minimum payments required under HPS' operating lease liabilities together with their present value as of June 30, 2022.

Operating Lease Costs for FY 2022	
Periodic lease cost	\$ 4,288,514
Change to lease liability	<u>7,656,371</u>
Adjustment to the right-of-use asset	<u>\$ (3,367,857)</u>
Rental Payments during fiscal year 2022	\$ 3,445,536
Accretion of lease liability	<u>(75,886)</u>
Decrease in operating lease liability	<u>\$ 3,369,650</u>
Beginning of operating lease liability	\$ 20,272,951
Decrease in operating lease liability	<u>(3,369,650)</u>
Ending operating lease liability as of June 30, 2022	<u>\$ 16,903,301</u>

ROU assets under operating leases for fiscal years 2022 and 2021, net are as follows:

	Fiscal Year 2022
Buildings	\$ 24,760,233
Accumulated Amortization	<u>(9,269,382)</u>
	<u>\$ 15,490,851</u>
	Fiscal Year 2021
Buildings	\$ 24,760,233
Accumulated Amortization	<u>(5,901,525)</u>
Right-to-Use Asset, net	<u>\$ 18,858,708</u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Operating Leases (continued)

Other required disclosures on HPS' operating leases for fiscal years 2022 and 2021 are as follows:

Operating Lease Costs for FY 2022	
Periodic lease cost	\$ 4,288,514
Change to lease liability	<u>7,656,371</u>
Adjustment to the right-of-use asset	<u>\$ (3,367,857)</u>
Rental Payments during fiscal year 2022	\$ 3,445,536
Accretion of lease liability	<u>(75,886)</u>
Decrease in operating lease liability	<u>\$ 3,369,650</u>
Beginning of operating lease liability	\$ 20,272,951
Decrease in operating lease liability	<u>(3,369,650)</u>
Ending operating lease liability as of June 30, 2022	<u>\$ 16,903,301</u>

In 2021, HPS had lease modifications which increased the lease liability.

Operating Lease Costs for FY 2021	
Periodic lease cost	\$ 3,748,152
Accretion of lease liability	<u>4,234,649</u>
Adjustment to the right-of-use asset	<u>\$ 7,982,801</u>
Rental Payments during fiscal year 2021	\$ 3,917,272
Accretion of lease liability	<u>4,234,649</u>
Decrease in operating lease liability	<u>\$ 8,151,921</u>
Beginning operating lease liability	\$ 12,121,030
Decrease in operating lease liability	<u>(8,151,921)</u>
Ending operating lease liability as of June 30, 2021	<u>\$ 20,272,951</u>

HPS cash paid for operating leases \$3,445,536 in FY 2022 and \$3,917,272 in fiscal year 2021.

Note 9 - Restricted Cash

Restricted cash at June 30, 2022 and June 30, 2021, consisted of project fund, debt service fund, debt service reserve fund, and sinking fund bond cash accounts. These funds are to be solely used in the construction and acquisition of new facilities and repayment of bond liabilities and cannot be used for normal operating expenditures

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 10 - Bonds Payable

HPS has secured bond financing pursuant to Chapter 53 of the Texas Education Code of "Qualified Tax Exempt" Education Revenue Series Bonds, 2012A, 2014A, 2015, 2016A and 2017A in the amounts of: \$31,350,000; \$101,555,000; \$106,745,000; \$55,405,000; and \$40,540,000, respectively. HPS has also received proceeds from Taxable Educational Revenue Bonds, Q Series (Qualified School Construction Bonds) 2010Q, 2011Q, and 2014Q in the amounts of \$39,910,000; \$5,085,000; and \$8,880,000, respectively. The bonds are limited obligations of the issuer, payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. HPS also issued three new bonds during fiscal year 2022. The bonds of \$173,545,001 were issued at a premium of \$25,314,989 and bond issuance costs of \$7,301,803 and the bonds issued in the current year mature between fiscal year 2026 and 2051. The Bonds payable at June 30, 2022, consist of the following:

2010 Q Bonds, 8.13% interest; Principal is deposited annually to a sinking fund account; interest is due in semi-annual installments, commencing February 15, 2011; bond matures in 2027.	\$ 39,910,000
2011Q Bonds, 8.75% interest; principal is deposited annually to a sinking fund account; interest is due in semi-annual installments, commencing November 15, 2011; maturity dates range from 2014 to 2026.	5,085,000
2012A Bonds, 4% - 5% interest; principal due annually commencing February 15, 2014; interest due semi-annually commencing August 15, 2012; maturity dates range from 2014 - 2042.	1,976
2014A Bonds, 1.5% - 5% interest; principal due annually commencing February 15, 2015; interest due semi-annually commencing February 15, 2015; maturity dates range from 2015 to 2044.	83,080,000
2014Q Bonds, 4.733% interest; principal due annually commencing February 15, 2017; interest due semi-annually commencing February 15, 2015; maturity dates range from 2017 to 2036.	8,880,000
2015 Bonds, 2% - 5% interest; principal due annually commencing February 15, 2016; interest due semi-annually commencing February 15, 2016; maturity dates range from 2016 to 2041.	102,425,000
2016A Bonds, 2% - 5% interest; principal due annually commencing February 15, 2017; interest due semi-annually commencing August 15, 2016; maturity dates range from 2017 to 2046.	49,055,000
2017A Bonds, 3.0% - 5.0% interest; principal due annually commencing February 15, 2020; interest due in semi-annual installments, commencing February 15, 2018; maturity dates range from 2020 to 2047.	36,455,000
2021A Education Revenue Bonds (Tax Exempt), 3.0%-4.0%; principal due annually commencing February 15, 2024; interest due in semi-annual installments, commencing February 15, 2024.	147,025,000
2021B Ed Rev Bonds (Taxable) 3.0%-4.0%; principal due annually commencing February 15, 2024; interest due in semi-annual installments, commencing February 15, 2024.	4,350,000
2021C Ed Rev Refunding Bonds, 3.0%-4.0%; principal due annually commencing February 15, 2022; interest due in semi-annual installments, commencing February 15, 2022.	<u>21,325,000</u>
Total	497,591,976
Plus original issue premium	51,003,489
Less issuance costs on debt	(11,814,666)
Less current portion of debt	<u>(6,870,000)</u>
	<u>\$ 529,910,799</u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 10 - Bonds Payable (continued)

Future maturities of bonds payable over the next five years are as follows:

Year Ending June 30,	Principal	Interest	Total
2023	\$ 6,870,000	\$ 23,089,062	\$ 29,959,062
2024	10,475,000	22,767,362	33,242,362
2025	10,875,000	22,356,292	33,231,292
2026	16,385,000	21,918,842	38,303,842
2027	51,850,000	20,950,854	72,800,854
Thereafter	401,136,976	176,830,755	577,967,731
Total	<u>497,591,976</u>	<u>\$ 287,913,167</u>	<u>\$ 785,505,143</u>
Plus original issue premium	51,003,489		
Less issuance cost on debt	<u>(11,814,666)</u>		
Amount of bonds net of discount and premium	<u>\$ 536,780,799</u>		

HPS refunded bonds 2012A with the 2021C Refunding bonds. The 2021C Bond proceeds of \$25,034,270 plus the remaining cash held for debt service from the 2012A bonds of \$2,848,602 were placed in escrow. The refunding resulted in a net present value savings of \$6.8 million.

Note 11 - Bond Sinking Fund Obligations

HPS is required to deposit amounts restricted to the repayment of principal into three sinking funds on an annual basis. The sinking funds are restricted to the retirement of debt issued with respect to the 2010Q series, 2011Q series, and 2014Q series of bonds. Future sinking fund obligations of notes payable are as follows:

Year Ending June 30,	Deposits
2023	\$ 3,054,929
2024	3,061,130
2025	3,059,565
2026	3,261,754
2027	667,781
Thereafter	4,486,642
Total	<u>\$ 17,591,801</u>

Note 12 - Bond Debt Covenants

The bond agreements contain certain restrictions and covenants. HPS is required to maintain a ratio of available revenue (without excluding any discretionary expenses incurred during the fiscal year) that must be equal to 1.10 times the annual debt service requirements. HPS's minimum available excess revenue requirements totaled \$27,556,614 and \$27,773,890 for fiscal years 2022 and 2021. At 2022 and 2021, HPS met the covenant requirements holding available revenue of \$59.0 million and \$51.5 million, respectively. Additionally, HPS needs to maintain an operating reserve that covers 45 days of budgeted expenses at the end of each fiscal year. For the fiscal years 2022 and 2021, HPS was required to have \$57.2 million and \$51.3 million, respectively, in operating accounts. For 2022 and 2021, HPS met the covenant with an available cash balance of \$146,700,444 and \$141,219,209.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 13 - State Aid Revenue and Receivables

During fiscal year 2022 and 2021, HPS earned approximately \$383.5 million and \$348.2 million in State Aid, which made up 76 percent and 80 percent of total revenue in 2021 and 2020, respectively. As of June 30, 2022 and 2021, HPS had outstanding receivables of \$72.3 million and \$65.1 million, respectively. The various components of the outstanding receivables are shown below.

	2022	2021
Due from TEA - Federal Grants	\$ 6,473,283	\$ 8,892,074
Due from TEA - State Aid	69,036,453	60,525,244
Due from TEA - State Grants	75,790	559,971
Due from Federal Government	15,268,687	434,271
Due from Other	3,659,167	1,902,581
	<u>\$ 94,513,380</u>	<u>\$ 72,314,141</u>

Note 14 - Commitments and Contingencies

HPS receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Note 15 - Health Care Coverage

During the years ended June 30, 2021 and 2022, employees of HPS were covered by a group insurance plan. The money will make health benefits contributions towards the employee’s selected plan monthly as shown in the table below:

Role/Salary Band	HPS Contribution
1	\$825
2, 3	\$625
4	\$425
5, 6	\$325
Teacher	\$325
Non-exempt	\$325

Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

Note 16 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2022 and 2021 are as follows:

	As of June 30, 2022	As of June 30, 2021
Federal funds	\$ 6,947,398	\$ 1,845,552
State funds	89,336,029	91,147,805
Local funds	4,016,119	4,006,442
Total with Donor Restrictions	<u>\$ 100,299,546</u>	<u>\$ 96,999,799</u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 16 - Net Assets with Donor Restrictions (continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	For the Year Ended June 30, 2022	For the Year Ended June 30, 2021
State funds	\$ 378,298,392	\$ 356,874,826
Federal funds	97,056,703	43,484,422
Total Restrictions released	\$ 475,355,095	\$ 400,359,248

Note 17 - Lawsuits and Contingencies

HPS is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the company.

Note 18 - Elimination Entries

Description	Balance Before Eliminations	Eliminations	Consolidated Balance
Revenue	\$ 530,167,235	\$ (28,072,777)	\$ 502,094,458
Expenses	512,318,548	(28,072,777)	484,245,771
Change in Operatng Net Assets	\$ 17,848,687	\$ -	\$ 17,848,687

Eliminations consist of the following:

Central office allocation	\$ 28,072,777
Harmony Education Solutions	36,661
Rental income	910,000
Total	\$ 29,019,438

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 19 - Functional Expenses

The District’s expenses are coded directly to the functional category as established by the Texas Education Agency. Below expenses are reflected by functional category and natural classification or object class.

Expense by Functional Category	Expenses by Object Class					Total
	Payroll Costs	Contracted Services	Supplies and Materials	Other Operating Costs	Debt (Interest and fees)	
11 Instruction	\$ 227,726,238	\$ 12,978,001	\$ 15,978,752	\$ 1,298,020	\$ -	\$ 257,981,011
12 Instructional resources and media services	-	-	17,543	1,850	-	19,393
13 Curriculum development and instructional staff development	25,726,295	2,470,929	980,052	720,150	-	29,897,426
21 Instructional leadership	2,191,553	3,161,745	16,886	171,031	-	5,541,215
23 School leadership	38,550,451	90,133	365,719	938,859	-	39,945,162
31 Guidance, counseling and evaluation services	11,648,763	1,971,108	125,327	-	-	13,745,198
33 Health services	23,272	10,991	560,416	17,938	-	612,617
34 Student Transportation	-	1,171,309	-	-	-	1,171,309
35 Food service	2,081,092	11,138,168	63,785	30,019	-	13,313,064
36 Cocurricular/Extracurricular activities	-	148,075	1,200,315	2,411,470	-	3,759,860
41 General administration	17,955,760	6,722,263	596,072	3,315,471	-	28,589,566
51 Plant maintenance and operations	1,658,571	24,310,848	3,147,665	25,846,668	-	54,963,752
52 Security and monitoring services	218,435	2,484,217	34,385	88,197	-	2,825,234
53 Data processing services	4,903,259	2,767,907	130,470	589,004	-	8,390,640
71 Debt service	-	-	-	-	23,493,569	23,493,569
	<u>\$ 332,683,689</u>	<u>\$ 69,425,694</u>	<u>\$ 23,217,387</u>	<u>\$ 35,428,677</u>	<u>\$ 23,493,569</u>	<u>\$ 484,249,016</u>

Note 20- Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
Cash and cash equivalents	\$ 10,119,723	\$ 8,768,777
Receivables	3,659,167	1,902,581
	<u>\$ 13,778,890</u>	<u>\$ 10,671,358</u>

Per the Texas Education Agency, Foundation School Program revenues should be classified as revenue with donor restrictions. However, the funds do not have a time restriction, but must be used for education purposes in accordance with State law. As such, there are cash, investments and receivables that are due from the State and are available for use for educational purposes. As part of HPS’ liquidity management practice, we monitor the cash on daily and monthly basis and invest cash in excess of requirements in short-term investments and CDs.

Note 21 - Subsequent Events

As of the date of this report, HPS did not have any subsequent events to report.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 22 - Related Party Transactions.

HPS' success has received both national and international recognition for its curriculum, programs, training, operations and administration. The HPS Board finds that marketing of these products (i.e. intellectual property) would create revenue for HPS. As such, on February 22, 2020, the HPS Board approved the creation of the Harmony Education Solutions (HES), a limited liability company. The Board of HPS serves as the Board of HES. As of June 30, 2020, HES has received a license to sub-license Harmony's intellectual property and accompanying services. HPS applied to the Texas Education Agency for approval of the trademark licensing transaction between HES and HPS as required by Senate Bill 1454 passed by the Texas 86th Legislature. A percentage, ranging from 2 percent to 10 percent, of the licensing revenue generated by HES will be remitted to HPS. These payments will be considered related party transactions. Below are the revenues and expense for HES for fiscal years 2022 and 2021.

	2022	2021
Revenues	\$ 812,202	\$ 595,001
Expenses	<u>767,633</u>	<u>560,940</u>
Operating Net Income	<u>\$ 44,569</u>	<u>\$ 34,061</u>

During fiscal year 2022, 10% of certain HES revenues were remitted to HPS totaling \$36,661, which was eliminated as part of the consolidation process. Below are the total revenues and expenses of both HPS and HES after all eliminations:

	HPS	HES	Elimination	Total Consolidated
Revenues	\$ 502,094,458	\$ 812,202	\$ (36,661)	\$ 502,869,999
Expenses	484,245,771	767,633	(36,661)	484,976,743
Operating Net Income	<u>\$ 17,848,687</u>	<u>\$ 44,569</u>	<u>\$ -</u>	<u>\$ 17,893,256</u>

The assets and liabilities for fiscal year 2022 were \$117,003 and \$38,373, respectively. In fiscal year 2021, HES' assets and liabilities were \$133,017 and 99,016, respectively.



**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Harmony Public Schools
Houston, Texas

We have audited the financial statements of Harmony Public Schools as of and for the year ended June 30, 2022, and our report thereon dated November 12, 2022, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules for individual charter schools beginning on page 33 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Whitley Penn LLP".

Houston, Texas
November 12, 2022



HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
Assets		
Current Assets:		
Cash	\$ 5,290,145	\$ 5,580,815
Restricted cash	8,637,279	8,785,809
Investments	9,300,804	9,441,896
Receivables	9,771,785	7,539,874
Other receivables	135,591	120,701
Prepays	100,702	134,877
Total Current Assets	33,236,306	31,603,972
Property and Equipment:		
Land	7,225,861	7,225,861
Buildings and improvements	63,020,761	61,449,118
Furniture and equipment	4,723,088	4,451,044
Construction in progress	1,542,937	1,366,493
	76,512,647	74,492,516
Less: Accumulated depreciation	(26,856,923)	(24,473,980)
	49,655,724	50,018,536
Total Assets	\$ 82,892,030	\$ 81,622,508
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,226,485	\$ 1,286,524
Accrued liabilities	45,036	36
Wages payable	3,870,657	3,592,266
Payroll taxes payable	1,336,469	1,350,174
Interest payable	1,069,868	1,163,638
Deferred revenue	99,527	19,372
Current portion of bonds payable	1,114,601	1,092,425
Total Current Liabilities	8,762,643	8,504,435
Long-Term Liabilities:		
Notes payable net of current portion	172,837	845,656
Bonds payable net of premium, discount, issuance costs and current portion	57,192,312	58,019,061
Total Liabilities	66,127,792	67,369,152
Net Assets:		
Without donor restrictions	12,008,286	10,687,659
With donor restrictions	4,755,952	3,565,697
Total Net Assets	16,764,238	14,253,356
Total Liabilities and Net Assets	\$ 82,892,030	\$ 81,622,508

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Revenues				
Local Support:				
5740	\$ 1,848,827	\$ -	\$ 1,848,827	\$ 1,812,672
5750	409,247	300	409,547	121,074
	Total Local Support	300	2,258,374	1,933,746
State Program Revenues:				
5810	-	38,978,892	38,978,892	39,586,213
5820	-	158,988	158,988	372,183
5830	-	40,460	40,460	21,315
	Total State Program Revenues	39,178,340	39,178,340	39,979,711
Federal Program Revenues:				
5920	-	10,172,909	10,172,909	4,209,526
5930	-	237,428	237,428	409,164
5940	-	779,891	779,891	634,978
	Total Federal Program Revenues	11,190,228	11,190,228	5,253,668
Net Assets Released from Restrictions:				
	48,692,903	(48,692,903)	-	-
	Total Revenues	1,675,965	52,626,942	47,167,125
Expenses				
11	25,578,410	-	25,578,410	23,500,381
12	4,993	-	4,993	6,452
13	3,320,774	-	3,320,774	2,818,587
21	384,843	-	384,843	234,389
23	4,351,647	-	4,351,647	3,829,357
31	1,659,095	-	1,659,095	817,771
33	52,354	-	52,354	45,212
34	-	-	-	-
35	1,132,146	-	1,132,146	535,545
36	443,692	-	443,692	250,554
41	2,853,735	-	2,853,735	2,648,331
51	5,970,124	-	5,970,124	5,363,849
52	426,787	-	426,787	130,253
53	783,631	-	783,631	481,489
71	2,668,119	-	2,668,119	3,076,498
	Total Expenses	-	49,630,350	43,738,668

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>	<u>2021</u>
Change in net assets from operations	\$ 1,320,627	\$ 1,675,965	\$ 2,996,592	\$ 3,428,457
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(485,710)	(485,710)	(35,637)
Total Non-Operating Revenues (Expenses)	-	(485,710)	(485,710)	(35,637)
Total change in net assets	<u>1,320,627</u>	<u>1,190,255</u>	<u>2,510,882</u>	<u>3,392,820</u>
Net Assets, Beginning of Year	<u>10,687,659</u>	<u>3,565,697</u>	<u>14,253,356</u>	<u>10,860,536</u>
Net Assets, End of Year	<u>\$ 12,008,286</u>	<u>\$ 4,755,952</u>	<u>\$ 16,764,238</u>	<u>\$ 14,253,356</u>

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 2,510,882	\$ 3,392,820
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,382,943	2,211,613
Amortization - premium on bonds	(237,062)	(135,520)
Amortization - bond issuance costs	64,575	44,260
(Increase) Decrease in receivables	(2,231,911)	(856,562)
(Increase) Decrease in other receivables	(14,890)	7,536
(Increase) Decrease in prepaids	34,175	-
Increase (Decrease) in accounts payable	(60,039)	710,347
Increase (Decrease) in wages payable	278,391	654,613
Increase (Decrease) in payroll taxes payable	(13,705)	210,013
Increase (Decrease) in accrued liabilities	45,000	(11,700)
Increase (Decrease) in interest payable	(93,770)	(16,965)
Increase (Decrease) in deferred revenue	80,155	9,140
Net Cash Provided (Used) by Operating Activities	2,744,744	6,084,718
Cash Flows from Investing Activities		
Purchase of fixed assets	(2,020,131)	(1,516,604)
Purchase of investment	141,092	(222,759)
Net Cash Provided (Used) by Investing Activities	(1,879,039)	(1,739,363)
Cash Flows from Financing Activities		
Repayment from bonds and bond reclassifications	13,472,632	
Repayment of loans	(845,656)	(326,908)
Repayment of bonds	(14,104,718)	(1,040,595)
Proceeds from loans	172,837	845,656
Net Cash Provided (Used) by Financing Activities	(1,304,905)	(521,847)
Net increase (decrease) in cash	(439,200)	3,823,508
Cash at Beginning of Year	14,366,624	10,543,116
Cash at End of Year	\$ 13,927,424	\$ 14,366,624
Cash Per the Statement of Financial Position		
Cash	\$ 5,290,145	\$ 5,580,815
Restricted Cash	8,637,279	8,785,809
Total Cash per the Statement of Financial Position	\$ 13,927,424	\$ 14,366,624
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	\$ 2,904,594	\$ 3,146,244

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Expenses		
6100 Payroll costs	\$ 31,816,733	\$ 27,855,351
6200 Professional and contracted services	9,515,094	7,097,443
6300 Supplies and materials	2,352,407	2,967,009
6400 Other operating costs	3,277,997	2,742,367
6500 Debt	<u>2,668,119</u>	<u>3,076,498</u>
Total Expenses	<u>\$ 49,630,350</u>	<u>\$ 43,738,668</u>

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 125,497	\$ 13,676,889	\$ 125,038
1110	Investments	-	9,300,804	-
1510	Land and improvements	-	7,225,861	-
1520	Buildings and improvements	-	63,020,761	-
1539	Furniture and equipment	-	4,713,593	9,495
1580	Construction in progress	-	1,542,937	-
Total Property and Equipment		\$ 125,497	\$ 99,480,845	\$ 134,533

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 1,791,061	\$ 1,852,538	\$ 1,848,827	\$ (3,711)
5750	Revenue from curricular	247,500	382,200	409,547	27,347
Total Local Support		<u>2,038,561</u>	<u>2,234,738</u>	<u>2,258,374</u>	<u>23,636</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	38,056,321	39,004,748	38,978,892	(25,856)
5820	State program revenues distributed by Texas Education Agency	422,136	150,423	158,988	8,565
5830	State program revenues from State of Texas Government Agencies	108,185	40,460	40,460	-
Total State Program Revenues		<u>38,586,642</u>	<u>39,195,631</u>	<u>39,178,340</u>	<u>(17,291)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	9,050,654	11,107,624	10,172,909	(934,715)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	834,204	237,428	(596,776)
5940	Federal revenues distributed directly from the Federal Government	102,386	816,121	779,891	(36,230)
Total Federal Program Revenues		<u>9,153,040</u>	<u>12,757,949</u>	<u>11,190,228</u>	<u>(1,567,721)</u>
Total Revenues		<u>49,778,243</u>	<u>54,188,318</u>	<u>52,626,942</u>	<u>(1,561,376)</u>
Expenses					
11	Instruction	26,575,098	26,547,658	25,578,410	969,248
12	Instructional resources and media services	3,900	5,900	4,993	907
13	Curriculum development and instructional staff development	2,880,928	4,220,136	3,320,774	899,362
21	Instructional leadership	450,170	382,262	384,843	(2,581)
23	School leadership	4,055,198	4,512,396	4,351,647	160,749
31	Guidance, counseling and evaluation services	708,736	1,798,053	1,659,095	138,958
33	Health services	116,315	58,932	52,354	6,578
35	Food service	1,241,935	1,448,827	1,132,146	316,681
36	Cocurricular/Extracurricular activities	270,500	529,900	443,692	86,208
41	General administration	2,835,510	2,972,351	2,853,735	118,616
51	Plant maintenance and operations	5,737,150	6,100,081	5,970,124	129,957
52	Security and monitoring services	273,977	470,477	426,787	43,690
53	Data processing services	775,290	838,512	783,631	54,881
71	Debt service	3,092,409	3,096,516	2,668,119	428,397
Total Expenses		<u>49,017,116</u>	<u>52,982,001</u>	<u>49,630,350</u>	<u>3,351,651</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(485,710)	(485,710)
Total Non-Operating Revenues (Expenses)		<u>-</u>	<u>-</u>	<u>(485,710)</u>	<u>(485,710)</u>
Change in net assets		<u>761,127</u>	<u>1,206,317</u>	<u>2,510,882</u>	<u>1,304,565</u>
Net Assets, Beginning of Year as Restated		<u>14,253,356</u>	<u>14,253,356</u>	<u>14,253,356</u>	<u>-</u>
Net Assets, End of Year		<u>\$ 15,014,483</u>	<u>\$ 15,459,673</u>	<u>\$ 16,764,238</u>	<u>\$ 1,304,565</u>

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2022

<u>Description (list each parcel separately)</u>	<u>Property Address</u>	<u>Total Assessed Value</u>	<u>Ownership Interest - Local</u>	<u>Ownership Interest - State</u>	<u>Ownership Interest - Federal</u>
RES B BLK 2 WESTWOOD CENTER SEC 1	9421 W SAM HOUSTON PKY S, Houston, TX 77099	\$ 8,233,028	\$ -	\$ 8,660,076	\$ -
RES B5-A BLK 2 WESTWOOD CENTER SEC 01	9421 W SAM HOUSTON PKY S, Houston, TX 77099	5,706,340	-	7,670,973	-
RES A BLK 1 HARMONY SCHOOL OF INGENUITY 5.2540 AC	10555 STELLA LINK RD, Houston, TX 77025	7,257,130	-	9,946,706	-
LTS 1 THRU 5 BLK 10 MARILYN ESTATES SEC 5 1.2856 AC	5435 S BRAESWOOD BLVD, Houston, TX 77096	1,316,321	-	1,377,467	-
RES F1-A SOUTH POINT BUSINESS PARK SEC 1	9115 KIRBY DR, Houston, TX 77054	10,557,328	-	12,101,645	-
RES F SOUTH POINT BUSINESS PARK SEC 1	0 KIRBY DR, Houston, TX 77054	472,356	-	included in J19	-
RES B4 BLK 2 WESTWOOD CENTER SEC 1 4.6300 AC	9303 W SAM HOUSTON PKY S 77036	6,304,215	-	11,058,052	-
Note (1)	Note (1)	-	-	\$ 19,431,703	-
Total		<u>\$ 39,846,718</u>	<u>\$ -</u>	<u>\$ 70,246,622</u>	<u>\$ -</u>

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

HOUSTON SOUTH

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2022

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$4,860,217
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$2,682,477
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 746,420
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$ 419,008

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
HOUSTON SOUTH
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Compensation	Yearly	N/A	\$ -	\$ -



HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 2,219,358	\$ 4,944,146
Restricted cash	8,274,275	3,695,135
Investments	6,472,154	6,541,761
Receivables	10,583,685	8,003,439
Other receivables	230,591	160,475
Prepays	115,387	182,918
Total Current Assets	<u>27,895,450</u>	<u>23,527,874</u>
Property and Equipment:		
Land	12,732,225	7,971,685
Buildings and improvements	37,000,017	36,221,602
Furniture and equipment	4,556,188	4,200,362
Construction in progress	1,868,761	522,408
Right-of-use asset under lease	13,418,181	12,496,293
	<u>69,575,372</u>	<u>61,412,350</u>
Less: Accumulated depreciation	<u>(18,808,001)</u>	<u>(15,410,869)</u>
	50,767,371	46,001,481
Other Assets:		
Deposits	159,006	159,006
Total Assets	<u>\$ 78,821,827</u>	<u>\$ 69,688,361</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,374,554	\$ 968,943
Accrued liabilities	5,000	500
Wages payable	4,647,333	3,810,937
Payroll taxes payable	1,664,597	1,483,007
Interest payable	729,606	680,062
Deferred revenue	162,644	62,198
Current portion of lease liability	2,084,294	1,747,146
Current portion of bonds payable	648,040	622,427
Total Current Liabilities	<u>11,316,068</u>	<u>9,375,220</u>
Long-Term Liabilities:		
Lease liability net of current portion	7,627,230	8,887,323
Notes payable	10,425,312	4,351,010
Bonds payable net of premium, discount, issuance costs and current portion	36,231,242	36,133,226
Total Liabilities	<u>65,599,852</u>	<u>58,746,779</u>
Net Assets:		
Without donor restrictions	4,876,304	2,859,812
With donor restrictions	8,345,671	8,081,770
Total Net Assets	<u>13,221,975</u>	<u>10,941,582</u>
Total Liabilities and Net Assets	<u>\$ 78,821,827</u>	<u>\$ 69,688,361</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2021</u>
Revenues				
Local Support:				
5740	\$ 4,194,760	\$ -	\$ 4,194,760	\$ 555,491
5750	427,956	1,321	429,277	71,317
	<u>4,622,716</u>	<u>1,321</u>	<u>4,624,037</u>	<u>626,808</u>
Total Local Support				
State Program Revenues:				
5810	-	43,353,747	43,353,747	44,775,737
5820	-	228,259	228,259	389,648
5830	-	24,394	24,394	40,935
	<u>-</u>	<u>43,606,400</u>	<u>43,606,400</u>	<u>45,206,320</u>
Total State Program Revenues				
Federal Program Revenues:				
5920	-	9,131,669	9,131,669	3,188,041
5930	-	239,412	239,412	444,314
5940	-	646,592	646,592	446,934
	<u>-</u>	<u>10,017,673</u>	<u>10,017,673</u>	<u>4,079,289</u>
Total Federal Program Revenues				
Net Assets Released from Restrictions:				
	53,237,571	(53,237,571)	-	-
	<u>57,860,287</u>	<u>387,823</u>	<u>58,248,110</u>	<u>49,912,417</u>
Total Revenues				
Expenses				
11	30,287,271	-	30,287,271	25,580,316
12	4,240	-	4,240	248
13	3,373,661	-	3,373,661	2,973,950
21	203,767	-	203,767	240,200
23	4,851,742	-	4,851,742	4,215,832
31	1,412,635	-	1,412,635	844,232
33	54,361	-	54,361	238,051
34	656,914	-	656,914	2,850
35	1,392,033	-	1,392,033	598,979
36	416,476	-	416,476	202,204
41	2,975,789	-	2,975,789	3,036,718
51	7,545,076	-	7,545,076	6,222,160
52	94,488	-	94,488	70,526
53	754,942	-	754,942	596,689
71	1,820,400	-	1,820,400	1,769,244
	<u>55,843,795</u>	<u>-</u>	<u>55,843,795</u>	<u>46,592,199</u>
Total Expenses				

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2021</u>
Change in net assets from operations	\$ 2,016,492	\$ 387,823	\$ 2,404,315	\$ 3,320,218
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(123,922)	(123,922)	(35,421)
Total Non-Operating Revenues (Expenses)	-	(123,922)	(123,922)	(35,421)
Total Change in net assets	<u>2,016,492</u>	<u>263,901</u>	<u>2,280,393</u>	<u>3,284,797</u>
Net Assets, Beginning of Year	<u>2,859,812</u>	<u>8,081,770</u>	<u>10,941,582</u>	<u>7,656,785</u>
Net Assets, End of Year	<u>\$ 4,876,304</u>	<u>\$ 8,345,671</u>	<u>\$ 13,221,975</u>	<u>\$ 10,941,582</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 2,280,393	\$ 3,284,797
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,397,132	3,140,204
Amortization - premium on bonds	(135,749)	(114,020)
Amortization - bond issuance costs	26,939	25,286
(Increase) Decrease in accounts receivable	(2,580,246)	(62,403)
(Increase) Decrease in other receivables	(70,116)	59,426
(Increase) Decrease in prepaids	67,531	(182,164)
Increase (Decrease) in deposits	-	(33,117)
Increase (Decrease) in accounts payable	405,611	(145,054)
Increase (Decrease) in wages payable	836,396	377,354
Increase (Decrease) in payroll taxes payable	181,590	138,684
Increase (Decrease) in deferred revenue	100,446	-
Increase (Decrease) in accrued liabilities	4,500	500
Increase (Decrease) in interest payable	49,544	(9,320)
Net Cash Provided (Used) by Operating Activities	<u>4,563,971</u>	<u>6,480,173</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(8,163,022)	(5,340,785)
Purchase of investment	69,607	(112,662)
Net Cash Provided (Used) by Investing Activities	<u>(8,093,415)</u>	<u>(5,453,447)</u>
Cash Flows from Financing Activities		
Repayment of bonds and reclassification of bonds	1,226,313	
Proceeds from loan	6,074,302	4,351,010
Repayment of bonds	(993,874)	(594,645)
Payments on lease liability	(922,945)	(1,510,515)
Net Cash Provided (Used) by Financing Activities	<u>5,383,796</u>	<u>2,245,850</u>
Net increase (decrease) in cash	1,854,352	3,272,576
Cash at Beginning of Year	<u>8,639,281</u>	<u>5,366,705</u>
Cash at End of Year	<u>\$ 10,493,633</u>	<u>\$ 8,639,281</u>
Cash Per the Statement of Financial Position		
Cash	\$ 2,219,358	\$ 4,944,146
Restricted Cash	8,274,275	3,695,135
Total Cash per the Statement of Financial Position	<u>\$ 10,493,633</u>	<u>\$ 8,639,281</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 1,850,888</u>	<u>\$ 1,837,924</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

		<u>2022</u>	<u>2021</u>
Expenses			
6100	Payroll costs	\$ 37,225,681	\$ 30,858,617
6200	Professional and contracted services	9,955,856	8,620,658
6300	Supplies and materials	2,694,897	3,296,710
6400	Other operating costs	4,146,961	2,046,970
6500	Debt	<u>1,820,400</u>	<u>1,769,244</u>
Total Expenses		<u>\$ 55,843,795</u>	<u>\$ 46,592,199</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 295,653	\$ 10,172,174	\$ 25,806
1110	Investments	-	6,472,154	-
1510	Land and improvements	-	12,732,225	-
1520	Buildings and improvements	1,124,900	35,646,917	228,200
1529	Right-to-use assets under leases	-	13,418,181	-
1539	Furniture and equipment	43,871	4,453,652	58,665
1580	Construction in progress	-	1,868,761	-
Total Property and Equipment		\$ 1,464,424	\$ 84,764,064	\$ 312,671

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 358,467	\$ 4,279,590	\$ 4,194,760	\$ (84,830)
5750	Revenue from curricular	262,500	430,321	429,277	(1,044)
Total Local Support		<u>620,967</u>	<u>4,709,911</u>	<u>4,624,037</u>	<u>(85,874)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	46,384,445	43,141,674	43,353,747	212,073
5820	State program revenues distributed by Texas Education Agency	520,200	228,277	228,259	(18)
5830	State program revenues distributed directly from other state agencies	73,839	24,394	24,394	-
Total State Program Revenues		<u>46,978,484</u>	<u>43,394,345</u>	<u>43,606,400</u>	<u>212,055</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	9,826,734	9,646,403	9,131,669	(514,734)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	714,982	239,412	(475,570)
5940	Federal revenues distributed directly from the Federal Government	289,534	1,106,934	646,592	(460,342)
Total Federal Program Revenues		<u>10,116,268</u>	<u>11,468,319</u>	<u>10,017,673</u>	<u>(1,450,646)</u>
Total Revenues		<u>57,715,719</u>	<u>59,572,575</u>	<u>58,248,110</u>	<u>(1,324,465)</u>
Expenses					
11	Instruction	31,483,760	30,853,273	30,287,271	566,002
12	Instructional resources and media services	2,300	4,300	4,240	60
13	Curriculum development and instructional staff development	2,893,407	4,453,095	3,373,661	1,079,434
21	Instructional leadership	242,705	218,833	203,767	15,066
23	School leadership	4,404,718	4,984,704	4,851,742	132,962
31	Guidance, counseling and evaluation services	922,146	1,551,760	1,412,635	139,125
33	Health services	251,750	60,941	54,361	6,580
34	Student (pupil) transportation	635,098	648,076	656,914	(8,838)
35	Food service	2,164,559	1,749,813	1,392,033	357,780
36	Cocurricular/Extracurricular activities	272,500	493,166	416,476	76,690
41	General administration	3,311,371	3,019,839	2,975,789	44,050
51	Plant maintenance and operations	7,470,574	7,705,739	7,545,076	160,663
52	Security and monitoring services	101,875	111,875	94,488	17,387
53	Data processing services	817,978	790,073	754,942	35,131
71	Debt service	1,813,287	1,815,205	1,820,400	(5,195)
Total Expenses		<u>56,788,028</u>	<u>58,460,692</u>	<u>55,843,795</u>	<u>2,616,897</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(123,922)	(123,922)
Total Non-Operating Revenues (Expenses)		<u>-</u>	<u>-</u>	<u>(123,922)</u>	<u>(123,922)</u>
Change in net assets		<u>927,691</u>	<u>1,111,883</u>	<u>2,280,393</u>	<u>1,168,510</u>
Net Assets, Beginning of Year		<u>10,941,582</u>	<u>10,941,582</u>	<u>10,941,582</u>	<u>-</u>
Net Assets, End of Year		<u>\$ 11,869,273</u>	<u>\$ 12,053,465</u>	<u>\$ 13,221,975</u>	<u>\$ 1,168,510</u>

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2022

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
LOT A T S A ADDN	930 E RUNDBERG LN TX 78753	\$ 5,399,897	\$ 33,521	\$ 7,293,039	\$ -
S8861 - MACONDA PARK EAST SEC 1 BLK A RESUB (LT 1 BLK A RESU, BLOCK A, Lot 1B, ACRES 8.3017	13415 N FM 620, AUSTIN, TX 78759	21,490,672	-	16,236,049	-
LOT 3A BLK A ANDERSON MILL NAUMANN AMD LT 3 RESUB LTS 10 & 11 HATCH TRACT & LOT 6 BLK A ANDERSON MILL PARK	12200 ANDERSON MILL RD TX 78613	7,940,374	79,095	7,642,728	228,200
Note (1)	Note (1)	-	1,012,284	17,207,326	-
Total		\$ 34,830,943	\$ 1,124,900	\$ 48,379,142	\$ 228,200

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

CENTRAL TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2022

<u>Data Codes</u>	<u>Section A: Compensatory Education Programs</u>	<u>Responses</u>
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$4,319,911
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$2,458,212
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	\$1,088,367
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PICs 25, 35)	\$ 612,087

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
CENTRAL TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A	\$ -	\$ -



HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 2,906,598	\$ 4,745,096
Restricted cash	7,590,795	4,574,703
Investments	7,571,168	7,690,245
Receivables	12,872,015	9,430,040
Other receivables	160,631	238,455
Prepays	120,256	164,301
Total Current Assets	<u>31,221,463</u>	<u>26,842,840</u>
Property and Equipment:		
Land	8,172,338	8,040,923
Buildings and improvements	51,528,261	49,962,846
Furniture and equipment	5,492,091	4,544,391
Construction in progress	14,831,456	1,978,883
Right-of-use asset under financing lease	5,392,854	4,906,228
	<u>85,417,000</u>	<u>69,433,271</u>
Less: Accumulated depreciation and amortization	<u>(18,619,099)</u>	<u>(15,702,096)</u>
	66,797,901	53,731,175
Other Assets:		
Deposits	26,890	26,890
Total Assets	<u>\$ 98,046,254</u>	<u>\$ 80,600,905</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 2,812,203	\$ 1,523,473
Accrued liabilities	58,974	58,974
Wages payable	5,123,518	4,539,395
Payroll taxes payable	1,880,474	1,847,985
Interest payable	1,110,235	870,573
Deferred revenue	98,258	-
Current portion of lease liability	880,367	783,399
Current portion of bonds payable	838,850	802,050
Total Current Liabilities	<u>12,802,879</u>	<u>10,425,849</u>
Long-Term Liabilities:		
Lease liability net of current portion	2,383,712	2,816,070
Notes payable net of current portion	927,381	5,577,941
Bonds payable net of premium, discount, issuance costs and current portion	67,183,034	47,623,193
Total Liabilities	<u>83,297,006</u>	<u>66,443,053</u>
Net Assets:		
Without donor restrictions	2,664,154	2,586,398
With donor restrictions	12,085,094	11,571,454
Total Net Assets	<u>14,749,248</u>	<u>14,157,852</u>
Total Liabilities and Net Assets	<u>\$ 98,046,254</u>	<u>\$ 80,600,905</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Revenues				
Local Support:				
5740	\$ 600,890	\$ -	\$ 600,890	\$ 585,268
5750	448,975	335	449,310	107,693
	1,049,865	335	1,050,200	692,961
State Program Revenues:				
5810	-	47,786,107	47,786,107	47,773,511
5820	-	263,776	263,776	476,335
5830	-	30,222	30,222	10,394
	-	48,080,105	48,080,105	48,260,240
Federal Program Revenues:				
5920	-	13,700,772	13,700,772	5,201,096
5930	-	227,453	227,453	356,625
5940	-	915,806	915,806	750,152
	-	14,844,031	14,844,031	6,307,873
Net Assets Released from Restrictions:				
	62,287,080	(62,287,080)	-	-
Total Revenues	63,336,945	637,391	63,974,336	55,261,074
Expenses				
11	35,071,036	-	35,071,036	29,748,638
12	171	-	171	1,011
13	4,101,066	-	4,101,066	3,705,261
21	247,821	-	247,821	230,354
23	5,338,822	-	5,338,822	4,905,189
31	1,549,220	-	1,549,220	966,700
33	53,513	-	53,513	69,642
34	85,187	-	85,187	-
35	2,061,680	-	2,061,680	1,449,863
36	383,112	-	383,112	210,466
41	4,115,209	-	4,115,209	3,422,567
51	6,580,169	-	6,580,169	5,381,861
52	432,093	-	432,093	265,723
53	955,576	-	955,576	843,743
71	2,284,514	-	2,284,514	2,253,482
Total Expenses	63,259,189	-	63,259,189	53,454,500

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2021</u>
Change in net assets from operations	\$ 77,756	\$ 637,391	\$ 715,147	\$ 1,806,574
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(123,751)	(123,751)	(14,621)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(123,751)</u>	<u>(123,751)</u>	<u>(14,621)</u>
Total change in net assets	<u>77,756</u>	<u>513,640</u>	<u>591,396</u>	<u>1,791,953</u>
Net Assets, Beginning of Year	<u>2,586,398</u>	<u>11,571,454</u>	<u>14,157,852</u>	<u>12,365,899</u>
Net Assets, End of Year	<u>\$ 2,664,154</u>	<u>\$ 12,085,094</u>	<u>\$ 14,749,248</u>	<u>\$ 14,157,852</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 591,396	\$ 1,791,953
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of right-to-use assets under leases	2,917,003	2,360,518
Amortization - premium on bonds	(159,791)	(167,400)
Amortization - bond issuance costs	(98,687)	33,033
(Increase) Decrease in receivables	(3,441,975)	(848,414)
(Increase) Decrease in other receivables	77,824	(143,246)
(Increase) Decrease in prepaids	44,045	
Increase (Decrease) in accounts payable	1,288,730	560,537
Increase (Decrease) in wages payable	584,123	856,636
Increase (Decrease) in payroll taxes payable	32,489	305,192
Increase (Decrease) in accrued liabilities	-	49,235
Increase (Decrease) in interest payable	239,662	(14,153)
Increase (Decrease) in deferred revenue	98,258	-
Net Cash Provided (Used) by Operating Activities	2,173,077	4,622,393
Cash Flows from Investing Activities		
Purchase of fixed assets	(15,983,729)	(5,765,102)
Purchase of investment	119,077	(185,485)
Net Cash Provided (Used) by Investing Activities	(15,864,652)	(5,950,587)
Cash Flows from Financing Activities		
Payment on lease liability	(335,390)	(742,177)
Proceeds from bonds and reclassification of bonds	20,673,183	
Repayment of bonds	(818,064)	(764,951)
Repayment of loans	(4,650,560)	4,713,922
Net Cash Provided (Used) by Financing Activities	14,869,169	3,206,794
Net increase (decrease) in cash	1,177,594	1,878,600
Cash at Beginning of Year	9,319,799	7,441,199
Cash at End of Year	\$ 10,497,393	\$ 9,319,799
Cash Per the Statement of Financial Position		
Cash	\$ 2,906,598	\$ 4,745,096
Restricted Cash	7,590,795	4,574,703
Total Cash per the Statement of Financial Position	\$ 10,497,393	\$ 9,319,799
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	\$ 2,109,551	\$ 2,365,831

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Expenses		
6100 Payroll costs	\$ 42,467,206	\$ 35,272,465
6200 Professional and contracted services	11,287,013	8,783,619
6300 Supplies and materials	2,858,637	3,758,885
6400 Other operating costs	4,361,819	3,386,049
6500 Debt	<u>2,284,514</u>	<u>2,253,482</u>
Total Expenses	<u>\$ 63,259,189</u>	<u>\$ 53,454,500</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1110	Cash	\$ 156,599	\$ 10,036,048	\$ 304,746
1110	Investments	-	7,571,168	-
1510	Land and improvements	-	8,172,338	-
1520	Buildings and improvements	60,542	51,467,719	-
1529	Right-of-use asset under financing leas	-	5,392,854	-
1539	Furniture and equipment	8,240	5,483,851	-
1580	Construction in progress	-	14,831,456	-
	Total Property and Equipment	<u>\$ 225,381</u>	<u>\$ 102,955,434</u>	<u>\$ 304,746</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Local Support:				
5740	\$ 506,787	\$ 2,190,879	\$ 600,890	\$ (1,589,989)
5750	295,500	504,835	449,310	(55,525)
Total Local Support	<u>802,287</u>	<u>2,695,714</u>	<u>1,050,200</u>	<u>(1,645,514)</u>
State Program Revenues:				
5810	48,113,657	47,838,082	47,786,107	(51,975)
5820				
	489,459	270,525	263,776	(6,749)
5830				
	59,132	30,222	30,222	-
Total State Program Revenues	<u>48,662,248</u>	<u>48,138,829</u>	<u>48,080,105</u>	<u>(58,724)</u>
Federal Program Revenues:				
5920	11,454,818	14,055,380	13,700,772	(354,608)
5930	-	941,694	227,453	(714,241)
5940	199,682	1,141,395	915,806	(225,589)
Total Federal Program Revenues	<u>11,654,500</u>	<u>16,138,469</u>	<u>14,844,031</u>	<u>(1,294,438)</u>
Total Revenues	<u>61,119,035</u>	<u>66,973,012</u>	<u>63,974,336</u>	<u>(2,998,676)</u>
Expenses				
11	34,027,021	36,304,192	35,071,036	1,233,156
12	115	205	171	34
13				
	3,506,755	4,946,771	4,101,066	845,705
21	230,656	252,312	247,821	4,491
23	5,202,364	5,619,039	5,338,822	280,217
31	779,723	1,769,623	1,549,220	220,403
33	78,449	57,693	53,513	4,180
34	40,000	93,200	85,187	8,013
35	1,743,433	2,253,076	2,061,680	191,396
36	300,000	509,610	383,112	126,498
41	3,573,379	4,188,821	4,115,209	73,612
51	6,920,616	6,775,068	6,580,169	194,899
52	337,635	483,820	432,093	51,727
53	1,070,550	1,033,220	955,576	77,644
71	2,346,065	2,350,229	2,284,514	65,715
Total Expenses	<u>60,156,761</u>	<u>66,636,879</u>	<u>63,259,189</u>	<u>3,377,690</u>
Non-Operating Revenues (Expenses)				
8989	-	-	(123,751)	(123,751)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(123,751)</u>	<u>(123,751)</u>
	962,274	336,133	591,396	255,263
Net Assets, Beginning of Year	<u>14,157,852</u>	<u>14,157,852</u>	<u>14,157,852</u>	<u>-</u>
Net Assets, End of Year	<u>\$ 15,120,126</u>	<u>\$ 14,493,985</u>	<u>\$ 14,749,248</u>	<u>\$ 255,263</u>

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2022

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
NCB 19127 (NEW HARMONY SCIENCE ACADEMY),	8505 LAKESIDE PKWY SAN ANTONIO, TX 78245	\$ 12,663,840	\$ -	\$ 10,364,472	\$ -
CB 5073D BLK 22 LOT 1 (HARMONY SCHOOL SUBD)	GLEN MONT DR SAN ANTONIO, TX 78239	332,690	-	11,532,681	-
LOT 1-A BLK 488 ED REPLAT	4401 SAN FRANCISCO AVE LAREDO, TX 78041	5,034,830	-	5,797,624	-
MANN SUBDIVISION LOT 1 BLK 1	1124 CENTRAL BLVD BROWNSVILLE, TX	1,347,577	-	4,903,935	-
EL JARDIN SUBDIVISION SHARE 19 BLK 15, 10 ACRES OUT OF 40.2500 ACRES	3451 DANA AVE BROWNSVILLE, TX	4,126,821	-	9,514,143	-
LOT 1-B BLK 489 ED REPLAT	SAN FRANCISCO AVE LAREDO, TX 78040	4,021,480	-	6,287,930	-
Note (1)	Note (1)	-	60,542	11,239,272	-
Total		\$ 27,527,238	\$ 60,542	\$ 59,640,057	\$ -

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

SOUTH TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2022

<u>Data Codes</u>	<u>Section A: Compensatory Education Programs</u>	<u>Responses</u>
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$6,025,838
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$3,359,520
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 931,511
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$ 534,719

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
SOUTH TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A	\$ -	\$ -



HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 3,201,679	\$ 2,789,536
Restricted cash	9,594,706	1,001,700
Investments	15,153,952	15,633,168
Receivables	10,878,027	7,837,876
Other receivables	1,037,061	2,008,996
Prepays	114,198	155,335
Total Current Assets	<u>39,979,623</u>	<u>29,426,611</u>
Property and Equipment:		
Land	5,147,703	5,147,703
Buildings and improvements	17,594,915	16,664,465
Furniture and equipment	5,579,608	4,498,223
Construction in progress	25,748,598	5,291,271
Right-to-use asset	27,711,445	27,711,445
	<u>81,782,269</u>	<u>59,313,107</u>
Less: Accumulated depreciation and amortization	<u>(16,775,330)</u>	<u>(14,357,380)</u>
	65,006,939	44,955,727
Other Assets:		
Deposits	22,613	22,613
Total Assets	<u>\$ 105,009,175</u>	<u>\$ 74,404,951</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 4,586,362	\$ 2,177,890
Wages payable	4,506,894	3,725,800
Payroll taxes payable	1,562,665	1,471,871
Interest payable	632,421	180,190
Deferred revenue	88,490	4,245
Current portion of lease liability	789,944	712,769
Current portion of bonds payable	209,333	200,035
Total Current Liabilities	<u>12,376,109</u>	<u>8,472,800</u>
Long-Term Liabilities:		
Lease liability	24,901,837	25,691,780
Notes payable	770,260	14,139,851
Bonds payable net of premium, discount, issuance costs and current portion	49,686,313	9,548,991
Total Liabilities	<u>87,734,519</u>	<u>57,853,422</u>
Net Assets:		
Without donor restrictions	959,983	903,759
With donor restrictions	16,314,673	15,647,770
Total Net Assets	<u>17,274,656</u>	<u>16,551,529</u>
Total Liabilities and Net Assets	<u>\$ 105,009,175</u>	<u>\$ 74,404,951</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Revenues				
Local Support:				
5740	\$ 185,134	\$ -	\$ 185,134	\$ 232,589
5750	482,663	3,548	486,211	93,718
	Total Local Support	667,797	671,345	326,307
State Program Revenues:				
5810	-	46,432,391	46,432,391	42,242,378
5820	-	177,814	177,814	368,746
5830	-	32,716	32,716	48,500
	Total State Program Revenues	46,642,921	46,642,921	42,659,624
Federal Program Revenues:				
5920	-	9,959,795	9,959,795	4,744,254
5930	-	255,847	255,847	392,069
5940	-	754,916	754,916	669,453
	Total Federal Program Revenues	10,970,558	10,970,558	5,805,776
Net assets released from restrictions:				
	Restrictions satisfied by payments	56,403,135	(56,403,135)	-
	Total Revenues	57,070,932	58,284,824	48,791,707
Expenses				
11	Instruction	30,000,984	-	30,000,984
12	Instructional resources and media services	473	-	473
13	Curriculum development and instructional staff development	3,633,764	-	3,633,764
21	Instructional leadership	309,000	-	309,000
23	School leadership	4,553,827	-	4,553,827
31	Guidance, counseling and evaluation services	1,364,911	-	1,364,911
33	Health services	76,403	-	76,403
34	Student transportation	85,495	-	85,495
35	Food service	1,976,482	-	1,976,482
36	Cocurricular/Extracurricular activities	459,291	-	459,291
41	General administration	3,566,403	-	3,566,403
51	Plant maintenance and operations	7,531,868	-	7,531,868
52	Security and monitoring services	517,901	-	517,901
53	Data processing services	979,368	-	979,368
71	Debt service	1,958,538	-	1,958,538
	Total Expenses	57,014,708	57,014,708	46,565,772

HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Change in net assets from operations	\$ 56,224	\$ 1,213,892	\$ 1,270,116	\$ 2,225,935
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on early extinguishment of bonds	-	(546,989)	(546,989)	(131,015)
Total Non-Operating Revenues (Expenses)	-	(546,989)	(546,989)	(131,015)
Total change in net assets	56,224	666,903	723,127	2,094,920
Net Assets, Beginning of Year	903,759	15,647,770	16,551,529	14,456,609
Net Assets, End of Year	<u>\$ 959,983</u>	<u>\$ 16,314,673</u>	<u>\$ 17,274,656</u>	<u>\$ 16,551,529</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 723,127	\$ 2,094,920
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of right-to-use assets under leases	2,417,950	2,365,346
Amortization - premium on bonds	(311,816)	(32,206)
Amortization - bond issuance costs	73,685	6,337
(Increase) Decrease in accounts receivable	(3,040,151)	(1,670,977)
(Increase) Decrease in other receivables	971,935	(1,884,377)
(Increase) Decrease in prepaids	41,137	-
Increase (Decrease) in due to state	-	(150,835)
Increase (Decrease) in accounts payable	2,408,472	1,174,819
Increase (Decrease) in wages payable	781,094	688,355
Increase (Decrease) in payroll taxes payable	90,794	247,930
Increase (Decrease) in deferred revenue	84,245	-
Increase (Decrease) in accrued liabilities	-	(1,714)
Increase (Decrease) in interest payable	452,231	(3,215)
Net Cash Provided (Used) by Operating Activities	4,692,703	2,834,378
Cash Flows from Investing Activities		
Purchase of fixed assets	(22,469,162)	(15,214,586)
Sale of investment	479,216	(7,759,426)
Net Cash Provided (Used) by Investing Activities	(21,989,946)	(22,974,012)
Cash Flows from Financing Activities		
Proceeds from bonds and reclassification of bonds	40,584,641	
Repayment of loan	(13,369,591)	13,702,306
Repayment of bonds	(199,890)	(190,185)
Repayment of leases	(712,768)	(637,376)
Net Cash Provided (Used) by Financing Activities	26,302,392	12,874,745
Net increase (decrease) in cash	9,005,149	(7,264,889)
Cash at Beginning of Year	3,791,236	11,056,125
Cash at End of Year	\$ 12,796,385	\$ 3,791,236
Cash Per the Statement of Financial Position		
Cash	\$ 3,201,679	\$ 2,789,536
Restricted Cash	9,594,706	1,001,700
Total Cash per the Statement of Financial Position	\$ 12,796,385	\$ 3,791,236
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	\$ 1,877,261	\$ 1,629,026

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Expenses		
6100 Payroll costs	\$ 36,696,592	\$ 30,240,523
6200 Professional and contracted services	12,643,149	7,694,462
6300 Supplies and materials	2,736,116	3,942,107
6400 Other operating costs	2,980,313	3,045,537
6500 Debt	<u>1,958,538</u>	<u>1,643,143</u>
Total Expenses	<u>\$ 57,014,708</u>	<u>\$ 46,565,772</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 454,808	\$ 12,036,037	\$ 305,540
1110	Investments	-	15,153,952	-
1510	Land and improvements	-	5,147,703	-
1520	Buildings and improvements	53,675	17,336,428	204,812
1529	Assets under capital lease	-	27,711,445	-
1539	Furniture and equipment	-	5,520,312	59,296
1580	Construction in progress	-	25,748,598	-
Total Property and Equipment		\$ 508,483	\$ 108,654,475	\$ 569,648

HARMONY PUBLIC SCHOOLS
WEST TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 168,170	\$ 540,601	\$ 185,134	\$ (355,467)
5750	Revenue from curricular	232,000	493,355	486,211	(7,144)
	Total Local Support	<u>400,170</u>	<u>1,033,956</u>	<u>671,345</u>	<u>(362,611)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	44,628,724	46,435,676	46,432,391	(3,285)
5820	State program revenues distributed by Texas Education Agency	507,265	177,811	177,814	3
5830	State program revenues distributed directly from other state agencies	100,983	32,716	32,716	-
	Total State Program Revenues	<u>45,236,972</u>	<u>46,646,203</u>	<u>46,642,921</u>	<u>(3,282)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	10,777,875	10,466,550	9,959,795	(506,755)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	759,153	255,847	(503,306)
5940	Federal revenues distributed directly from the Federal Government	194,886	949,122	754,916	(194,206)
	Total Federal Program Revenues	<u>10,972,761</u>	<u>12,174,825</u>	<u>10,970,558</u>	<u>(1,204,267)</u>
	Total Revenues	<u>56,609,903</u>	<u>59,854,984</u>	<u>58,284,824</u>	<u>(1,570,160)</u>
Expenses					
11	Instruction	32,016,162	30,851,467	30,000,984	850,483
12	Instructional resources and media services	-	525	473	52
13	Curriculum development and instructional staff development	3,118,177	4,271,934	3,633,764	638,170
21	Instructional leadership	246,631	309,154	309,000	154
23	School leadership	4,315,122	4,705,375	4,553,827	151,548
31	Guidance, counseling and evaluation services	702,007	1,199,456	1,364,911	(165,455)
33	Health services	123,470	79,199	76,403	2,796
34	Student transportation	-	87,097	85,495	1,602
35	Food service	1,851,323	2,359,949	1,976,482	383,467
36	Cocurricular/Extracurricular activities	243,000	542,095	459,291	82,804
41	General administration	3,129,150	3,524,342	3,566,403	(42,061)
51	Plant maintenance and operations	6,638,912	7,647,548	7,531,868	115,680
52	Security and monitoring services	315,500	553,842	517,901	35,941
53	Data processing services	974,856	1,049,226	979,368	69,858
71	Debt service	2,043,020	2,043,573	1,958,538	85,035
	Total Expenses	<u>55,717,330</u>	<u>59,224,782</u>	<u>57,014,708</u>	<u>2,210,074</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(546,989)	(546,989)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(546,989)</u>	<u>(546,989)</u>
	Change in net assets	892,573	630,202	723,127	92,925
	Net Assets, Beginning of Year as Restated	<u>16,551,529</u>	<u>16,551,529</u>	<u>16,551,529</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 17,444,102</u>	<u>\$ 17,181,731</u>	<u>\$ 17,274,656</u>	<u>\$ 92,925</u>

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2022

<u>Description (list each parcel separately)</u>	<u>Property Address</u>	<u>Total Assessed Value</u>	<u>Ownership Interest - Local</u>	<u>Ownership Interest - State</u>	<u>Ownership Interest - Federal</u>
CMP FURN MACH	5210 FAIRBANKS DR EL PASO, TX 79924	\$ 1,293,410	\$ -	\$ 4,128,737	\$ -
NANCY L 5 THRU 10 & ADA HOOD BLK 1 L 6 THRU 10 & OL 1 BLK E SEC 2 AB 489	1516 53RD ST, LUBBOCK, TX 79412	2,270,829	-	4,288,279	-
Note (1)	Note (1)	-	53,675	14,067,116	-
Total		<u>\$ 3,564,239</u>	<u>\$ 53,675</u>	<u>\$ 22,484,131</u>	<u>\$ -</u>

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

WEST TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2022

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$5,044,121
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$2,794,153
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 646,589
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$ 366,821

HARMONY PUBLIC SCHOOLS

WEST TEXAS

SCHEDULE OF RELATED PARTY TRANSACTIONS

For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
WEST TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A		\$ -



HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 8,967,042	\$ 8,377,320
Restricted cash	11,922,956	6,348,847
Investments	8,833,102	9,238,329
Receivables	15,303,758	11,843,332
Other receivables	422,694	767,457
Prepays	150,563	205,712
Total Current Assets	<u>45,600,115</u>	<u>36,780,997</u>
Property and Equipment:		
Land	27,853,037	15,428,388
Buildings and improvements	71,526,651	67,912,097
Furniture and equipment	7,118,988	5,513,192
Right-of-use asset	19,600,221	19,600,222
Construction in progress	21,304,703	3,702,404
	<u>147,403,600</u>	<u>112,156,303</u>
Less: Accumulated depreciation and amortization	<u>(28,453,142)</u>	<u>(24,884,033)</u>
	118,950,458	87,272,270
Other Assets:		
Deposits	5,500	5,500
Total Assets	<u>\$ 164,556,073</u>	<u>\$ 124,058,767</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 5,973,159	\$ 1,893,595
Wages payable	6,568,523	5,016,154
Payroll taxes payable	2,345,504	2,039,750
Interest payable	1,660,661	1,113,883
Deferred revenue	127,220	-
Current portion of lease liability	742,304	662,003
Current portion of bonds payable	1,036,175	994,991
Total Current Liabilities	<u>18,453,546</u>	<u>11,720,376</u>
Long-Term Liabilities:		
Lease liability	17,290,177	18,032,481
Notes payable net of current portion	7,456,431	18,948,900
Bonds payable net of premium, discount, issuance costs and current portion	<u>104,096,317</u>	<u>59,952,870</u>
Total Long-Term Liabilities	<u>128,842,925</u>	<u>96,934,251</u>
Total Liabilities	<u>147,296,471</u>	<u>108,654,627</u>
Net Assets:		
Without donor restrictions	2,783,866	1,459,521
With donor restrictions	<u>14,475,736</u>	<u>13,944,619</u>
Total Net Assets	<u>17,259,602</u>	<u>15,404,140</u>
Total Liabilities and Net Assets	<u>\$ 164,556,073</u>	<u>\$ 124,058,767</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Revenues				
Local Support:				
5740	\$ 1,686,393	\$ -	\$ 1,686,393	\$ 786,885
5750	750,741	2,864	753,605	279,266
	Total Local Support	2,864	2,439,998	1,066,151
State Program Revenues:				
5810	-	61,665,187	61,665,187	60,936,815
5820	-	301,297	301,297	464,080
5830	-	38,227	38,227	117,971
	Total State Program Revenues	62,004,711	62,004,711	61,518,866
Federal Program Revenues:				
5920	-	12,229,372	12,229,372	4,812,622
5930	-	305,547	305,547	763,089
5940	-	1,294,423	1,294,423	842,826
	Total Federal Program Revenues	13,829,342	13,829,342	6,418,537
Net assets released from restrictions:				
	Restrictions satisfied by payments	74,723,957	(74,723,957)	-
	Total Revenues	77,161,091	1,112,960	78,274,051
Expenses				
11	42,338,624	-	42,338,624	35,461,828
12	5,213	-	5,213	1,349
13	4,840,329	-	4,840,329	4,004,214
21	267,550	-	267,550	241,451
23	5,948,410	-	5,948,410	5,512,145
31	2,107,050	-	2,107,050	854,425
33	147,555	-	147,555	140,828
34	283,320	-	283,320	73,349
35	2,163,945	-	2,163,945	1,131,709
36	622,421	-	622,421	480,125
41	3,381,049	-	3,381,049	3,782,747
51	8,114,719	-	8,114,719	8,033,287
52	456,723	-	456,723	191,548
53	1,062,401	-	1,062,401	833,352
71	4,097,437	-	4,097,437	2,919,698
	Total Expenses	-	75,836,746	63,662,055

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2021</u>
Change in net assets from operations	\$ 1,324,345	\$ 1,112,960	\$ 2,437,305	\$ 5,341,499
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(581,843)	(581,843)	(132,477)
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(581,843)</u>	<u>(581,843)</u>	<u>(132,477)</u>
Total Change in Net Assets	<u>1,324,345</u>	<u>531,117</u>	<u>1,855,462</u>	<u>5,209,022</u>
Net Assets, Beginning of Year	<u>1,459,521</u>	<u>13,944,619</u>	<u>15,404,140</u>	<u>10,195,118</u>
Net Assets, End of Year	<u>\$ 2,783,866</u>	<u>\$ 14,475,736</u>	<u>\$ 17,259,602</u>	<u>\$ 15,404,140</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,855,462	\$ 5,209,022
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,569,109	3,141,650
Amortization - premium on bonds	(322,517)	(240,748)
Amortization - bond issuance costs	103,438	40,261
(Increase) Decrease in receivables	(3,460,426)	(1,569,861)
(Increase) Decrease in other receivables	344,763	(563,232)
(Increase) Decrease in prepaids	55,149	(202,212)
Increase (Decrease) in deferrred revenue	127,220	-
Increase (Decrease) in accounts payable	4,079,564	474,226
Increase (Decrease) in wages payable	1,552,369	676,043
Increase (Decrease) in payroll taxes payable	305,754	226,329
Increase (Decrease) in interest payable	546,778	(16,533)
Net Cash Provided (Used) by Operating Activities	<u>8,756,663</u>	<u>7,174,945</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(35,247,297)	(9,226,979)
Sale of investments	405,227	(64,133)
Net Cash Provided (Used) by Investing Activities	<u>(34,842,070)</u>	<u>(9,291,112)</u>
Cash Flows from Financing Activities		
Proceeds from bonds and reclassification of bonds	48,923,472	
Lease liability payment	(662,003)	(606,200)
Repayment of loans	(11,492,469)	-
Repayment of bonds	(4,519,762)	(947,801)
Proceeds from loans	-	7,718,293
Net Cash Provided (Used) by Financing Activities	<u>32,249,238</u>	<u>6,164,292</u>
Net increase (decrease) in cash	6,163,831	4,048,125
Cash at Beginning of Year	<u>14,726,167</u>	<u>10,678,042</u>
Cash at End of Year	<u>\$ 20,889,998</u>	<u>\$ 14,726,167</u>
Cash Per the Statement of Financial Position		
Cash	\$ 8,967,042	\$ 8,377,320
Restricted Cash	11,922,956	6,348,847
Total Cash per the Statement of Financial Position	<u>\$ 20,889,998</u>	<u>\$ 14,726,167</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 3,949,285</u>	<u>\$ 3,684,984</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

		<u>2022</u>	<u>2021</u>
Expenses			
6100	Payroll Costs	\$ 50,695,881	\$ 40,664,724
6200	Professional and Contracted Services	12,258,150	9,889,728
6300	Supplies and Materials	3,574,630	4,832,414
6400	Other Operating Costs	5,210,648	4,504,345
6500	Debt	<u>4,097,437</u>	<u>3,770,844</u>
Total Expenses		<u>\$ 75,836,746</u>	<u>\$ 63,662,055</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 4,501,858	\$ 16,388,140	\$ -
1110	Investments	-	8,833,102	-
1510	Land and improvements	-	27,853,037	-
1520	Buildings and improvements	452,955	71,068,423	5,273
1529	Right-of-use asset	-	19,600,221	-
1539	Furniture and equipment	-	6,956,721	162,267
1580	Construction in Progress	-	21,304,703	-
Total Property and Equipment		\$ 4,954,813	\$ 172,004,347	\$ 167,540

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

	Budgeted Amounts		Actual Amounts	Variance from Final Budget	
	Original	Final			
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 529,507	\$ 1,627,632	\$ 1,686,393	\$ 58,761
5750	Revenue from curricular	501,000	900,534	753,605	(146,929)
	Total Local Support	<u>1,030,507</u>	<u>2,528,166</u>	<u>2,439,998</u>	<u>(88,168)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	58,802,073	61,383,699	61,665,187	281,488
5820	State program revenues distributed by Texas Education Agency	700,963	295,898	301,297	5,399
5830	State program revenues distributed directly from other state agencies	84,596	38,227	38,227	-
	Total State Program Revenues	<u>59,587,632</u>	<u>61,717,824</u>	<u>62,004,711</u>	<u>286,887</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	14,929,253	13,340,097	12,229,372	(1,110,725)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	889,352	305,547	(583,805)
5940	Federal revenues distributed directly from the Federal Government	294,329	1,523,467	1,294,423	(229,044)
	Total Federal Program Revenues	<u>15,223,582</u>	<u>15,752,916</u>	<u>13,829,342</u>	<u>(1,923,574)</u>
	Total Revenues	<u>75,841,721</u>	<u>79,998,906</u>	<u>78,274,051</u>	<u>(1,724,855)</u>
Expenses					
11	Instruction	42,786,346	42,748,592	42,338,624	409,968
12	Instructional resources and media services	3,000	12,000	5,213	6,787
13	Curriculum development and instructional staff development	4,195,085	6,324,380	4,840,329	1,484,051
21	Instructional leadership	239,020	263,280	267,550	(4,270)
23	School leadership	5,418,998	6,084,838	5,948,410	136,428
31	Guidance, counseling and evaluation services	1,311,229	2,266,535	2,107,050	159,485
33	Health services	289,179	143,370	147,555	(4,185)
34	Student (pupil) transportation	300,000	290,000	283,320	6,680
35	Food service	1,874,491	2,674,706	2,163,945	510,761
36	Cocurricular/Extracurricular activities	511,000	933,852	622,421	311,431
41	General administration	4,012,563	3,564,224	3,381,049	183,175
51	Plant maintenance and operations	8,092,729	8,498,693	8,114,719	383,974
52	Security and monitoring services	329,583	502,319	456,723	45,596
53	Data processing services	1,135,158	1,140,175	1,062,401	77,774
71	Debt service	4,167,299	4,170,023	4,097,437	72,586
	Total Expenses	<u>74,665,680</u>	<u>79,616,987</u>	<u>75,836,746</u>	<u>3,780,241</u>
	Change in net assets from operations	1,176,041	381,919	2,437,305	2,055,386
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(581,843)	(581,843)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(581,843)</u>	<u>(581,843)</u>
	Change in net assets	1,176,041	381,919	1,855,462	1,473,543
	Net Assets, Beginning of Year as Restated	<u>15,404,140</u>	<u>15,404,140</u>	<u>15,404,140</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 16,580,181</u>	<u>\$ 15,786,059</u>	<u>\$ 17,259,602</u>	<u>\$ 1,473,543</u>

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2022

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
RES D2 & D3-A BLK 4 BROOKHOLLOW WEST SEC 3	7340 N GESSNER DR, HOUSTON, X 77040	\$ 4,877,806	\$ -	\$ 13,700,831	\$ -
TR 3A ABST 522 S LEEPER 1.6424 AC	5668 W LITTLE YORK RD, HOUSTON, TX 77091	1,450,717	-	4,668,158	-
TOWNSHIRE, BLOCK 2, LOT 2 - 3, ACRES .18	2031 S TEXAS AVE TX	3,212,281	-	5,304,907	-
TOWNSHIRE, BLOCK 2, LOT 2 - 3, ACRES .18	3171 N SAM HOUSTON PKWY W, HOUSTON, TX 77038	8,321,631	-	13,950,537	-
RES A BLK 1 UNIVERSITY ACRES 5.5117 AC	3171 N SAM HOUSTON PKWY W, HOUSTON, TX 77038	3,858,311	-	-	-
RES A1 BLK 1 UNIVERSITY ACRES 3.6100 AC	3203 N SAM HOUSTON PKWY W, HOUSTON, TX 77043	8,031,930	-	17,660,941	-
RES A2 BLK 1 UNIVERSITY ACRES 4.6783 AC	N SAM HOUSTON PKY W 77038	1,630,296	-	7,280,880	5,273
RES A BLK 1 PTH PROPERTIES ONE	6270 BARKER CYPRESS RD, HOUSTON, TX 77084	5,887,380	-	10,037,263	-
Note (1)	Note (1)	-	452,955	26,317,942	-
Total		\$ 37,270,352	\$ 452,955	\$ 98,921,460	\$ 5,273

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

HOUSTON NORTH

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2022

<u>Data Codes</u>	<u>Section A: Compensatory Education Programs</u>	<u>Responses</u>
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$6,550,437
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$3,651,107
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 880,222
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$ 498,710

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
HOUSTON NORTH
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A	\$ -	\$ -



HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 10,712,822	\$ 18,796,488
Restricted cash	12,309,800	6,804,144
Investments	33,615,135	30,274,719
Receivables	23,685,929	18,313,117
Other receivables	444,947	674,998
Prepays	257,513	354,080
Total Current Assets	<u>81,026,146</u>	<u>75,217,546</u>
Property and Equipment:		
Land	25,199,461	19,943,822
Buildings and improvements	120,990,629	117,595,889
Furniture and equipment	13,082,468	11,272,434
Construction in progress	12,022,298	11,505,710
Right-of-use asset	44,354,285	44,354,285
	<u>215,649,141</u>	<u>204,672,140</u>
Less: Accumulated depreciation and amortization	(53,028,419)	(46,618,988)
	<u>162,620,722</u>	<u>158,053,152</u>
Other Assets:		
Deposits	60,700	60,700
Total Assets	<u>\$ 243,707,568</u>	<u>\$ 233,331,398</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 2,580,421	\$ 3,432,897
Accrued liabilities	227,200	266,897
Wages payable	10,311,681	8,604,019
Payroll taxes payable	3,767,028	3,542,930
Interest payable	2,197,863	2,071,337
Deferred revenue	241,124	-
Current portion of lease liability	664,671	594,809
Current portion of bonds payable	2,371,122	2,279,316
Total Current Liabilities	<u>22,361,110</u>	<u>20,792,205</u>
Long-Term Liabilities:		
Lease liability	41,165,928	41,803,933
Notes payable net of current portion	11,502,417	14,396,159
Bonds payable net of premium, discount, issuance costs and current portion	<u>127,781,293</u>	<u>117,635,640</u>
Total Long-Term Liabilities	<u>180,449,638</u>	<u>173,835,732</u>
Total Liabilities	<u>202,810,748</u>	<u>194,627,937</u>
Net Assets:		
Without donor restrictions	7,097,972	4,131,046
With donor restrictions	<u>33,798,848</u>	<u>34,572,415</u>
Total Net Assets	<u>40,896,820</u>	<u>38,703,461</u>
Total Liabilities and Net Assets	<u>\$ 243,707,568</u>	<u>\$ 233,331,398</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2021</u>
Revenues				
Local Support:				
5740	\$ 3,289,021	\$ -	\$ 3,289,021	\$ 3,072,497
5750	1,065,887	2,986	1,068,873	306,442
	<u>4,354,908</u>	<u>2,986</u>	<u>4,357,894</u>	<u>3,378,939</u>
Total Local Support				
State Program Revenues:				
5810	-	103,065,595	103,065,595	103,049,427
5820	-	524,818	524,818	858,774
5830	-	39,003	39,003	66,152
	<u>-</u>	<u>103,629,416</u>	<u>103,629,416</u>	<u>103,974,353</u>
Total State Program Revenues				
Federal Program Revenues:				
5920	-	19,256,033	19,256,033	7,718,596
5930	-	520,092	520,092	625,261
5940	-	1,324,777	1,324,777	1,100,665
	<u>-</u>	<u>21,100,902</u>	<u>21,100,902</u>	<u>9,444,522</u>
Total Federal Program Revenues				
Net assets released from restrictions:				
	123,654,972	(123,654,972)	-	-
	<u>123,654,972</u>	<u>(123,654,972)</u>	<u>-</u>	<u>-</u>
Total Revenues				
	<u>128,009,880</u>	<u>1,078,332</u>	<u>129,088,212</u>	<u>116,797,814</u>
Expenses				
11	66,281,126	-	66,281,126	57,639,836
12	3,923	-	3,923	3,186
13	7,886,046	-	7,886,046	6,168,206
21	385,436	-	385,436	248,225
23	11,473,874	-	11,473,874	9,905,768
31	4,157,816	-	4,157,816	2,233,430
33	174,071	-	174,071	522,221
34	60,393	-	60,393	7,328
35	3,588,966	-	3,588,966	1,572,101
36	778,662	-	778,662	540,878
41	6,558,151	-	6,558,151	6,239,502
51	13,826,124	-	13,826,124	13,560,425
52	578,176	-	578,176	485,399
53	1,759,933	-	1,759,933	1,387,242
71	7,530,257	-	7,530,257	5,369,454
	<u>125,042,954</u>	<u>-</u>	<u>125,042,954</u>	<u>105,883,201</u>
Total Expenses				

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2021</u>
Change in net assets from operations	\$ 2,966,926	\$ 1,078,332	\$ 4,045,258	\$ 10,914,613
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(1,851,899)	(1,851,899)	(600,170)
Total Non-Operating Revenues (Expenses)	-	(1,851,899)	(1,851,899)	(600,170)
Total Change in Net Assets	<u>2,966,926</u>	<u>(773,567)</u>	<u>2,193,359</u>	<u>10,314,443</u>
Net Assets, Beginning of Year	<u>4,131,046</u>	<u>34,572,415</u>	<u>38,703,461</u>	<u>28,389,018</u>
Net Assets, End of Year	<u>\$ 7,097,972</u>	<u>\$ 33,798,848</u>	<u>\$ 40,896,820</u>	<u>\$ 38,703,461</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	2022	2021
Cash Flows from Operating Activities		
Change in net assets	\$ 2,193,359	\$ 10,314,443
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization asset under leases	6,409,431	5,285,774
Amortization - premium on bonds	1,635,002	(400,899)
Amortization - bond issuance costs	(553,800)	79,330
(Increase) Decrease in receivables	(5,372,812)	(717,982)
(Increase) Decrease in other receivables	230,051	(491,649)
(Increase) Decrease in prepaids	96,567	(354,080)
Increase (Decrease) in accounts payable	(852,476)	551,677
Increase (Decrease) in wages payable	1,707,662	1,491,383
Increase (Decrease) in payroll taxes payable	224,098	645,353
Increase (Decrease) in accrued liabilities	(39,697)	(963,474)
Increase (Decrease) deferred revenue	241,124	-
Increase (Decrease) in interest payable	126,526	(34,956)
Net Cash Provided (Used) by Operating Activities	6,045,035	15,404,920
Cash Flows from Investing Activities		
Purchase of fixed assets	(10,977,001)	(7,915,985)
Sale of investments	(3,340,416)	372,217
Net Cash Provided (Used) by Investing Activities	(14,317,417)	(7,543,768)
Cash Flows from Financing Activities		
Proceeds from bonds	15,994,116	
Repayment of loans	(2,893,742)	3,689,048
Repayment of bonds	(6,837,859)	(2,172,514)
Payments on leases	(568,143)	(493,315)
Net Cash Provided (Used) by Financing Activities	5,694,372	1,023,219
Net increase (decrease) in cash	(2,578,010)	8,884,371
Cash at Beginning of Year	25,600,632	16,716,261
Cash at End of Year	\$ 23,022,622	\$ 25,600,632
Cash Per the Statement of Financial Position		
Cash	\$ 10,712,822	\$ 18,796,488
Restricted Cash	12,309,800	6,804,144
Total Cash per the Statement of Financial Position	\$ 23,022,622	\$ 25,600,632
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	\$ 7,267,482	\$ 7,393,562

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Expenses		
6100 Payroll costs	\$ 81,368,830	\$ 66,764,676
6200 Professional and contracted services	22,273,945	17,196,765
6300 Supplies and materials	5,344,781	7,666,424
6400 Other operating costs	8,525,141	6,747,596
6500 Debt	<u>7,530,257</u>	<u>7,507,740</u>
Total Expenses	<u>\$ 125,042,954</u>	<u>\$ 105,883,201</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 345,828	\$ 21,957,346	\$ 719,448
1110	Investments	-	33,615,135	-
1510	Land and improvements	-	25,199,461	-
1520	Buildings and improvements	71,079	120,829,455	90,095
1529	Right-of-use asset	-	44,354,285	-
1539	Furniture and equipment	119,836	12,939,613	23,019
1580	Construction in progress	-	12,022,298	-
Total Property and Equipment		\$ 536,743	\$ 270,917,593	\$ 832,562

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other revenues from local sources	\$ 824,867	\$ 5,313,514	\$ 3,289,021	\$ (2,024,493)
5750	Revenue from curricular	1,125,000	978,046	1,068,873	90,827
	Total Local Support	<u>1,949,867</u>	<u>6,291,560</u>	<u>4,357,894</u>	<u>(1,933,666)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	102,319,720	102,841,696	103,065,595	223,899
5820	State program revenues distributed by Texas Education Agency	1,120,389	597,394	524,818	(72,576)
5830	State program revenues distributed by Texas Education Agency	155,327	47,799	39,003	(8,796)
	Total State Program Revenues	<u>103,595,436</u>	<u>103,486,889</u>	<u>103,629,416</u>	<u>142,527</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	23,804,756	20,620,323	19,256,033	(1,364,290)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	2,267,691	520,092	(1,747,599)
5940	Federal revenues distributed directly from the Federal Government	400,658	1,966,102	1,324,777	(641,325)
	Total Federal Program Revenues	<u>24,205,414</u>	<u>24,854,116</u>	<u>21,100,902</u>	<u>(3,753,214)</u>
	Total Revenues	<u>129,750,717</u>	<u>134,632,565</u>	<u>129,088,212</u>	<u>(5,544,353)</u>
Expenses					
11	Instruction	70,331,787	67,516,257	66,281,126	1,235,131
12	Instructional resources and media services	-	5,500	3,923	1,577
13	Curriculum development and instructional staff development	6,500,286	10,504,882	7,886,046	2,618,836
21	Instructional leadership	369,325	404,566	385,436	19,130
23	School leadership	10,663,841	11,830,643	11,473,874	356,769
31	Guidance, counseling and evaluation services	3,320,369	4,487,541	4,157,816	329,725
33	Health services	471,942	252,504	174,071	78,433
34	Student (pupil) transportation	130,000	68,160	60,393	7,767
35	Food service	3,118,916	4,575,357	3,588,966	986,391
36	Cocurricular/Extracurricular activities	1,094,250	1,006,989	778,662	228,327
41	General administration	6,580,246	6,657,076	6,558,151	98,925
51	Plant maintenance and operations	14,125,025	15,112,362	13,826,124	1,286,238
52	Security and monitoring services	540,740	682,118	578,176	103,942
53	Data processing services	2,080,857	1,887,624	1,759,933	127,691
71	Debt service	8,376,737	8,379,108	7,530,257	848,851
	Total Expenses	<u>127,704,321</u>	<u>133,370,687</u>	<u>125,042,954</u>	<u>8,327,733</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(1,851,899)	(1,851,899)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(1,851,899)</u>	<u>(1,851,899)</u>
	Change in net assets	<u>2,046,396</u>	<u>1,261,878</u>	<u>2,193,359</u>	<u>931,481</u>
	Net Assets, Beginning of Year	<u>38,703,461</u>	<u>38,703,461</u>	<u>38,703,461</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 40,749,857</u>	<u>\$ 39,965,339</u>	<u>\$ 40,896,820</u>	<u>\$ 931,481</u>

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2022

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
SKAGGS Block 1 Lot 1 Acres 4.885	1900 N VALLEY MILLS DR WACO, TX 76710	\$ 2,523,330	\$ -	\$ 12,588,795	\$ -
FIREWHEEL BIBLE FELLOWSHIP 2 REP, BLK 1 LT 1R1 LESS ROW ACS 20.5558, INT 201000132710 DD05112010 CO-DC, 4810000101R00 2CG48100001	2302 FIREWHEEL PKWY, Garland, TX 75040	7,792,070	-	5,620,858	-
FORESTGATE INDUSTRIAL PARK REP, BLK B/8444 TR B.1 ACS 2.529, INT20070200128 DD05262007 CO-DC, 8444 00B 00B01 3DA8444 00B	11945 FORESTGATE DR, DALLAS, TX 75243	1,946,910	-	11,186,493	-
FORESTGATE INDUSTRIAL PARK REP, BLK B/8444 TR B ACS 3.051, IT201100141982 DD05252011 CO-DC, 8444 00B 00B00 3DA8444 00B	12005 FORESTGATE DR, DALLAS, TX 75243	2,976,590	-	included in J17	-
HARMONY ADDITION PHASE 2 BLK A LOT 1	1024 W ROSEMEADE PKWY, Carrollton, TX 75007	13,223,321	-	23,014,149	-
HARMONY SCHOOL DALLAS (CDA), BLK C/8759, LOT 1	8080 PRESIDENT GEORGE BUSH HWY 75252	14,039,803	-	10,000,611	-
FIREWHEEL BIBLE FELLOWSHIP 2 REP, BLK 1 LT 1R1 LESS ROW ACS 20.5558, INT 201000132710 DD05112010 CO-DC, 4810000101R00 2CG48100001	2302 FIREWHEEL PKWY, Garland, TX 75040 SAME BUILDING WITH DIFFERENT ACCOUNT NUMBER	7,792,070	-	11,163,238	-
SOUTHWEST HILLS ADDITION Lot A4	5651 WESTCREEK DR, FORT WORTH, TX 76133	6,188,289	-	9,112,764	-
HARMONY SCHOOL, BLK 1 LT 1 ACS 5.305, INT200900228003 DD08052009 CO-DC, 0469788100100 5CP04697881	1102 NW 7TH ST, GRAND PRAIRIE, TX 75050	4,650,480	-	6,447,643	-
HARMONY, BLK E/8683 LT 1 ACS 17.6916, INT20080179207 DD05162008 CO-DC, 8683 00E 00100 5DA8683 00E	8120 W CAMP WISDOM RD, DALLAS, TX 75249	18,339,560	-	9,156,700	-
BLK 8683, TR 3 ACS 2.7594, INT20080179207 DD05162008 CO-DC, 8683 000 00300 5DA8683 000	8120 W CAMP WISDOM RD, DALLAS, TX 75249	120,180	-	included in J 24	-
BLK 8683, TR 4 ACS 0.438, INT201400139925 DD06052014 CO-DC, 8683 000 00300 5DA8683 000	8120 W CAMP WISDOM RD, DALLAS, TX 75249	6,570	-	included in J 24	-
HARMONY SCHOOL ADDITION Block 1 Lot 1	8100 S HULEN ST, Fort Worth, TX 76123	21,602,408	-	15,527,332	-
CHAPMAN J D Block 1 Lot 5 6 7 8 (HEB #6), Acres 4.3983	1110 S VALLEY MILLS DR WACO, TX 76711	3,006,310	-	7,592,478	80,975
Note (1)	Note (1)	-	71,079	24,617,856	9,120
Total		\$ 104,207,891	\$ 71,079	\$ 146,028,916	\$ 90,095

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

NORTH TEXAS

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2022

<u>Data Codes</u>	<u>Section A: Compensatory Education Programs</u>	<u>Responses</u>
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$10,125,761
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$ 5,716,398
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ - \$ 1,603,838
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$ 904,658

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
NORTH TEXAS
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A	\$ -	\$ -



HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 5,400,976	\$ 4,061,274
Restricted cash	20,656,927	7,270,272
Investments	7,468,165	7,552,159
Receivables	10,709,015	7,488,602
Other receivables	153,105	1,169,044
Prepays	102,554	141,012
Total Current Assets	<u>44,490,742</u>	<u>27,682,363</u>
Property and Equipment:		
Land	10,079,696	9,184,269
Buildings and improvements	43,676,408	40,971,825
Furniture and equipment	4,246,375	3,058,404
Construction in progress	33,400,878	2,402,857
Right-of-use asset under finance leases	16,407,527	15,523,948
	<u>107,810,884</u>	<u>71,141,303</u>
Less: Accumulated depreciation and amortization	<u>(17,710,792)</u>	<u>(15,570,277)</u>
	<u>90,100,092</u>	<u>55,571,026</u>
Total Assets	<u>\$ 134,590,834</u>	<u>\$ 83,253,389</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 6,651,834	\$ 1,122,661
Accrued liabilities	112,741	14,236
Wages payable	4,594,236	3,496,056
Payroll taxes payable	1,576,416	1,362,916
Interest payable	1,282,997	777,062
Deferred revenue	90,725	-
Current portion of lease liability	381,691	178,918
Current portion of bonds payable	624,867	607,587
Total Current Liabilities	<u>15,315,507</u>	<u>7,559,436</u>
Long-Term Liabilities:		
Financing lease liability, net of current portion	15,206,720	14,885,669
Notes payable net of current portion	2,452,353	5,899,818
Bonds payable net of premium, discount, issuance costs and current portion	86,284,554	42,869,123
Total Long-Term Liabilities	<u>103,943,627</u>	<u>63,654,610</u>
Total Liabilities	<u>119,259,134</u>	<u>71,214,046</u>
Net Assets:		
Without donor restrictions	4,739,091	2,455,894
With donor restrictions	10,592,609	9,583,449
Total Net Assets	<u>15,331,700</u>	<u>12,039,343</u>
Total Liabilities and Net Assets	<u>\$ 134,590,834</u>	<u>\$ 83,253,389</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	Without Donor Restrictions	With Donor Restrictions	Total	2021
Revenues				
Local Support:				
5740	\$ 2,742,941	\$ -	\$ 2,742,941	\$ 1,110,785
5750	666,217	4,368	670,585	99,750
	3,409,158	4,368	3,413,526	1,210,535
Total Local Support				
State Program Revenues:				
5810	-	42,164,458	42,164,458	39,691,198
5820	-	312,153	312,153	523,658
5830	-	28,084	28,084	84,916
	-	42,504,695	42,504,695	40,299,772
Total State Program Revenues				
Federal Program Revenues:				
5920	-	7,212,654	7,212,654	2,860,555
5930	-	194,353	194,353	454,851
5940	-	1,234,466	1,234,466	524,525
	-	8,641,473	8,641,473	3,839,931
Total Federal Program Revenues				
Net Assets Released from Restrictions:				
	49,892,980	(49,892,980)	-	-
	53,302,138	1,257,556	54,559,694	45,350,238
Total Revenues				
Expenses				
11	28,436,213	-	28,436,213	24,186,992
12	380	-	380	212
13	2,813,363	-	2,813,363	2,594,781
21	-	-	-	35
23	4,392,499	-	4,392,499	4,012,987
31	1,484,018	-	1,484,018	925,417
33	54,360	-	54,360	82,655
35	994,328	-	994,328	412,008
36	656,206	-	656,206	233,546
41	2,836,809	-	2,836,809	2,207,220
51	5,236,195	-	5,236,195	4,411,362
52	286,813	-	286,813	118,782
53	817,301	-	817,301	655,356
71	3,010,456	-	3,010,456	2,348,297
	51,018,941	-	51,018,941	42,189,650
Total Expenses				

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2021</u>
Change in net assets from operations	\$ 2,283,197	\$ 1,257,556	\$ 3,540,753	\$ 3,160,588
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(248,396)	(248,396)	(10,839)
Total Non-Operating Revenues (Expenses)	-	(248,396)	(248,396)	(10,839)
Total Change in Net Assets	<u>2,283,197</u>	<u>1,009,160</u>	<u>3,292,357</u>	<u>3,149,749</u>
Net Assets, Beginning of Year	<u>2,455,894</u>	<u>9,583,449</u>	<u>12,039,343</u>	<u>8,889,594</u>
Net Assets, End of Year	<u>\$ 4,739,091</u>	<u>\$ 10,592,609</u>	<u>\$ 15,331,700</u>	<u>\$ 12,039,343</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,292,357	\$ 3,149,749
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of assets under leases	2,140,515	1,641,713
Amortization - premium on bonds	(159,791)	(119,363)
Amortization - bond issuance costs	98,687	33,599
(Increase) Decrease in receivables	(9,539,971)	(222,777)
(Increase) Decrease in other receivables	(12,093)	(1,062,131)
(Increase) Decrease in prepaids	38,458	-
Increase (Decrease) in accounts payable	5,529,173	141,072
Increase (Decrease) in wages payable	1,098,180	513,541
Increase (Decrease) in payroll taxes payable	213,500	170,359
Increase (Decrease) in accrued liabilities	98,505	(19,103)
Increase (Decrease) in deferred revenue	90,725	-
Increase (Decrease) in interest payable	505,935	(9,277)
Net Cash Provided (Used) by Operating Activities	<u>3,394,180</u>	<u>4,100,896</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(35,786,002)	(4,756,216)
Sale (Purchase) of investments	83,994	(110,963)
Net cash Provided (Used) by Investing Activities	<u>(35,702,008)</u>	<u>(4,867,179)</u>
Cash Flows from Financing Activities		
Proceeds from bonds and reclassification of bonds	55,433,760	-
Payments on leases	523,824	(178,145)
Repayment of bonds	(5,475,934)	(579,290)
Proceeds from note payable	(3,447,465)	3,269,818
Net Cash Provided (Used) by Financing Activities	<u>47,034,185</u>	<u>2,512,383</u>
Net increase (decrease) in cash	14,726,357	1,746,100
Cash at Beginning of Year	<u>11,331,546</u>	<u>9,585,446</u>
Cash at End of Year	<u>\$ 26,057,903</u>	<u>\$ 11,331,546</u>
Cash Per the Statement of Financial Position		
Cash	\$ 5,400,976	\$ 4,061,274
Restricted Cash	20,656,927	7,270,272
Total Cash per the Statement of Financial Position	<u>\$ 26,057,903</u>	<u>\$ 11,331,546</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 2,885,711</u>	<u>\$ 3,046,975</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

		<u>2022</u>	<u>2021</u>
Expenses			
6100	Payroll costs	\$ 33,571,952	\$ 27,892,290
6200	Professional and contracted services	8,831,287	6,093,155
6300	Supplies and materials	2,428,374	3,054,417
6400	Other operating costs	3,176,872	2,042,697
6500	Debt	<u>3,010,456</u>	<u>3,107,091</u>
Total Expenses		<u>\$ 51,018,941</u>	<u>\$ 42,189,650</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 25,955,011	102,892
1110	Investments	-	7,468,165	-
1510	Land and improvements	-	10,079,696	-
1520	Buildings and improvements	81,730	43,540,392	54,286
1529	Right-of-use asset	-	16,407,527	-
1539	Furniture and equipment	36,049	4,187,097	23,229
1580	Construction in Progress	-	33,400,878	-
Total Property and Equipment		\$ 117,779	\$ 141,038,766	\$ 180,407

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

		<u>Budgeted Amounts</u>			
		<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 661,881	\$ 2,659,889	\$ 2,742,941	\$ 83,052
5750	Revenue from curricular	333,000	845,929	670,585	(175,344)
	Total Local Support	<u>994,881</u>	<u>3,505,818</u>	<u>3,413,526</u>	<u>(92,292)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	39,788,910	42,140,247	42,164,458	24,211
5820	State program revenues distributed by Texas Education Agency	475,281	309,341	312,153	2,812
5830	State program revenue from State of Texas government agencies (other than TEA)	47,164	28,084	28,084	-
	Total State Program Revenues	<u>40,311,355</u>	<u>42,477,672</u>	<u>42,504,695</u>	<u>27,023</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	8,502,092	7,998,147	7,212,654	(785,493)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	628,485	194,353	(434,132)
5940	Federal revenues distributed directly from the Federal Government	196,386	1,263,696	1,234,466	(29,230)
	Total Federal Program Revenues	<u>8,698,478</u>	<u>9,890,328</u>	<u>8,641,473</u>	<u>(1,248,855)</u>
	Total Revenues	<u>50,004,714</u>	<u>55,873,818</u>	<u>54,559,694</u>	<u>(1,314,124)</u>
Expenses					
11	Instruction	28,042,022	29,106,426	28,436,213	670,213
12	Instructional resources and media services	-	725	380	345
13	Curriculum development and instructional staff development	2,371,200	4,196,047	2,813,363	1,382,684
21	Instructional leadership	86,446	-	-	-
23	School leadership	4,225,212	4,685,193	4,392,499	292,694
31	Guidance, counseling and evaluation services	1,257,911	1,664,464	1,484,018	180,446
33	Health services	76,990	80,689	54,360	26,329
35	Food service	977,346	1,237,533	994,328	243,205
36	Cocurricular/Extracurricular activities	378,580	739,682	656,206	83,476
41	General administration	2,409,887	2,706,200	2,836,809	(130,609)
51	Plant maintenance and operations	4,776,044	5,173,408	5,236,195	(62,787)
52	Security and monitoring services	212,275	314,775	286,813	27,962
53	Data processing services	923,533	911,328	817,301	94,027
71	Debt service	3,471,489	3,471,489	3,010,456	461,033
	Total Expenses	<u>49,208,935</u>	<u>54,287,959</u>	<u>51,018,941</u>	<u>3,269,018</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(248,396)	(248,396)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(248,396)</u>	<u>(248,396)</u>
	Change in net assets	<u>795,779</u>	<u>1,585,859</u>	<u>3,292,357</u>	<u>1,706,498</u>
	Net Assets, Beginning of Year	<u>12,039,343</u>	<u>12,039,343</u>	<u>12,039,343</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 12,835,122</u>	<u>\$ 13,625,202</u>	<u>\$ 15,331,700</u>	<u>\$ 1,706,498</u>

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF REAL PROPERTY OWNERSHIP INTEREST
For the Year Ended June 30, 2022

Description (list each parcel separately)	Property Address	Total Assessed Value	Ownership Interest - Local	Ownership Interest - State	Ownership Interest - Federal
0101 JAS ALSTON, ACRES 5.006, Commercial Reserve A, The Shoppes At Eldridge Lake	13415 W Bellfort, Sugar Land, TX 77478	\$ 8,485,010	\$ -	\$ 8,084,515	\$ -
West Airport Commercial Subdivision Sec 1, BLOCK 1, ACRES 5.1, Reserve B-2 (Commercial), Replat	13522 W Airport BLVD, Sugar Land, TX 77478	4,831,120	-	15,666,000	-
Grand Corner Reserves, BLOCK 1, ACRES 8, Unrestricted Reserve A (Part), In Fort Bend ESD No 4, Grand Corner Reserves Partial Replat No 1	22400 Grand Corner DR, Katy, TX 77494	18,826,970	-	12,680,339	-
CALDWOOD PLAZA BLOCK 1	4055 CALDER BEAUMONT, TX	1,612,810	-	4,735,906	-
Note (1)	Note (1)	-	81,730	12,453,328	54,286
Total		\$ 33,755,910	\$ 81,730	\$ 53,620,088	\$ 54,286

Note (1) - Property is not owned by HPS. As such, the appraised value is not reflected for capitalized improvements.

HARMONY PUBLIC SCHOOLS

HOUSTON WEST

COMPENSATORY EDUCATION PROGRAM AND BILINGUAL EDUCATION PROGRAM COMPLIANCE RESPONSES

For the Year Ended June 30, 2022

Data Codes	Section A: Compensatory Education Programs	Responses
AP1	Did your LEA expend any state compensatory education program state allotment funds during the district’s fiscal year?	Yes
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the district’s fiscal year.	\$3,695,521
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA’s fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$2,044,049
Section B: Bilingual Education Programs		
AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA’s fiscal year?	Yes
AP6	Does the LEA have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the LEA’s fiscal year.	\$ 518,437
AP8	List the actual direct program expenditures for bilingual education programs during the LEA’s fiscal year. (PICs 25, 35)	\$ 290,538

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF RELATED PARTY TRANSACTIONS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation to the Related Party</u>	<u>Relationship</u>	<u>Type of Transaction</u>	<u>Description of Terms and Conditions</u>	<u>Source of Funds Used</u>	<u>Payment Frequency</u>	<u>Total Paid During FY</u>	<u>Principal Balance Due</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing	Financial	Sub-licensing Harmony Public Schools	N/A	N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
HOUSTON WEST
SCHEDULE OF COMPENSATION AND BENEFITS
For the Year Ended June 30, 2022

<u>Related Party Name</u>	<u>Name of Relation of the Related Party</u>	<u>Relationship</u>	<u>Compensation or Benefit</u>	<u>Payment Frequency</u>	<u>Description</u>	<u>Source of Funds Used</u>	<u>Total Paid During FY</u>
Harmony Education Solutions	The Board of Harmony Public Schools	Trademark Licensing			N/A	\$ -	\$ -

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF FINANCIAL POSITION
June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Assets		
Current Assets:		
Cash	\$ 4,544,392	\$ 6,609,362
Restricted cash	50,167	24,164
Investments	5,784,804	5,879,363
Receivables	709,166	1,857,861
Other receivables	47,851	17,770
Prepays	1,019,018	86,205
Total Current Assets	<u>12,155,398</u>	<u>14,474,725</u>
Property and Equipment:		
Buildings and improvements	1,718,633	1,573,663
Furniture and equipment	2,273,874	2,128,536
Construction in progress	1,116,802	1,078,793
	<u>5,109,309</u>	<u>4,780,992</u>
Less: Accumulated depreciation	<u>(2,370,872)</u>	<u>(2,105,658)</u>
	<u>2,738,437</u>	<u>2,675,334</u>
Total Assets	<u>\$ 14,893,835</u>	<u>\$ 17,150,059</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 677,734	\$ 781,044
Accrued liabilities	2,078,433	4,682,253
Wages payable	2,048,140	1,958,110
Payroll taxes payable	809,229	889,412
Interest payable	78,038	78,822
Current portion of bonds payable	27,012	26,169
Total Current Liabilities	<u>5,718,586</u>	<u>8,415,810</u>
Long-term Liabilities:		
Notes payable net of current portion	158,986	40,822
Bonds payable net of premium, discount, issuance costs and current portion	<u>1,455,734</u>	<u>1,425,771</u>
Total Liabilities	<u>7,333,306</u>	<u>9,882,403</u>
Net Assets:		
Without donor restrictions	<u>7,560,529</u>	<u>7,267,656</u>
Total Net Assets	<u>7,560,529</u>	<u>7,267,656</u>
Total Liabilities and Net Assets	<u>\$ 14,893,835</u>	<u>\$ 17,150,059</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>Without Donor</u> <u>Restrictions</u>	<u>With Donor</u> <u>Restrictions</u>	<u>Total</u>	<u>2021</u>
Revenues				
Local Support:				
5740	\$ 28,783,029	\$ -	\$ 28,783,029	\$ 27,106,188
	<u>28,783,029</u>	<u>-</u>	<u>28,783,029</u>	<u>27,106,188</u>
Federal Program Revenues:				
5940	-	6,462,496	6,462,496	4,478,822
	<u>-</u>	<u>6,462,496</u>	<u>6,462,496</u>	<u>4,478,822</u>
Net assets released from restrictions:				
	6,462,496	(6,462,496)	-	-
	<u>35,245,525</u>	<u>-</u>	<u>35,245,525</u>	<u>31,585,010</u>
Expenses				
11	297,078	-	297,078	329,497
13	5,091,972	-	5,091,972	5,294,638
21	3,504,862	-	3,504,862	1,179,717
23	118,955	-	118,955	410,265
31	10,453	-	10,453	10,947
35	3,484	-	3,484	3,311
41	19,270,982	-	19,270,982	17,333,021
51	3,756,646	-	3,756,646	3,885,633
52	32,253	-	32,253	26,054
53	2,640,458	-	2,640,458	2,572,393
71	123,848	-	123,848	66,533
	<u>34,850,991</u>	<u>-</u>	<u>34,850,991</u>	<u>31,112,009</u>
	\$ 394,534	\$ -	\$ 394,534	\$ 473,001
Non-Operating Revenues (Expenses)				
8989	(101,661)	-	(101,661)	(25,547)
	<u>(101,661)</u>	<u>-</u>	<u>(101,661)</u>	<u>(25,547)</u>
	<u>292,873</u>	<u>-</u>	<u>292,873</u>	<u>447,454</u>
	<u>7,267,656</u>	<u>-</u>	<u>7,267,656</u>	<u>6,820,202</u>
	<u>\$ 7,560,529</u>	<u>\$ -</u>	<u>\$ 7,560,529</u>	<u>\$ 7,267,656</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 292,873	\$ 447,454
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	265,214	278,126
Amortization - premium on bonds	(2,470)	(17,352)
Amortization - bond issuance costs	7,826	1,005
(Increase) Decrease in receivables	1,148,695	(1,265,885)
(Increase) Decrease in other receivables	(30,081)	731,935
(Increase) Decrease in prepaids	(932,813)	26,714
Increase (Decrease) in accounts payable	(103,310)	495,907
Increase (Decrease) in wages payable	90,030	152,074
Increase (Decrease) in payroll taxes payable	(80,183)	135,585
Increase (Decrease) in accrued liabilities	(2,603,820)	4,653,278
Increase (Decrease) in interest payable	(784)	(446)
Net Cash Provided (Used) by Operating Activities	<u>(1,948,823)</u>	<u>5,638,395</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(328,317)	(347,944)
Sale (purchase) of investments	94,559	1,287,946
Net Cash Provided (Used) by Investing Activities	<u>(233,758)</u>	<u>940,002</u>
Cash Flows from Financing Activities		
Proceeds from bonds	245,345	
Proceeds from note payable	118,164	40,822
Repayment of bonds	(219,895)	(24,957)
Net Cash Provided (Used) by Financing Activities	<u>143,614</u>	<u>15,865</u>
Net increase (decrease) in cash	(2,038,967)	6,594,262
Cash at Beginning of Year	<u>6,633,526</u>	<u>39,264</u>
Cash at End of Year	<u>\$ 4,594,559</u>	<u>\$ 6,633,526</u>
Cash Per the Statement of Financial Position		
Cash	\$ 4,544,392	\$ 6,609,362
Restricted Cash	50,167	24,164
Total Cash per the Statement of Financial Position	<u>\$ 4,594,559</u>	<u>\$ 6,633,526</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 106,316</u>	<u>\$ 130,270</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2022
(With Comparative Totals for 2021)

	<u>2022</u>	<u>2021</u>
Expenses		
6100 Payroll costs	\$ 18,261,040	\$ 16,310,924
6200 Professional and contracted services	11,490,929	11,027,671
6300 Supplies and materials	1,204,577	663,108
6400 Other operating costs	3,770,597	3,043,773
6500 Debt	123,848	66,533
	<hr/>	<hr/>
Total Expenses	\$ 34,850,991	\$ 31,112,009
	<hr/>	<hr/>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2022

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 4,239,480	\$ 355,079	\$ -
1110	Investments	-	5,784,804	-
1520	Buildings and improvements	-	1,718,633	-
1539	Furniture and equipment	-	2,273,874	-
1580	Construction in progress	-	1,116,802	-
Total Property and Equipment		\$ 4,239,480	\$ 11,249,192	\$ -

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2022

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance from</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 28,584,039	\$ 28,641,894	\$ 28,783,029	\$ 141,135
	Total Local Support	<u>28,584,039</u>	<u>28,641,894</u>	<u>28,783,029</u>	<u>141,135</u>
Federal Program Revenues:					
5940	Federal revenues distributed directly from the Federal Government	6,791,172	8,588,688	6,462,496	(2,126,192)
	Total Federal Program Revenues	<u>6,791,172</u>	<u>8,588,688</u>	<u>6,462,496</u>	<u>(2,126,192)</u>
	Total Revenues	<u>35,375,211</u>	<u>37,230,582</u>	<u>35,245,525</u>	<u>(1,985,057)</u>
Expenses					
11	Instruction	416,000	297,077	297,078	(1)
13	Curriculum development and instructional staff development	5,375,748	5,652,624	5,091,972	560,652
21	Instructional leadership	4,034,709	4,866,308	3,504,862	1,361,446
23	School leadership	70,000	121,955	118,955	3,000
31	Guidance, counseling and evaluation services	15,000	11,669	10,453	1,216
35	Food services	5,000	3,484	3,484	-
41	General administration	18,300,563	20,696,212	19,270,982	1,425,230
51	Plant maintenance and operations	4,060,000	3,808,276	3,756,646	51,630
52	Security and monitoring services	29,000	40,403	32,253	8,150
53	Data processing services	3,014,191	2,907,446	2,640,458	266,988
71	Debt service	55,000	55,000	123,848	(68,848)
81	Facilities acquisition and construction	-	119,985	-	119,985
	Total Expenses	<u>35,375,211</u>	<u>38,580,439</u>	<u>34,850,991</u>	<u>3,729,448</u>
Non-Operating revenues (expenses)					
8989	Gain (Loss) on sale of investments	-	-	(101,661)	(101,661)
	Total Non-Operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>(101,661)</u>	<u>(101,661)</u>
	Change in net assets	<u>-</u>	<u>(1,349,857)</u>	<u>292,873</u>	<u>1,642,730</u>
	Net Assets, Beginning of Year	<u>7,267,656</u>	<u>7,267,656</u>	<u>7,267,656</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 7,267,656</u>	<u>\$ 5,917,799</u>	<u>\$ 7,560,529</u>	<u>\$ 1,642,730</u>



FEDERAL AWARDS SECTION



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

To The Board of Directors of
Harmony Public Schools
Houston, 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 Harmony Public Schools ("HPS") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 12, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HPS'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HPS's internal control. Accordingly, we do not express an opinion on the effectiveness of HPS's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HPS'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. These procedures performed included tests designed to verify Harmony Public School's compliance with the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) during the fiscal year ended June 30, 2022. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors of
Harmony Public Schools

Purpose of this Report

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

Whitley Penn LLP

Houston, Texas
November 12, 2022

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM;
REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

To The Board of Directors of
Harmony Public Schools
Houston, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Program

We have audited Harmony Public Schools' ("HPS") (a nonprofit organization) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on each of HPS's major federal programs for the year ended June 30, 2022. HPS'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, HPS's 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 June 30, 2022.

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 HPS 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 HPS'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 HPS's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on HPS'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 HPS' 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 HPS'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 HPS'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 HPS's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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

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

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

To the Board of Directors of
Harmony Public Schools

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.

Whitley Penn LLP

Houston, Texas
November 12, 2022

HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2022

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ?	No

Identification of major programs:

Name of Federal Program or Cluster Assistance Listing Number (ALN)

US Department of Health and Human Services

ELC Reopening Schools School Health Support Grant - COVID-19 93.323

US Department of Education

Title I, Part A 84.010A
Title I 1003 School Improvement 84.010A
Coronavirus Response and Relief Supplemental Appropriations (CRRSA)
ESSER 84.425D
American Rescue Plan (ARP) ESSER III - COVID-19 84.425U
TCLAS - ESSER III - COVID-19 84.425U

Dollar Threshold Considered Between Type A and Type B Federal Programs \$2,911,701

Auditee qualified as low risk auditee? Yes

HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2022

II. Financial Statement Findings

None Reported

III. Federal Awards Findings and Questioned Costs

None Reported

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Direct:			
<i>Education Innovation and Research (EIR)</i>	84.411B	U411B180014	\$ 1,914,321
<i>Teacher Incentive Fund</i>	84.374A	U374A160039	623,639
<i>Training Instructional Leadership Team (TILT/TSL)</i>	84.374A	S374A200021	10,875,406
<i>Total ALN 84.374</i>			<u>11,499,045</u>
Pass-Through Texas Education Agency:			
<i>Title I 1003 School Improvement</i>	84.010A	22610141161807	35,767
<i>Title I 1003 School Improvement</i>	84.010A	21610141161807	7,457
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	22610101227816	1,166,116
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	22610101161807	2,627,244
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	22610101071806	1,248,882
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	22610101101846	1,631,012
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	22610101101858	1,804,400
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	22610101101862	981,911
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	22610101015828	2,104,646
<i>Total ALN 84.010</i>			<u>11,607,435</u>
<i>IDEA-B Formula</i>	84.027A	226600012278166000	665,914
<i>IDEA-B Formula</i>	84.027A	226600011618076000	1,468,778
<i>IDEA-B Formula</i>	84.027A	226600010718066000	618,349.00
<i>IDEA-B Formula</i>	84.027A	226600011018466000	574,008.00
<i>IDEA-B Formula</i>	84.027A	226600011018586000	871,082.00
<i>IDEA-B Formula</i>	84.027A	226600011018626000	601,388.00
<i>IDEA-B Formula</i>	84.027A	226600010158286000	671,601.00
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350012278165000	157,393.00
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350011618075000	456,107.00
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350010718065000	192,736.00
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350011018585000	275,937.00
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350011018625000	177,472.00
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350010158285000	210,687.00
<i>IDEA-B Formula - American Rescue Plan (ARP) - COVID-19</i>	84.027A	225350011018465000	174,821.00
<i>IDEA-B High Cost Fund</i>	84.027A	66002106	92,884
<i>Total Special Education Cluster (ALN 84.027)</i>			<u>7,209,157</u>
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I</i>	84.367A	22694501227816	184,694
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I</i>	84.367A	22694501161807	388,469
<i>2021-2022 Teacher Leadership Cycle 2</i>	84.367A	216945797110013	100,000
<i>2021-2022 Teacher Leadership Cycle 2</i>	84.367A	216945797110013	44,108
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I</i>	84.367A	22694501071806	196,224
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I</i>	84.367A	22694501101846	200,413
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I</i>	84.367A	22694501101858	265,481
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I</i>	84.367A	22694501101862	184,684
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I</i>	84.367A	22694501015828	237,113
<i>Total ALN 84.367</i>			<u>1,801,186</u>

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education (continued)			
Pass-Through Texas Education Agency (continued):			
<i>Title III, Part A - ELA</i>	84.365A	22671001227816	224,576
<i>Title III, Part A - ELA</i>	84.365A	22671001161807	310,346
<i>Title III, Part A - ELA</i>	84.365A	22671001071806	104,315
<i>Title III, Part A - ELA</i>	84.365A	22671001101846	139,762
<i>Title III, Part A - ELA</i>	84.365A	22671001101858	161,657
<i>Title III, Part A - ELA</i>	84.365A	22671001101862	71,812
<i>Title III, Part A - ELA</i>	84.365A	22671001015828	168,514
<i>Total ALN 84.365</i>			<u>1,180,982</u>
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	22680101227816	86,181
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	22680101161807	194,469
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	22680101071806	101,701
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	22680101101846	131,271
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	22680101101858	125,445
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	22680101101862	75,068
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	22680101015828	146,562
<i>Total ALN 84.424</i>			<u>860,697</u>
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	22680101227816	1,938,282
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001161807	4,181,944
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001071806	2,891,871
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001101846	1,800,478
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001101858	4,160,188
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425D	21521001101862	1,616,049
<i>Coronavirus Response and Relief Supplemental Appropriations (CRRSA) ESSER II - COVID-19</i>	84.425U	21521001015828	2,547,671
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001227816	2,902,300
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001161807	4,833,184
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001071806	2,047,820
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001101846	3,893,404
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001101858	1,935,000
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001101862	2,202,550
<i>American Rescue Plan (ARP) ESSER III - COVID-19</i>	84.425U	21528001015828	4,667,052
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042227816	184,131
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042161807	427,508
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042071806	315,072
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042101846	320,754
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042101858	253,460
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042101862	172,902
<i>TCLAS - ESSER III - COVID-19</i>	84.425U	21528042015828	420,201
<i>Total ALN 84.425</i>			<u>43,711,821</u>
<i>21-22 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	22420006227816	16,052
<i>21-22 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	22420006161807	75,430
<i>21-22 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	22420006071806	39,936
<i>21-22 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	22420006101846	5,505
<i>21-22 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	22420006101858	31,029
<i>21-22 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	22420006101862	27,763
<i>21-22 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	22420006015828	70,536
<i>Total ALN 84.048</i>			<u>266,251</u>
<i>LEP Summer School</i>	84.369A	69552002	5,898
<i>LEP Summer School</i>	84.369A	69552002	5,898
<i>LEP Summer School</i>	84.369A	69552002	2,949
<i>LEP Summer School</i>	84.369A	69552002	2,949
<i>LEP Summer School</i>	84.369A	69552002	2,949
<i>LEP Summer School</i>	84.369A	69552002	2,949
<i>Total ALN 84.369</i>			<u>23,592</u>
Total U.S. Department of Education			<u>80,074,487</u>

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2022

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Health and Human Services			
Pass-Through Region 4:			
2021-23 COVID-19 PHW Supplemental Funding	93.354	HHS001101500001/2239340	19,895
Pass-Through Texas Education Agency:			
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	165,573
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	358,951
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	151,801
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	134,136
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	217,888
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	144,126
ELC Reopening Schools School Health Support Grant - COVID-19	93.323	39352201	165,258
Total ALN 93.323			<u>1,337,733</u>
Total U.S. Department of Health and Human Services			<u>1,357,628</u>
U.S. Department of Agriculture			
Passed-Through Texas Department of Agriculture:			
<i>National School Lunch Program - USDA Commodities:</i>			
Non-Cash Assistance	10.555	0073	129,641
Non-Cash Assistance	10.555	00343	22,660
Non-Cash Assistance	10.555	00508	52,640
Non-Cash Assistance	10.555	00512	29,549
Non-Cash Assistance	10.555	01060	78,526
Supply Chain Assistance Grant	10.555	6TX300400	642,399
Passed-Through Texas Education Agency:			
Federal Food Service Reimbursement:			
School Breakfast Program (SBP)	10.553	71402201	357,611
School Breakfast Program (SBP)	10.553	71402201	354,361
School Breakfast Program (SBP)	10.553	71402201	193,811
School Breakfast Program (SBP)	10.553	71402201	635,298
School Breakfast Program (SBP)	10.553	71402201	115,972
School Breakfast Program (SBP)	10.553	71402201	648,924
School Breakfast Program (SBP)	10.553	71402201	204,682
National School Lunch Prg-NSLP	10.555	71302201	1,968,937
National School Lunch Prg-NSLP	10.555	71302201	1,822,919
National School Lunch Prg-NSLP	10.555	71302201	1,104,721
National School Lunch Prg-NSLP	10.555	71302201	1,634,913
National School Lunch Prg-NSLP	10.555	71302201	952,585
National School Lunch Prg-NSLP	10.555	71302201	3,357,515
National School Lunch Prg-NSLP	10.555	71302201	1,316,924
Total Child Nutrition Cluster (10.553,10.555)			<u>15,624,588</u>
Total U. S. Department of Agriculture			<u>15,624,588</u>
Total Expenditures of Federal Awards			<u>\$ 97,056,703</u>

HARMONY PUBLIC SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of HPS under programs of the federal government for the year ended June 30, 2022. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of HPS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HPS.

Note 3 - Indirect Cost Rate

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. HPS has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 - Title I, Part A Transferability

As described in the U.S. Department of Education Cross-Cutting Section (CFDA 84.000), Sections II.B.3 *Activities Allowed or Unallowed - Transferability (SEAs and LEAs)* and IV.3 *Other Information - Transferability* of the 2021 OMB Compliance Supplement, expenditures of funds should be included in the audit universe and total expenditures of the receiving program. For fiscal year 2021, HPS transferred 100% Title IV, Part A (CFDA 84.424) expenditures to its Title I, Part A (CFDA 84.010A) program as submitted to the Texas Education Agency in its consolidated application and as denoted on the Schedule of Expenditures of Federal Awards. As such, Title IV, Part A (CFDA 84.424) were included as part of Title I, Part A (CFDA 84.010).

HARMONY PUBLIC SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2022

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None Noted

HARMONY PUBLIC SCHOOLS

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2022

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

I. Corrective Action Plan

Not Applicable



HARMONY PUBLIC SCHOOLS

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

FOR THE YEAR ENDED JUNE 30, 2021



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HARMONY PUBLIC SCHOOLS

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HARMONY PUBLIC SCHOOLS

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HARMONY PUBLIC SCHOOLS

071-806
101-858
015-828
101-846
227-816
161-807
101-862

(Federal Employer Identification Number: 76-0615245)

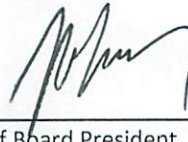
CERTIFICATE OF BOARD

June 30, 2021

We, the undersigned, certify that the attached Annual Financial and Compliance Report of Harmony Public Schools was review and approved disapproved for the year ended June 30, 2021, at a meeting of the governing body of said charter school on the 13th day of November, 2021.



Signature of Board Secretary



Signature of Board President

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Harmony Public Schools
Houston, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Harmony Public Schools (a nonprofit organization) ("HPS"), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HPS as of June 30, 2021, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

To the Board of Directors of
Harmony Public Schools

Other Matters

Report on Summarized Comparative Information

We have previously audited HPS' June 30, 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 9, 2020. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2020 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2021, on our consideration of HPS'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 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 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 HPS's internal control over financial reporting and compliance.



Houston, Texas
November 5, 2021

FINANCIAL STATEMENTS



HARMONY PUBLIC SCHOOLS
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 56,037,114	\$ 36,131,087
Restricted cash	38,504,774	35,295,071
Investments	92,251,640	85,456,437
Receivables	72,314,141	65,099,280
Other receivables	5,157,896	1,821,298
Prepays	1,424,440	149,002
Total Current Assets	<u>265,690,005</u>	<u>223,952,175</u>
Property and Equipment:		
Land	72,942,651	47,722,900
Buildings and improvements	392,351,505	383,332,834
Furniture and equipment	39,666,586	35,607,930
Construction in progress	27,848,819	16,052,288
Right-of-use asset under lease	124,592,421	113,450,195
	<u>657,401,982</u>	<u>596,166,147</u>
Less: Accumulated depreciation and amortization	<u>(159,123,281)</u>	<u>(138,736,592)</u>
	498,278,701	457,429,555
Other Assets:		
Deposits	274,709	232,452
Total Assets	<u>\$ 764,243,415</u>	<u>\$ 681,614,182</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 13,215,825	\$ 9,242,906
Accrued liabilities	4,994,096	1,296,464
Wages payable	34,819,675	29,332,738
Payroll taxes payable	14,010,125	11,908,600
Interest payable	6,935,567	7,040,432
Deferred revenue	85,815	76,675
Current portion of lease liability	4,679,044	3,778,367
Current portion of bonds payable	6,625,000	6,315,000
Total Current Liabilities	<u>85,365,147</u>	<u>68,991,182</u>
Long-Term Liabilities:		
Lease liability net of current portion	112,117,256	105,995,772
Notes payable	64,200,157	26,196,190
Bonds payable net of premium, discount, issuance costs and current portion	<u>373,207,875</u>	<u>380,797,277</u>
Total Liabilities	<u>634,890,435</u>	<u>581,980,421</u>
Net Assets:		
Without donor restrictions	32,353,181	28,878,221
With donor restrictions	96,999,799	70,755,540
Total Net Assets	<u>129,352,980</u>	<u>99,633,761</u>
Total Liabilities and Net Assets	<u>\$ 764,243,415</u>	<u>\$ 681,614,182</u>

HARMONY PUBLIC SCHOOLS
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020
Support and Revenue				
Federal grants	\$ -	\$ 45,628,418	\$ 45,628,418	\$ 44,046,699
State and local grants	-	381,898,886	381,898,886	349,669,234
Donations	840,105	-	840,105	-
Interest Income	1,092,791	-	1,092,791	2,171,431
Other income	7,056,382	61,930	7,118,312	8,949,539
Net assets released from restrictions	400,359,248	(400,359,248)	-	-
Total revenues	<u>409,348,526</u>	<u>27,229,986</u>	<u>436,578,512</u>	<u>404,836,903</u>
Expenses				
Salaries	245,105,976	-	245,105,976	235,196,736
Employee benefits	26,662,149	-	26,662,149	24,454,859
Payroll tax expense	4,564,280	-	4,564,280	4,183,335
Professional fees	25,042,207	-	25,042,207	29,736,327
Occupancy	3,763,951	-	3,763,951	3,367,342
Equipment costs	3,664,915	-	3,664,915	4,906,506
Supplies	30,197,307	-	30,197,307	20,941,779
Interest	22,708,802	-	22,708,802	23,573,685
Repairs & maintenance	10,355,763	-	10,355,763	9,396,504
Utilities	5,728,536	-	5,728,536	5,906,878
Travel	311,024	-	311,024	2,423,642
Insurance	1,719,514	-	1,719,514	1,357,349
Other expense	6,852,234	-	6,852,234	7,317,518
Depreciation and amortization	18,933,804	-	18,933,804	19,698,407
Amortization of bond issuance costs	263,104	-	263,104	263,103
Total Expenses	<u>405,873,566</u>	<u>-</u>	<u>405,873,566</u>	<u>392,723,970</u>
Change in net assets from operations	<u>3,474,960</u>	<u>27,229,986</u>	<u>30,704,946</u>	<u>12,112,933</u>
Non-Operating Revenues (Expenses)				
Gain (Loss) on sale of investments	-	(985,727)	(985,727)	418,008
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(985,727)</u>	<u>(985,727)</u>	<u>418,008</u>
Total change in net assets	<u>3,474,960</u>	<u>26,244,259</u>	<u>29,719,219</u>	<u>12,530,941</u>
Net Assets, Beginning of Year	<u>28,878,221</u>	<u>70,755,540</u>	<u>99,633,761</u>	<u>87,102,820</u>
Net Assets, End of Year	<u>\$ 32,353,181</u>	<u>\$ 96,999,799</u>	<u>\$ 129,352,980</u>	<u>\$ 99,633,761</u>

HARMONY PUBLIC SCHOOLS
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 29,719,219	\$ 12,530,941
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of assets under capital lease	20,386,689	22,045,095
Amortization - premium on bonds	(1,227,508)	(1,227,506)
Amortization - bond issuance costs	263,104	263,106
(Increase) Decrease in receivables	(7,214,861)	(8,213,316)
(Increase) Decrease in other receivables	(3,336,598)	(596,311)
(Increase) Decrease in deposits	(42,257)	19,222
(Increase) Decrease in prepaids	(1,275,438)	321,212
Increase (Decrease) in accounts payable	3,972,919	589,398
Increase (Decrease) in wages payable	5,486,937	4,038,571
Increase (Decrease) in payroll taxes payable	2,101,526	1,674,832
Increase (Decrease) in accrued liabilities	3,697,632	339,141
Increase (Decrease) in due to state	-	(4,884)
Increase (Decrease) in deferred revenue	9,140	(279,180)
Increase (Decrease) in interest payable	(104,865)	(106,113)
Net Cash Provided (Used) by Operating Activities	<u>52,435,639</u>	<u>31,394,208</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(50,093,609)	(30,652,862)
Purchase of investments	(6,795,203)	6,172,302
Net Cash Provided (Used) by Investing Activities	<u>(56,888,812)</u>	<u>(24,480,560)</u>
Cash flows from Financing Activities		
Proceeds from loans	38,003,967	19,352,438
Repayment of bonds	(6,315,000)	(6,045,001)
Payments on lease liability	(4,120,064)	(3,948,386)
Net Cash Provided (Used) by Financing Activities	<u>27,568,903</u>	<u>9,359,051</u>
Net increase (decrease) in cash	23,115,730	16,272,699
Cash at Beginning of Year	<u>71,426,158</u>	<u>55,153,459</u>
Cash at End of Year	<u>\$ 94,541,888</u>	<u>\$ 71,426,158</u>
Cash Per the Statement of Financial Position		
Cash	\$ 56,037,114	\$ 36,131,087
Restricted Cash	38,504,774	35,295,071
Total Cash per the Statement of Financial Position	<u>\$ 94,541,888</u>	<u>\$ 71,426,158</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 23,234,816</u>	<u>\$ 24,956,780</u>



HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS

Note 1 - Organization

Harmony Public Schools ("HPS"), a nonprofit organization, provides curricula for students in grades kindergarten through 12. The school was incorporated in the State of Texas in September 1999, under the Texas Non-Profit Corporation Act. The Internal Revenue Service determined that HPS was exempt from federal income tax under section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3).

Pursuant to its charter granted by the State Board of Education in accordance with Texas Education Code Section 12, Subchapter D, Open-Enrollment Charter School, HPS operates as part of the state public school system subject to all federal and state laws and rules governing public schools. HPS is also subject to all laws and rules pertaining to open-enrollment charter schools in section 12 of the Texas Education Code.

Note 2 - Summary of Significant Accounting Policies

A. Principles of Consolidation

The consolidated financial statements include all of HPS's accounts. All significant intercompany balances and transactions have been eliminated.

B. Support and Revenue

Per the Texas Education Agency, revenues, generally, that are reported on the statement of activities may be presented in three broad categories.

- Local and intermediate sources such as contributions received from charter holder constituents, funds received pursuant to grants from local governmental and nongovernmental entities, and other sources, such as income from investments.
- State sources such as Foundation School Program funding and other formula or state grants.
- Federal sources such as funding through formula or discretionary grants awarded to the charter holder by the federal or state government

Support and revenue are recorded based on the accrual method.

C. Cash Donations and Donated Services

Cash donations are considered to be available for use without donor restrictions unless specifically restricted by the donor. No amounts have been reflected in the financial statements for donated services since no objective basis is available to measure the value of such donations. Nevertheless, a substantial number of volunteers have donated their time in connection with the program service and administration of the organization.

D. Comparative Totals and Reclassifications

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Accordingly, such information should be read in conjunction with the organization's financial statements for the year ended June 30 of the prior year, from which the summarized information was derived. In addition, Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. These changes were between the ROU asset, net of amortization and the related liability. The reclassifications had no impact on previously reported net assets.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

E. Contributions

In accordance with *Financial Accounting Standards Board Accounting Standards Codification 958 Not-For-Profit Entities-605 Revenue Recognition*, contributions received are recorded as support with or without donor restrictions depending on the existence or nature of any donor restrictions.

F. Property and Equipment

Property and equipment purchased by HPS is recorded at cost. Donations of property and equipment are recorded at their fair value at the date of the gift. All assets acquired with a value in excess of \$5,000 are recorded as fixed assets. Depreciation is provided on the straight-line method based upon estimated useful lives of five to thirty-nine years for depreciable assets. Gains and losses on retired or sold property and equipment are reflected in income for the period. The proceeds from such sales which are not legally required or expected to be reinvested in property and equipment are transferred to unrestricted net assets.

G. Pledges and Accounts Receivable

Contributions are recognized when the donor makes a promise to give to HPS which is in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor- restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

No provision has been made for uncollectible promises to give and accounts receivable as of the statement of financial position date, given that none have been identified.

H. Functional Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the notes to the financial statements. The Texas Education Agency mandates a specific account coding that requires open enrollment charter schools to record expenses to a unique combination of function and object. Generally, HPS records its expenses based on direct allocation by assigning each expense to a functional category based on direct usage. See Note 20. for more information.

I. Income Taxes

HPS qualifies as a tax-exempt organization under section 501 (c) (3) of the Internal Revenue Code and, therefore, has no provision for income taxes.

J. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are comprised of cash on hand and in banks. The cash accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. HPS has secured pledged collateral at 100% of its bank balances. HPS has not experienced any losses on such accounts.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

K. Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values on the statement of financial position. Unrealized gains and losses are included in the change in net assets. The Academy classifies its marketable debt securities as "held to maturity" if it has the positive intent and ability to hold the securities to maturity. All other marketable securities are classified as "available for sale." Realized gains and losses and unrealized gains and losses, determined using the specific identification method, are included in the change in net assets.

L. Fair Value Measurements

FASB ASC 820 *Fair Value Measurements and Disclosures* establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC 820 are as follows:

- Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets;
- Level 2: Significant direct or indirect, observable inputs other than quoted prices;
- Level 3: Unobservable inputs based on assumptions of the reporting entity.

The fair value measurement of assets and liabilities within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement.

M. Estimates

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

N. Compensated Absences

Permanent employees of HPS accumulate and vest paid-time-off at varying rates depending on exempt status and hourly rate. It is HPS' policy to accrue accumulated paid-time-off at year-end.

O. Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified as either without donor restrictions or with donor restrictions.

- *Net Assets Without Donor Restrictions* - Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
- *Net Assets With Donor Restrictions* - Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

O. Net Assets (continued)

In accordance with state law, a charter holder is entitled to receive state aid for the charter school based on student attendance; however, before the charter holder may reclassify state aid from net assets with donor restrictions to net assets without donor restrictions, it must meet a two part test.

1. First, the charter school must demonstrate that it expended state aid for the benefit of its students.
2. Second, the charter school must expend state aid consistent with TEC, §45.105(c).

As described in Note 14., the majority of HPS' revenue is comprised of state aid from the Texas Education Agency.

Note 3 - Defined Pension Plan

Plan Description

The charter school contributes to the Teacher Retirement System of Texas ("TRS"), a cost sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the charter school, but are the liability of the State of Texas. 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.

The plan operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government code, Title 8, Chapters 803 and 805 respectively. The Texas State legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701 or by calling the TRS Communications Department at 1-800- 223- 8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications Heading.

Charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer plans. Assets contributed to a multi-employer plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The TRS Annual Comprehensive Financial Report available dated August 31, 2019 and August 31, 2020 indicated the following:

<u>TRS Pension Fund</u>	<u>Total Plan Assets</u>	<u>TRS Plan Fiduciary Net Position</u>	<u>Total Pension Liability</u>	<u>Net Pension Liability</u>	<u>Percent Funded</u>
2020	\$ 184,361,870,581	\$ 165,416,245,243	\$ 218,974,205,084	\$ 53,557,959,841	75.54%
2019	181,800,159,205	157,978,199,075	209,961,325,288	51,983,126,213	75.24%
2018	176,942,453,923	154,568,902,000	209,611,329,000	55,042,427,000	73.74%

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 3 - Defined Pension Plan (continued)

Funding Policy

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 2020 thru 2025.

	Contribution Rates	
	2021	2020
Member	7.7%	7.7%
Non-employer contributing agency	7.5%	7.5%
Employers	7.5%	7.5%

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 1.5 percent of the member's salary beginning in fiscal year 2020, 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.

HPS employee contributions to the system for the year ended June 30, 2021 and June 30, 2020 were \$17,605,574 and \$16,819,122, respectively and were equal to the required contributions for the year. Total covered payroll was \$228,577,121 and \$218,438,959. Amounts paid as pension surcharges and Non-OASDI for 2021 were \$95,616 and \$3,621,366, respectively. Amounts paid as pension surcharges and Non-OASDI required amounts in 2020 were \$102,320 and \$3,276,478, respectively.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 3 - Defined Pension Plan (continued)

Funding Policy (continued)

Other contributions made from federal and private grants contributed at a rate of 7.50% and 7.50% for 2021 and 2020. Contributions totaled \$1,247,812 and \$1,254,915 for the years ended June 30, 2021 and 2020. The charter school's contributions into this plan do not represent more than 5% of the total contributions to the plan and the charter school was not assessed a surcharge. During fiscal years 2021 and 2020, the School also paid contributions related to amount above the statutory minimum totaling \$4,685,419 and \$3,727,448, respectively.

Note 4 - Defined Other Post-Employment Benefit Plan

Plan Description

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

Similar to the TRS Pension Plan discussed in Note C, charter schools are legally separate entities from the State and each other. Assets contributed by one charter or independent school district ("ISD") may be used for the benefit of an employee of another ISD or charter. The risk of participating in multi-employer pension plans is different from single-employer OPEB plans. Assets contributed to a multi-employer OPEB plan by one employer may be used to provide benefits to employees of other participating employers. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers. There is no withdrawal penalty for leaving the TRS system. There is no collective-bargaining agreement. The TRS Annual Comprehensive Financial Report available dated August 31, 2020

TRS Care Other Post-Employment Benefits (OPEB)	Total Plan Assets	TRS-Care Plan Fiduciary Net Position	Total OPEB Liability	Net OPEB Liability	Percent Funded
2020	\$ 2,146,681,144	\$ 1,996,317,932	\$ 40,010,833,815	\$ 38,014,515,883	4.99%
2019	1,475,508,564	1,292,022,349	48,583,247,239	47,291,224,890	2.66%
2018	1,001,649,953	798,574,633	50,729,490,103	49,930,915,470	1.57%

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2020.pdf, or by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter 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.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 4 - Defined Other Post-Employment Benefit Plan (continued)

Benefits Provided

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

TRS-Care Plan Premium Rates		
	<u>Medicare</u>	<u>Non-Medicare</u>
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 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. 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.

	<u>Contribution Rates</u>	
	<u>2021</u>	<u>2020</u>
Active Employee	0.65%	0.65%
Employers	0.75%	0.75%
Federal/Private Funding remitted by Employers	1.25%	1.25%

In fiscal year 2021, HPS contributed a total of \$1,918,780 of which, \$209,900 was for federally funded employees. Employees contributed a total \$1,486,241. Covered payroll for TRS-Care for fiscal year 2021 was \$228,577,121. In fiscal year 2020, HPS contributed a total of \$1,901,903 of which, \$220,972 was for federally funded employees. Employees contributed a total \$1,419,806. Covered payroll for TRS-Care for fiscal year 2020 was \$218,438,959.

Note 5 - Budget

The official school budget is prepared for adoption for required for all funds in the aggregate. The annual budget is adopted on a basis consistent with generally accepted accounting principles and is formally adopted by the Board of Directors.

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 6 - Investments

Investments presented below have been measured using Level 1 and Level 2 inputs as described in Note 2 K. above, Fair Value Measurements.

Fair Value Measurements as of June 30, 2021

Type of Investment	Level 1	Level 2	Level 3	Totals
Money Market/Commercial Paper	\$ 1,135,681	\$ -	\$ -	\$ 1,135,681
Certificates of Deposit	30,428,154	-	-	30,428,154
US Government Agencies	60,687,805	-	-	60,687,805
Total Investments at Fair Value:	<u>\$ 92,251,640</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 92,251,640</u>

Fair Value Measurements as of June 30, 2020 were as follows:

Type of Investment	Level 1	Level 2	Level 3	Totals
Money Market/Commercial Paper	\$ 19,270,590	\$ -	\$ -	\$ 19,270,590
Certificates of Deposit	30,888,572	-	-	30,888,572
US Government Agencies	35,297,275	-	-	35,297,275
Total Investments at Fair Value:	<u>\$ 85,456,437</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,456,437</u>

Realized losses totaled \$985,727 in 2021. In fiscal year 2020, HPS realized gains of \$418,008.

Certificate of Deposits

HSA- El Paso, HSA - Waco and HAS – Houston hold several certificates of deposits with six-month maturities that totaled \$30.4 million and \$30.9 million as of June 30, 2021 and June 30, 2020, respectively. The interest rates range from 0.03% to 3.18%. The certificates of deposit mature between July 2021 and November 2040.

Note 7 - Notes Payable

HPS's obligations under notes payable consist of the following:

On December 18, 2020, HPS entered into a loan under the Supplemental Master Trust Indenture No. 29. HPS can draw up to \$100,000,000 on the loan. Interest is due and payable semi-annually on June and December of each year. The maturity date is December 18, 2023. As of June 30, 2021, the balance as of the loan was \$64,200,157. The interest rate is 1.45% spread plus London Interbank Offered Rate (LIBOR) for one month.

On June 1, 2019, HPS entered into a loan under the Supplemental Master Trust Indenture No. 27. HPS can draw up to \$35,000,000 on the loan. Interest is due and payable semi-annually on June and December of each year. The maturity date is June 26, 2021. As of June 30, 2019, the balance as of the loan was \$6,843,752. The interest rate is 1.45% spread plus London Interbank Offered Rate (LIBOR) for one month. HPS increased its line of credit to \$60 million. The amount drawn on the loan during fiscal year 2020 was \$26,196,190. The line of credit matures in April 2023.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases

HPS accounts for leases in accordance with FASB ASC 842. HPS is the lessee for all of its leases.

At the inception of a contract, we assess whether the contract is or contains a lease. A contract is or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, HPS assess whether:

- The contract involved the use of an identified asset - this may be specified explicitly or implicitly and should be physically distinct or represent substantially all the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified.
- HPS has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- HPS has the right to direct the use of the asset. HPS has the right when it has decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, HPS has the right to direct the use of the asset if either HPS has the right to operate the assets or HPS designed the asset in a way that predetermined how and for what purpose it will be used.

A contract may contain multiple lease components; if so, HPS allocates the consideration in a contract to each lease component based on each component's relative stand-alone price. HPS is required to account for the right-to-use land and other assets separately unless the effect of doing so would be insignificant to the overall accounting for the transaction.

After separate lease components are identified, HPS applies the following steps to each separate lease component:

- Determine the lease term, generally calculated beginning at the lease commencement date
- Determine the lease payments, which may include fixed payments, variable lease payments, amount HPS will probably owe under residual value guarantees and payments related to renewal or termination options that HPS are reasonably certain to exercise.
- Determine the discount rate for the lease based on information available at lease commencement. For HPS, the discount rate implicit in the lease unless that rate cannot be readily determined, in which case we are required to use the incremental borrowing rate which ranges from 3% to 5%.

Finance Leases

HPS classifies leases as finance leases if they are not short-term leases (see below) and they meet any of the following criteria:

- The lease transfers ownership of the underlying asset to HPS by the end of the lease term.
- The lease grants HPS an option to purchase the underlying asset that HPS is reasonably certain to exercise.
- The lease term is for a major part of the remaining economic life of the underlying asset. If the commencement date is at or near the end of the underlying asset's economic life, this test does not apply.
- The present value of the sum of (1) the lease payments and (2) any lessee residual value guarantee not reflected in the lease payments equal or exceed substantially all of the underlying asset's fair value.
- The underlying asset is of such specialized nature that is expected to have no alternative use to the lessor at the end of the lease term.

For finance leases, HPS recognizes a right-of-use (ROU) asset and a lease liability at lease commencement.

The finance lease ROU asset is initially measured at cost, which comprises the sum of (1) the initial amount of the finance lease liability, (2) initial direct costs incurred (incremental costs that would not have been incurred if the lease had not been obtained) and (3) any lease payments made before or at lease commencement, (4) reduced for any lease incentives received.

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Finance Leases (continued)

Subsequent to commencement, HPS measures the ROU asset at cost, less accumulated amortization and any accumulated impairment losses.

HPS amortizes the finance ROU asset on a straight-line basis over the period from the commencement date to the earlier (2) the end of the useful life of the ROU asset or (2) the end of the lease term. However, if the lease transfers ownership of the underlying asset to us, or if we are reasonably certain to exercise a purchase option to acquire the underlying, HPS amortizes the ROU asset to the end of the underlying asset’s useful life. In addition, the ROU asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The finance lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the discount rate determined at commencement. Subsequent to commencement, we measure the finance lease liability on an amortized cost basis using the effective interest method. The lease liability is remeasured when (1) there is a change in future lease payment arising from a change in a rate or index, (2) there is a change in the estimate of the amount HPS expects to pay under a residual value guarantee or (3) if we change our assessment of whether we will exercise a purchase , extension or termination option.

Finance lease ROU assets are included in property and equipment, net in the consolidated financial statement of HPS and in each District in the Statement of Financial Position. Finance lease liabilities are included in the current portion of long-term debt and long-term debt, net. Amortization on the ROU assets is included in the properly functional expense based on the use of the buildings.

HPS leases several buildings under two finance lease agreements. The leases expire in 2046 and 2048. The following is a schedule of future minimum payment required under HPS’s finance lease liabilities together with their present value as of June 30, 2021.

<u>Year Ending June 30</u>	
2022	\$ 6,080,634
2023	6,186,290
2024	6,187,395
2025	6,184,657
2026	6,181,686
Thereafter	<u>154,480,374</u>
Total payments due under finance lease liabilities	185,301,036
Less discount to present value	<u>(88,777,687)</u>
Total finance lease liabilities	<u><u>\$ 96,523,349</u></u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Finance Leases (continued)

ROU assets under finance lease for fiscal years 2021 and 2020, net are as follows:

	FY 2021
Buildings	\$ 99,832,188
Accumulated amortization	<u>(10,252,025)</u>
	<u>\$ 89,580,163</u>

	FY 2020
Buildings	\$ 99,832,187
Accumulated amortization	<u>(7,446,330)</u>
	<u>\$ 92,385,857</u>

Finance lease costs and cash paid for fiscal year 2021 is disclosed below:

Amortization of right-of-use assets	\$ 2,805,696
Interest on lease liabilities	<u>4,853,259</u>
Total financing lease costs	<u>\$ 7,658,955</u>

Cash Paid for Finance Leases

Cash paid for amounts included in the measurement of finance lease liabilities - operating cash flows	\$ 4,858,104
Cash paid for amounts included in the measurement of finance lease liabilities - finance cash flows	<u>1,162,728</u>
Total cash paid for finance leases	<u>\$ 6,020,832</u>

Finance lease costs and cash paid for fiscal year 2020 is disclosed below:

Amortization of right-of-use assets	\$ 3,315,633
Interest on lease liabilities	<u>4,765,130</u>
Total financing lease costs	<u>\$ 8,080,763</u>

Cash Paid for Finance Leases

Cash paid for amounts included in the measurement of finance lease liabilities - operating cash flows	\$ 4,765,130
Cash paid for amounts included in the measurement of finance lease liabilities - finance cash flows	<u>816,170</u>
Total cash paid for finance leases	<u>\$ 5,581,300</u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Operating Leases

HPS classifies leases as operating leases if they are not short-term leases (see below) or finance lease (see above).

For operating leases, HPS recognizes the ROU asset and a lease liability at lease commencement; the initial liability and ROU asset are calculated the same for operating leases as described above for finance leases. Subsequent to commencement, HPS measures operating ROU assets at (1) the carrying amount of the operating lease liability, (2) plus unamortized initial direct costs and any prepaid lease payments, (3) less any accrued lease payments and the unamortized balance of any lease incentives received. However, if an operating lease ROU asset is impaired, HPS measures the ROU asset on a straight-line basis from the date of the impairment to the earlier of the end of the ROU asset’s useful life or the end of the lease term. Operating lease ROU assets are included in property equipment since the operating leases pertain to buildings.

HPS has 11 buildings under 11 separate operating leases. The following is a schedule of future minimum payments required under HPS’ operating lease liabilities together with their present value as of June 30, 2021.

Year Ending June 30,	Amount
2022	\$ 4,290,296
2023	4,434,433
2024	4,525,883
2025	4,495,612
2026	3,013,367
Thereafter	<u>2,449,468</u>
Total payments due under operating lease liabilities	\$ 23,209,059
Less discount to present value	<u>(2,936,108)</u>
	<u>\$ 20,272,951</u>

ROU assets under operating leases for fiscal years 2021 and 2020, net are as follows:

FY 2021 Right-to-Use Assets Under Operating Leases

Buildings	\$ 24,760,233
Accumulated Amortization	<u>(5,901,525)</u>
	<u>\$ 18,858,708</u>

FY 2020 Right-to-Use Assets Under Operating Leases

Buildings	\$ 13,618,007
Accumulated Amortization	<u>(2,742,100)</u>
	<u>\$ 10,875,907</u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 8 - Operating and Finance Leases (continued)

Operating Leases (continued)

Other required disclosures on HPS' operating leases for fiscal years 2021 and 2020 are as follows:

Operating lease costs for FY 2021	
Periodic lease cost	\$ 3,748,152
Accretion of lease liability	4,234,649
Adjustment to the right-of-use asset	<u>\$ 7,982,801</u>
Rental Payments during fiscal year 2020	\$ 3,917,272
Accretion of lease liability	4,234,649
Increase in operating lease liability	<u>\$ 8,151,921</u>
Beginning of operating lease liability	\$ 12,121,030
Increase in operating lease liability	8,151,921
Ending operating lease liability as of June 30, 2020	<u>\$ 20,272,951</u>

In 2021, HPS had lease modifications which increased the lease liability.

Operating lease costs for FY 2020	
Periodic lease cost	\$ 3,323,582
Accretion of lease liability	(581,482)
Adjustment to the right-of-use asset	<u>\$ 2,742,100</u>
Rental Payments during fiscal year 2020	\$ 3,739,197
Accretion of lease liability	(581,482)
Decrease in operating lease liability	<u>\$ 3,157,715</u>
Beginning operating lease liability	\$ 15,278,745
Decrease in operating lease liability	(3,157,715)
Ending operating lease liability as of June 30, 2020	<u>\$ 12,121,030</u>

HPS cash paid for operating leases \$3,917,272 in FY 2021 and \$674,748 in fiscal year 2020.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 9 - Restricted Cash

Restricted cash at June 30, 2021 and June 30, 2020, consisted of project fund, debt service fund, debt service reserve fund, and sinking fund bond cash accounts. These funds are to be solely used in the construction and acquisition of new facilities and repayment of bond liabilities and cannot be used for normal operating expenditures.

Note 10 - Bonds Payable

HPS has secured bond financing pursuant to Chapter 53 of the Texas Education Code of "Qualified Tax Exempt" Education Revenue Series Bonds, 2012A, 2014A, 2015, 2016A and 2017A in the amounts of: \$31,350,000; \$101,555,000; \$106,745,000; \$55,405,000; and \$40,540,000, respectively. HPS has also received proceeds from Taxable Educational Revenue Bonds, Q Series (Qualified School Construction Bonds) 2010Q, 2011Q, and 2014Q in the amounts of \$39,910,000; \$5,085,000; and \$8,880,000, respectively. The bonds are limited obligations of the issuer, payable solely from revenues received by the issuer pursuant to a loan agreement between the issuer and the borrower. Bonds payable at June 30, 2021, consist of the following:

2010 Q Bonds, 8.13% interest; Principal is deposited annually to a sinking fund account; interest is due in semi-annual installments, commencing February 15, 2011; bond matures in 2027.	\$ 39,910,000
2011Q Bonds, 8.75% interest; principal is deposited annually to a sinking fund account; interest is due in semi-annual installments, commencing November 15, 2011; maturity dates range from 2014 to 2026.	5,085,000
2012A Bonds, 4% - 5% interest; principal due annually commencing February 15, 2014; interest due semi-annually commencing August 15, 2012; maturity dates range from 2014 - 2042.	26,436,971
2014A Bonds, 1.5% - 5% interest; principal due annually commencing February 15, 2015; interest due semi-annually commencing February 15, 2015; maturity dates range from 2015 to 2044.	85,965,000
2014Q Bonds, 4.733% interest; principal due annually commencing February 15, 2017; interest due semi-annually commencing February 15, 2015; maturity dates range from 2017 to 2036.	8,880,000
2015 Bonds, 2% - 5% interest; principal due annually commencing February 15, 2016; interest due semi-annually commencing February 15, 2016; maturity dates range from 2016 to 2041.	102,965,000
2016A Bonds, 2% - 5% interest; principal due annually commencing February 15, 2017; interest due semi-annually commencing August 15, 2016; maturity dates range from 2017 to 2046.	50,105,000
2017A Bonds, 3.0% - 5.0% interest; principal due annually commencing February 15, 2020; interest due in semi-annual installments, commencing February 15, 2018; maturity dates range from 2020 to 2047.	<u>37,870,000</u>
Total	357,216,971
Plus original issue premium	27,800,758
Less issuance costs on debt	(5,184,854)
Less current portion of debt	(6,625,000)
	<u>\$ 373,207,875</u>

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 10 - Bonds Payable (continued)

Future maturities of bonds payable over the next five years are as follows:

Year Ending June 30,	Principal	Interest	Total
2022	\$ 6,625,000	\$ 18,644,042	\$ 25,269,042
2023	6,925,000	18,339,692	25,264,692
2024	7,275,000	18,008,142	25,283,142
2025	7,630,000	17,644,392	25,274,392
2026	13,080,000	17,262,892	30,342,892
Thereafter	315,681,971	131,006,334	446,688,305
Total	<u>357,216,971</u>	<u>\$ 220,905,494</u>	<u>\$ 578,122,465</u>
Plus original issue premium	27,800,758		
Less issuance cost on debt	<u>(5,184,854)</u>		
Amount of bonds net of discount and premium	<u>\$ 379,832,875</u>		

HPS must maintain debt service reserve funds for the outstanding Series 2012A bonds, which funds are required to maintain minimum balances equal to the lesser of Maximum Annual Debt Service on the Bonds, 1.25 time the average annual Debt Service on the Bonds, or ten percent of the initial principal amount of the Bonds. At June 30, 2021 and June 30, 2020, the debt service reserve fund for the Series 2012A bonds had a cash balance of \$2,669,947 and \$2,446,267, respectively. The amounts in both fiscal years exceeded minimum balance requirements.

Note 11 - Bond Sinking Fund Obligations

HPS is required to deposit amounts restricted to the repayment of principal into three sinking funds on an annual basis. The sinking funds are restricted to the retirement of debt issued with respect to the 2010Q series, 2011Q series, and 2014Q series of bonds. Future sinking fund obligations of notes payable are as follows:

Year Ending June 30,	Deposits
2022	2,547,288
2023	2,549,961
2024	2,553,162
2025	2,549,404
2026	2,565,537
Thereafter	7,263,113
Total	<u>\$ 20,028,465</u>

Note 12 - Bond Debt Covenants

The bond agreements contain certain restrictions and covenants. HPS is required to maintain a ratio of available revenue (without excluding any discretionary expenses incurred during the fiscal year) that must be equal to 1.10 times the annual debt service requirements. HPS's minimum available excess revenue requirements totaled \$27,773,890 and \$27,808,749 for fiscal years 2021 and 2020. At 2020 and 2021, HPS met the covenant requirements holding available revenue of \$59.5 million and \$51.5 million. Additionally, HPS needs to maintain an operating reserve that covers 45 days of budgeted expenses at the end of each fiscal year. For the fiscal years 2020 and 2021, HPS was required to have \$43,051,411 and \$51,352,465, respectively, in operating accounts. For 2020 and 2021, HPS met the covenant with an available cash balance of \$121,587,524 and \$141,219,209.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 13 - State Aid Revenue and Receivables

During fiscal year 2021 and 2020, HPS earned approximately \$348.2 million and \$349.7 million in State Aid, which made up 80 percent and 86 percent of total revenue in 2021 and 2020, respectively. As of June 30, 2021 and 2020, HPS had outstanding receivables of \$72.3 million and \$65.1 million, respectively. The various components of the outstanding receivables are shown below.

	2021	2020
Due from TEA - Federal Grants	\$ 8,892,074	\$ 10,167,874
Due from TEA - State Aid	60,525,244	52,991,567
Due from TEA - State Grants	559,971	545,441
Due from Federal Government	434,271	263,731
Due from Other	1,902,581	1,130,667
	<u>\$ 72,314,141</u>	<u>\$ 65,099,280</u>

Note 14 - Commitments and Contingencies

HPS receives funds through state and federal programs that are governed by various statutes and regulations. State program funding is based primarily on student attendance data submitted to the Texas Education Agency and is subject to audit and adjustment. Expenses charged to federal programs are subject to audit and adjustment by the grantor agency. The programs administered by the charter school have complex compliance requirements, and should state or federal auditors discover areas of noncompliance, charter school funds may be subject to refund if so determined by the Texas Education Agency or the grantor agency.

Note 15 - Health Care Coverage

During the years ended June 30, 2020 and 2021, employees of HPS were covered by a group insurance plan. The money will make health benefits contributions towards the employee’s selected plan monthly as shown in the table below:

Role/Salary Band	HPS Contribution
1	\$825
2, 3	\$625
4	\$425
5, 6	\$325
Teacher	\$325
Non-exempt	\$325

Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer.

Note 16 - Net Assets with Donor Restrictions

Net assets with donor restrictions as of June 30, 2021 and 2020 are as follows:

	As of June 30, 2021	As of June 30, 2020
Federal funds	\$ 1,845,552	\$ 2,464,532
State funds	91,147,805	64,294,243
Local funds	4,006,442	3,996,765
Total with Donor Restrictions	<u>\$ 96,999,799</u>	<u>\$ 70,755,540</u>

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 16 - Net Assets with Donor Restrictions (continued)

Net assets were released from restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors as follows:

	For the Year Ended June 30, 2021	For the Year Ended June 30, 2020
State funds	\$ 356,874,826	\$ 336,118,944
Federal funds	43,484,422	44,834,140
Total Restrictions released	\$ 400,359,248	\$ 380,953,084

Note 17 - Lawsuits and Contingencies

HPS is subject to claims and lawsuits that arise in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the financial position of the company.

Note 18 - Elimination Entries

Description	Balance Before Eliminations	Eliminations	Consolidated Balance
Revenue	\$ 463,553,940	\$ (26,975,428)	\$ 436,578,512
Expenses	432,848,994	(26,975,428)	405,873,566
Change in Operatng Net Assets	<u>\$ 30,704,946</u>	<u>\$ -</u>	<u>\$ 30,704,946</u>

Eliminations consist of the following:

Central office allocation	\$ 26,065,428
Rental income	910,000
Total	\$ 26,975,428

HARMONY PUBLIC SCHOOLS
NOTE TO FINANCIAL STATEMENTS (continued)

Note 19 - Functional Expenses

The District’s expenses are coded directly to the functional category as established by the Texas Education Agency. Below expenses are reflected by functional category and natural classification or object class.

Expense by Functional Category	Expenses by Object Class					Total	FY 2020
	Payroll Costs	Contracted Services	Supplies and Materials	Other Operating Costs	Debt (Interest and fees)		
11 Instruction	\$ 188,210,265	\$ 8,669,643	\$ 24,602,037	\$ 745,342	\$ -	\$ 222,227,287	\$ 213,245,476
12 Instructional resources and media services	3,630	-	7,849	6,366	-	17,845	22,301
13 Curriculum development and instructional staff development	21,185,921	3,187,743	484,317	370,087	-	25,228,068	19,393,845
21 Instructional leadership	1,891,071	715,462	4,388	21,863	-	2,632,784	2,167,819
23 School leadership	34,660,940	386,493	176,622	600,549	-	35,824,604	35,958,330
31 Guidance, counseling and evaluation services	5,719,485	1,767,487	-	-	-	7,486,972	7,403,008
33 Health services	-	7,357	1,188,650	6,628	-	1,202,635	177,513
34 Student Transportation	-	83,527	-	-	-	83,527	1,214,980
35 Food service	1,854,560	4,608,254	56,932	33,673	-	6,553,419	11,079,622
36 Cocurricular/Extracurricular activities	-	37,591	1,306,055	785,666	-	2,129,312	4,074,996
41 General administration	16,413,136	5,990,285	346,992	3,039,766	-	25,790,179	22,234,633
51 Plant maintenance and operations	1,579,590	20,282,529	1,875,365	21,687,377	-	45,424,861	43,370,925
52 Security and monitoring services	189,103	1,171,072	12,477	57,584	-	1,430,236	1,529,563
53 Data processing services	4,624,704	1,647,929	135,623	239,006	-	6,647,262	6,715,436
71 Debt service	-	-	-	-	23,194,575	23,194,575	24,135,523
	<u>\$ 276,332,405</u>	<u>\$ 48,555,372</u>	<u>\$ 30,197,307</u>	<u>\$ 27,593,907</u>	<u>\$ 23,194,575</u>	<u>\$ 405,873,566</u>	<u>\$ 392,723,970</u>

Note 20- Liquidity and Availability

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the date of the statement of financial position, comprise the following:

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
Cash and cash equivalents	\$ 8,768,777	\$ 20,555,087
Receivables	<u>1,902,581</u>	<u>1,130,667</u>
	<u>\$ 10,671,358</u>	<u>\$ 21,685,754</u>

Per the Texas Education Agency, Foundation School Program revenues should be classified as revenue with donor restrictions. However, the funds do not have a time restriction, but must be used for education purposes in accordance with State law. As such, there are cash, investments and receivables that are due from the State and are available for use for educational purposes. As part of HPS’ liquidity management practice, we monitor the cash on daily and monthly basis and invest cash in excess of requirements in short-term investments and CDs.

HARMONY PUBLIC SCHOOLS

NOTE TO FINANCIAL STATEMENTS (continued)

Note 21 - Subsequent Events

As of September 2, 2021, the Texas Education Agency informed local education agencies (LEAs) that it has no plans to issue missed school day waivers due to COVID-19 during the 2021-2022 school year when the LEA or its campuses are closed. Each LEA will need to plan to make up time for school closures during the school year and may need to add additional instructional days and/or minutes to their calendar to meet the 75,600 operational minute requirement.

LEAs have reported to TEA that attendance rate declines continue to occur due to COVID-19. As a result, TEA is exploring options to ensure school systems will not experience significant financial difficulties. Additionally, LEAs had varying daily rates of attendance during the 2020-2021 school year due to the impact of virtual learning options. Once TEA receives this local information in a PEIMS upload this fall, it will be equipped to analyze, understand, and determine potential changes to the rules around waivers, particularly low attendance waivers. As of the date of this report, HPS has not determined the impact.

HPS has evaluated subsequent events through November 5, 2021, which is the date the financial statements were available to be issued.

On August 5, 2021, HPS issued bond series 2021 AB in the amount of \$170 million. The bond will be used to repay the outstanding balance on the loan and new money for the purchase of land and construction project.

Note 22 - Related Party Transactions.

HPS' success has received both national and international recognition for its curriculum, programs, training, operations and administration. The HPS Board finds that marketing of these products (i.e. intellectual property) would create revenue for HPS. As such, on February 22, 2020, the HPS Board approved the creation of the Harmony Education Solutions (HES), a limited liability company. The Board of HPS serves as the Board of HES. As of June 30, 2020, HES has received a license to sub-license Harmony's intellectual property and accompanying services. HPS applied to the Texas Education Agency for approval of the trademark licensing transaction between HES and HPS as required by Senate Bill 1454 passed by the Texas 86th Legislature. A percentage, ranging from 2 percent to 10 percent, of the licensing revenue generated by HES will be remitted to HPS. These payments will be considered related party transactions. As of June 30, 2020, HES did not generate any licensing revenue. In future years, the financial statements of HES will be consolidated with the financial statements of HPS and revenue paid by HES to HPS will be eliminated prior to consolidating the financial statements. For fiscal year 2021, HES generated \$595,001 in revenues and incurred \$560,940 in expenses. Cash for HES totaled \$133,077 as of June 30, 2021 and was offset by liabilities of \$99,016. HES did not remit any of its licensing revenue to HPS and as such elimination entries were not needed.



**INDEPENDENT AUDITOR'S REPORT ON
SUPPLEMENTARY INFORMATION**

To the Board of Directors of
Harmony Public Schools
Houston, Texas

We have audited the financial statements of Harmony Public Schools as of and for the year ended June 30, 2021, and our report thereon dated November 5, 2021, which expressed an unmodified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules for individual charter schools beginning on page 31 are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink that reads "Whitley Penn LLP".

Houston, Texas
November 5, 2021



HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 5,580,815	\$ 2,431,137
Restricted cash	8,785,809	8,111,979
Investments	9,441,896	9,219,137
Receivables	7,539,874	6,683,312
Other receivables	120,701	128,237
Prepays	134,877	-
Total Current Assets	<u>31,603,972</u>	<u>26,573,802</u>
Property and Equipment:		
Land	7,225,861	7,225,861
Buildings and improvements	61,449,118	61,055,671
Furniture and equipment	4,451,044	3,928,394
Construction in progress	1,366,493	765,986
	<u>74,492,516</u>	<u>72,975,912</u>
Less: Accumulated depreciation	(24,473,980)	(22,262,367)
	<u>50,018,536</u>	<u>50,713,545</u>
Total Assets	<u>\$ 81,622,508</u>	<u>\$ 77,287,347</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,286,524	\$ 576,177
Accrued liabilities	36	11,736
Wages payable	3,592,266	2,937,653
Payroll taxes payable	1,350,174	1,140,161
Interest payable	1,163,638	1,180,603
Deferred revenue	19,372	10,232
Current portion of bonds payable	1,092,425	92,961
Total Current Liabilities	<u>8,504,435</u>	<u>5,949,523</u>
Long-Term Liabilities:		
Notes payable net of current portion	845,656	326,908
Bonds payable net of premium, discount, issuance costs and current portion	<u>58,019,061</u>	<u>60,150,380</u>
Total Liabilities	<u>67,369,152</u>	<u>66,426,811</u>
Net Assets:		
Without donor restrictions	10,687,659	9,650,472
With donor restrictions	<u>3,565,697</u>	<u>1,210,064</u>
Total Net Assets	<u>14,253,356</u>	<u>10,860,536</u>
Total Liabilities and Net Assets	<u>\$ 81,622,508</u>	<u>\$ 77,287,347</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020
Revenues				
Local Support:				
5740	\$ 1,812,672	\$ -	\$ 1,812,672	\$ 2,061,667
5750	119,517	1,557	121,074	395,078
	<u>1,932,189</u>	<u>1,557</u>	<u>1,933,746</u>	<u>2,456,745</u>
State Program Revenues:				
5810	-	39,586,213	39,586,213	35,525,961
5820	-	372,183	372,183	425,258
5830	-	21,315	21,315	-
	<u>-</u>	<u>39,979,711</u>	<u>39,979,711</u>	<u>35,951,219</u>
Federal Program Revenues:				
5920	-	4,209,526	4,209,526	3,877,719
5930	-	409,164	409,164	26,699
5940	-	634,978	634,978	938,523
	<u>-</u>	<u>5,253,668</u>	<u>5,253,668</u>	<u>4,842,941</u>
Net Assets Released from Restrictions:				
	42,843,666	(42,843,666)	-	-
	<u>44,775,855</u>	<u>2,391,270</u>	<u>47,167,125</u>	<u>43,250,905</u>
Expenses				
11	23,500,381	-	23,500,381	22,528,037
12	6,452	-	6,452	670
13	-	-	-	-
	<u>2,818,587</u>	<u>-</u>	<u>2,818,587</u>	<u>2,023,180</u>
21	234,389	-	234,389	119,151
23	3,829,357	-	3,829,357	3,715,079
31	817,771	-	817,771	972,100
33	45,212	-	45,212	17,836
34	-	-	-	-
35	535,545	-	535,545	1,055,497
36	250,554	-	250,554	310,941
41	2,648,331	-	2,648,331	2,367,821
51	5,363,849	-	5,363,849	4,568,883
52	130,253	-	130,253	187,808
53	481,489	-	481,489	523,326
71	3,076,498	-	3,076,498	3,128,240
	<u>43,738,668</u>	<u>-</u>	<u>43,738,668</u>	<u>41,518,569</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Change in net assets from operations	\$ 1,037,187	\$ 2,391,270	\$ 3,428,457	\$ 1,732,336
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(35,637)	(35,637)	47,471
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(35,637)</u>	<u>(35,637)</u>	<u>47,471</u>
Total change in net assets	<u>1,037,187</u>	<u>2,355,633</u>	<u>3,392,820</u>	<u>1,779,807</u>
Net Assets, Beginning of Year	<u>9,650,472</u>	<u>1,210,064</u>	<u>10,860,536</u>	<u>9,080,729</u>
Net Assets, End of Year	<u>\$ 10,687,659</u>	<u>\$ 3,565,697</u>	<u>\$ 14,253,356</u>	<u>\$ 10,860,536</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,392,820	\$ 1,779,807
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	2,211,613	2,174,717
Amortization - premium on bonds	(135,520)	(135,519)
Amortization - bond issuance costs	44,260	44,258
(Increase) Decrease in receivables	(856,562)	(713,484)
(Increase) Decrease in other receivables	7,536	125,877
Increase (Decrease) in accounts payable	710,347	54,143
Increase (Decrease) in wages payable	654,613	490,823
Increase (Decrease) in payroll taxes payable	210,013	125,101
Increase (Decrease) in accrued liabilities	(11,700)	(87,487)
Increase (Decrease) in interest payable	(16,965)	(17,041)
Increase (Decrease) in due to state	-	(1,300)
Increase (Decrease) in deferred revenue	9,140	(5,057)
Net Cash Provided (Used) by Operating Activities	<u>6,084,718</u>	<u>3,834,838</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(1,516,604)	(989,438)
Purchase of investment	(222,759)	(205,136)
Net Cash Provided (Used) by Investing Activities	<u>(1,739,363)</u>	<u>(1,194,574)</u>
Cash Flows from Financing Activities		
Repayment of loans	(326,908)	(325,483)
Repayment of bonds	(1,040,595)	(994,481)
Proceeds from loans	845,656	326,908
Net Cash Provided (Used) by Financing Activities	<u>(521,847)</u>	<u>(993,056)</u>
Net increase (decrease) in cash	3,823,508	1,647,208
Cash at Beginning of Year	10,543,116	8,895,908
Cash at End of Year	<u>\$ 14,366,624</u>	<u>\$ 10,543,116</u>
Cash Per the Statement of Financial Position		
Cash	\$ 5,580,815	\$ 2,431,137
Restricted Cash	8,785,809	8,111,979
Total Cash per the Statement of Financial Position	<u>\$ 14,366,624</u>	<u>\$ 10,543,116</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 3,146,244</u>	<u>\$ 3,200,174</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll costs	\$ 27,855,351	\$ 26,583,062
6200 Professional and contracted services	7,097,443	7,061,880
6300 Supplies and materials	2,967,009	1,907,799
6400 Other operating costs	2,742,367	2,837,588
6500 Debt	<u>3,076,498</u>	<u>3,128,240</u>
Total Expenses	<u>\$ 43,738,668</u>	<u>\$ 41,518,569</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 53,764	\$ 14,284,917	\$ 27,943
1110	Investments	-	9,441,896	-
1510	Land and improvements	-	7,225,861	-
1520	Buildings and improvements	-	61,449,118	-
1539	Furniture and equipment	-	4,441,547	9,497
1580	Construction in progress	-	1,366,493	-
Total Property and Equipment		\$ 53,764	\$ 98,209,832	\$ 37,440

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - HOUSTON
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		<u>Budgeted Amounts</u>			<u>Variance from Final</u>
		<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 2,029,972	\$ 1,865,320	\$ 1,812,672	\$ (52,648)
5750	Revenue from curricular	440,307	270,130	121,074	(149,056)
	Total Local Support	<u>2,470,279</u>	<u>2,135,450</u>	<u>1,933,746</u>	<u>(201,704)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	36,825,527	40,165,582	39,586,213	(579,369)
5820	State program revenues distributed by Texas Education Agency	454,002	702,977	372,183	(330,794)
5830	State program revenues from State of Texas Government Agencies	-	-	21,315	21,315
	Total State Program Revenues	<u>37,279,529</u>	<u>40,868,559</u>	<u>39,979,711</u>	<u>(888,848)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	4,647,291	4,868,763	4,209,526	(659,237)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	-	409,164	409,164
5940	Federal revenues distributed directly from the Federal Government	216,275	810,200	634,978	(175,222)
	Total Federal Program Revenues	<u>4,863,566</u>	<u>5,678,963</u>	<u>5,253,668</u>	<u>(425,295)</u>
	Total Revenues	<u>44,613,374</u>	<u>48,682,972</u>	<u>47,167,125</u>	<u>(1,515,847)</u>
Expenses					
11	Instruction	22,933,529	24,390,260	23,500,381	889,879
12	Instructional resources and media services	-	11,900	6,452	5,448
13	Curriculum development and instructional staff development	2,144,360	2,938,378	2,818,587	119,791
21	Instructional leadership	29,811	232,600	234,389	(1,789)
23	School leadership	3,802,110	4,222,348	3,829,357	392,991
31	Guidance, counseling and evaluation services	1,387,238	854,533	817,771	36,762
33	Health services	32,800	71,215	45,212	26,003
35	Food service	1,247,212	708,017	535,545	172,472
36	Cocurricular/Extracurricular activities	366,872	282,573	250,554	32,019
41	General administration	2,994,760	2,917,684	2,648,331	269,353
51	Plant maintenance and operations	4,811,378	6,160,708	5,363,849	796,859
52	Security and monitoring services	242,500	213,073	130,253	82,820
53	Data processing services	673,663	509,297	481,489	27,808
71	Debt service	3,096,909	3,093,909	3,076,498	17,411
	Total Expenses	<u>43,763,142</u>	<u>46,606,495</u>	<u>43,738,668</u>	<u>2,867,827</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(35,637)	(35,637)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(35,637)</u>	<u>(35,637)</u>
	Change in net assets	<u>850,232</u>	<u>2,076,477</u>	<u>3,392,820</u>	<u>1,316,343</u>
	Net Assets, Beginning of Year as Restated	<u>10,860,536</u>	<u>10,860,536</u>	<u>10,860,536</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 11,710,768</u>	<u>\$ 12,937,013</u>	<u>\$ 14,253,356</u>	<u>\$ 1,316,343</u>



HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 4,944,146	\$ 1,970,552
Restricted cash	3,695,135	3,396,153
Investments	6,541,761	6,429,099
Receivables	8,003,439	7,941,036
Other receivables	160,475	219,901
Prepays	182,918	754
Total Current Assets	<u>23,527,874</u>	<u>19,957,495</u>
Property and Equipment:		
Land	7,971,685	3,647,473
Buildings and improvements	36,221,602	35,716,423
Furniture and equipment	4,200,362	3,884,910
Construction in progress	522,408	326,466
Right-of-use asset under lease	12,496,293	15,410,008
	<u>61,412,350</u>	<u>58,985,280</u>
Less: Accumulated depreciation	<u>(15,410,869)</u>	<u>(22,616,293)</u>
	46,001,481	36,368,987
Other Assets:		
Deposits	159,006	125,889
Total Assets	<u>\$ 69,688,361</u>	<u>\$ 56,452,371</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 968,943	\$ 1,113,997
Accrued liabilities	500	-
Wages payable	3,810,937	3,433,583
Payroll taxes payable	1,483,007	1,344,323
Interest payable	680,062	689,382
Deferred revenue	62,198	62,198
Current portion of lease liability	1,747,146	1,263,218
Current portion of bonds payable	622,427	594,734
Total Current Liabilities	<u>9,375,220</u>	<u>8,501,435</u>
Long-Term Liabilities:		
Lease liability net of current portion	8,887,323	3,449,853
Notes payable	4,351,010	
Bonds payable net of premium, discount, issuance costs and current portion	36,133,226	36,844,298
Total Liabilities	<u>58,746,779</u>	<u>48,795,586</u>
Net Assets:		
Without donor restrictions	2,859,812	2,990,604
With donor restrictions	8,081,770	4,666,181
Total Net Assets	<u>10,941,582</u>	<u>7,656,785</u>
Total Liabilities and Net Assets	<u>\$ 69,688,361</u>	<u>\$ 56,452,371</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020
Revenues				
Local Support:				
5740	\$ 555,491	\$ -	\$ 555,491	\$ 737,391
5750	58,724	12,593	71,317	538,971
	Total Local Support	12,593	626,808	1,276,362
State Program Revenues:				
5810	-	44,775,737	44,775,737	41,330,439
5820				
		389,648	389,648	479,287
5830	-	40,935	40,935	-
	Total State Program Revenues	45,206,320	45,206,320	41,809,726
Federal Program Revenues:				
5920				
		3,188,041	3,188,041	3,985,069
5930				
		444,314	444,314	11,091
5940	-	446,934	446,934	824,343
	Total Federal Program Revenues	4,079,289	4,079,289	4,820,503
Net Assets Released from Restrictions:				
	45,847,192	(45,847,192)	-	-
	Total Revenues	3,451,010	49,912,417	47,906,591
Expenses				
11	25,580,316	-	25,580,316	25,513,382
12	248	-	248	1,819
13				
	2,973,950	-	2,973,950	2,409,143
21	240,200	-	240,200	193,973
23	4,215,832	-	4,215,832	4,193,132
31	844,232	-	844,232	838,679
33	238,051	-	238,051	33,957
34	2,850	-	2,850	699,305
35	598,979	-	598,979	1,443,251
36	202,204	-	202,204	399,758
41	3,036,718	-	3,036,718	2,848,421
51	6,222,160	-	6,222,160	5,415,137
52	70,526	-	70,526	100,702
53	596,689	-	596,689	515,779
71	1,769,244	-	1,769,244	2,156,550
	Total Expenses	-	46,592,199	46,762,988

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Change in net assets from operations	\$ (130,792)	\$ 3,451,010	\$ 3,320,218	\$ 1,143,603
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(35,421)	(35,421)	29,642
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(35,421)</u>	<u>(35,421)</u>	<u>29,642</u>
Total Change in net assets	<u>(130,792)</u>	<u>3,415,589</u>	<u>3,284,797</u>	<u>1,173,245</u>
Net Assets, Beginning of Year	<u>2,990,604</u>	<u>4,666,181</u>	<u>7,656,785</u>	<u>6,483,540</u>
Net Assets, End of Year	<u>\$ 2,859,812</u>	<u>\$ 8,081,770</u>	<u>\$ 10,941,582</u>	<u>\$ 7,656,785</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,284,797	\$ 1,173,245
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,140,204	2,620,053
Amortization - premium on bonds	(114,020)	(114,020)
Amortization - bond issuance costs	25,286	25,287
(Increase) Decrease in accounts receivable	(62,403)	(1,292,063)
(Increase) Decrease in other receivables	59,426	(186,333)
(Increase) Decrease in prepaids	(182,164)	-
Increase (Decrease) in deposits	(33,117)	(241,236)
Increase (Decrease) in accounts payable	(145,054)	483,668
Increase (Decrease) in wages payable	377,354	599,951
Increase (Decrease) in payroll taxes payable	138,684	234,931
Increase (Decrease) in accrued liabilities	500	-
Increase (Decrease) in interest payable	(9,320)	(9,288)
Net Cash Provided (Used) by Operating Activities	<u>6,480,173</u>	<u>3,294,195</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(5,340,785)	(1,759,112)
Purchase of investment	(112,662)	(122,357)
Net Cash Provided (Used) by Investing Activities	<u>(5,453,447)</u>	<u>(1,881,469)</u>
Cash Flows from Financing Activities		
Proceeds from loan	4,351,010	-
Repayment of bonds	(594,645)	(570,957)
Payments on lease liability	(1,510,515)	(1,528,839)
Net Cash Provided (Used) by Financing Activities	<u>2,245,850</u>	<u>(2,099,796)</u>
Net increase (decrease) in cash	3,272,576	(687,070)
Cash at Beginning of Year	5,366,705	6,053,775
Cash at End of Year	<u>\$ 8,639,281</u>	<u>\$ 5,366,705</u>
Cash Per the Statement of Financial Position		
Cash	\$ 4,944,146	\$ 1,970,552
Restricted Cash	3,695,135	3,396,153
Total Cash per the Statement of Financial Position	<u>\$ 8,639,281</u>	<u>\$ 5,366,705</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 1,837,924</u>	<u>\$ 2,224,629</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll costs	\$ 30,858,617	\$ 30,290,099
6200 Professional and contracted services	8,620,658	10,247,453
6300 Supplies and materials	3,296,710	2,606,654
6400 Other operating costs	2,046,970	1,462,232
6500 Debt	<u>1,769,244</u>	<u>2,156,550</u>
Total Expenses	<u>\$ 46,592,199</u>	<u>\$ 46,762,988</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 202,045	\$ 8,437,236	\$ -
1110	Investments	-	6,541,761	-
1510	Land and improvements	-	7,971,685	-
1520	Buildings and improvements	1,124,900	34,868,502	228,200
1529	Right-to-use assets under leases	-	12,496,293	-
1539	Furniture and equipment	43,871	4,097,826	58,665
1580	Construction in progress	-	522,408	-
Total Property and Equipment		\$ 1,370,816	\$ 74,935,711	\$ 286,865

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - AUSTIN
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		Budgeted Amounts		Variance from Final	
		Original	Final	Actual Amounts	Budget
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 463,761	\$ 587,136	\$ 555,491	\$ (31,645)
5750	Revenue from curricular	740,196	276,202	71,317	(204,885)
	Total Local Support	<u>1,203,957</u>	<u>863,338</u>	<u>626,808</u>	<u>(236,530)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	42,326,734	45,334,073	44,775,737	(558,336)
5820	State program revenues distributed by Texas Education Agency	515,747	1,000,077	389,648	(610,429)
5830	State program revenues distributed directly from other state agencies	-	-	40,935	40,935
	Total State Program Revenues	<u>42,842,481</u>	<u>46,334,150</u>	<u>45,206,320</u>	<u>(1,127,830)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	3,834,096	3,594,783	3,188,041	(406,742)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	-	444,314	444,314
5940	Federal revenues distributed directly from the Federal Government	318,375	786,275	446,934	(339,341)
	Total Federal Program Revenues	<u>4,152,471</u>	<u>4,381,058</u>	<u>4,079,289</u>	<u>(301,769)</u>
	Total Revenues	<u>48,198,909</u>	<u>51,578,546</u>	<u>49,912,417</u>	<u>(1,666,129)</u>
Expenses					
11	Instruction	25,106,702	25,470,327	25,580,316	(109,989)
12	Instructional resources and media services	2,000	250	248	2
13	Curriculum development and instructional staff development	2,111,018	3,128,512	2,973,950	154,562
21	Instructional leadership	176,495	239,131	240,200	(1,069)
23	School leadership	4,230,952	4,342,326	4,215,832	126,494
31	Guidance, counseling and evaluation services	1,246,589	855,390	844,232	11,158
33	Health services	18,750	251,750	238,051	13,699
34	Student (pupil) transportation	635,098	22,998	2,850	20,148
35	Food service	1,674,832	848,471	598,979	249,492
36	Cocurricular/Extracurricular activities	609,500	267,639	202,204	65,435
41	General administration	2,889,223	3,262,845	3,036,718	226,127
51	Plant maintenance and operations	6,114,147	7,062,967	6,222,160	840,807
52	Security and monitoring services	95,575	87,175	70,526	16,649
53	Data processing services	654,764	660,581	596,689	63,892
71	Debt service	1,778,287	1,778,287	1,769,244	9,043
	Total Expenses	<u>47,343,932</u>	<u>48,278,649</u>	<u>46,592,199</u>	<u>1,686,450</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(35,421)	(35,421)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(35,421)</u>	<u>(35,421)</u>
	Change in net assets	<u>854,977</u>	<u>3,299,897</u>	<u>3,284,797</u>	<u>(15,100)</u>
	Net Assets, Beginning of Year	<u>7,656,785</u>	<u>7,656,785</u>	<u>7,656,785</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 8,511,762</u>	<u>\$ 10,956,682</u>	<u>\$ 10,941,582</u>	<u>\$ (15,100)</u>



HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 4,745,096	\$ 3,330,298
Restricted cash	4,574,703	4,110,901
Investments	7,690,245	7,504,760
Receivables	9,430,040	8,581,626
Other receivables	238,455	95,209
Prepays	164,301	2,803
Total Current Assets	<u>26,842,840</u>	<u>23,625,597</u>
Property and Equipment:		
Land	8,040,923	4,118,563
Buildings and improvements	49,962,846	49,665,613
Furniture and equipment	4,544,391	3,957,488
Construction in progress	1,978,883	1,020,277
Right-of-use asset under financing lease	4,906,228	7,319,848
	69,433,271	66,081,789
Less: Accumulated depreciation and amortization	<u>(15,702,096)</u>	<u>(15,821,688)</u>
	53,731,175	50,260,101
Other Assets:		
Deposits	26,890	26,890
Total Assets	<u>\$ 80,600,905</u>	<u>\$ 73,912,588</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,523,473	\$ 962,936
Accrued liabilities	58,974	9,739
Wages payable	4,539,395	3,682,759
Payroll taxes payable	1,847,985	1,542,793
Interest payable	870,573	884,726
Current portion of lease liability	783,399	744,814
Current portion of bonds payable	802,050	764,927
Total Current Liabilities	<u>10,425,849</u>	<u>8,592,694</u>
Long-Term Liabilities:		
Lease liability net of current portion	2,816,070	3,530,342
Notes payable net of current portion	5,577,941	864,019
Bonds payable net of premium, discount, issuance costs and current portion	47,623,193	48,559,634
Total Liabilities	<u>66,443,053</u>	<u>61,546,689</u>
Net Assets:		
Without donor restrictions	2,586,398	3,024,106
With donor restrictions	11,571,454	9,341,793
Total Net Assets	<u>14,157,852</u>	<u>12,365,899</u>
Total Liabilities and Net Assets	<u>\$ 80,600,905</u>	<u>\$ 73,912,588</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020
Revenues				
Local Support:				
5740	\$ 585,268	\$ -	\$ 585,268	\$ 585,610
5750	105,639	2,054	107,693	570,796
	Total Local Support	2,054	692,961	1,156,406
State Program Revenues:				
5810	-	47,773,511	47,773,511	45,005,623
5820	-	476,335	476,335	493,527
5830	-	10,394	10,394	-
	Total State Program Revenues	48,260,240	48,260,240	45,499,150
Federal Program Revenues:				
5920	-	5,201,096	5,201,096	5,300,364
5930	-	356,625	356,625	43,597
5940	-	750,152	750,152	889,554
	Total Federal Program Revenues	6,307,873	6,307,873	6,233,515
Net Assets Released from Restrictions:				
	Restrictions satisfied by payments	(52,325,885)	-	-
	Total Revenues	2,244,282	55,261,074	52,889,071
Expenses				
11	29,748,638	-	29,748,638	29,434,935
12	1,011	-	1,011	381
13	-	-	-	-
	3,705,261	-	3,705,261	2,563,241
21	230,354	-	230,354	280,771
23	4,905,189	-	4,905,189	4,851,004
31	966,700	-	966,700	875,389
33	69,642	-	69,642	19,237
34	-	-	-	60,265
35	1,449,863	-	1,449,863	1,750,178
36	210,466	-	210,466	504,494
41	3,422,567	-	3,422,567	3,295,459
51	5,381,861	-	5,381,861	5,167,021
52	265,723	-	265,723	260,228
53	843,743	-	843,743	749,417
71	2,253,482	-	2,253,482	2,307,865
	Total Expenses	-	53,454,500	52,119,885

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Change in net assets from operations	\$ (437,708)	\$ 2,244,282	\$ 1,806,574	\$ 769,186
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(14,621)	(14,621)	9,068
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(14,621)</u>	<u>(14,621)</u>	<u>9,068</u>
Total change in net assets	<u>(437,708)</u>	<u>2,229,661</u>	<u>1,791,953</u>	<u>778,254</u>
Net Assets, Beginning of Year	<u>3,024,106</u>	<u>9,341,793</u>	<u>12,365,899</u>	<u>11,587,645</u>
Net Assets, End of Year	<u>\$ 2,586,398</u>	<u>\$ 11,571,454</u>	<u>\$ 14,157,852</u>	<u>\$ 12,365,899</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 1,791,953	\$ 778,254
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of right-to-use assets under leases	2,360,518	2,612,882
Amortization - premium on bonds	(167,400)	(167,398)
Amortization - bond issuance costs	33,033	33,032
(Increase) Decrease in receivables	(848,414)	(886,818)
(Increase) Decrease in other receivables	(143,246)	6,747
Increase (Decrease) in accounts payable	560,537	(122,370)
Increase (Decrease) in wages payable	856,636	586,466
Increase (Decrease) in payroll taxes payable	305,192	248,340
Increase (Decrease) in accrued liabilities	49,235	(9,386)
Increase (Decrease) in interest payable	(14,153)	(12,716)
Increase (Decrease) in due to state	-	(2,823)
Net Cash Provided (Used) by Operating Activities	<u>4,622,393</u>	<u>3,064,210</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(5,765,102)	(2,100,981)
Purchase of investment	(185,485)	(119,076)
Net Cash Provided (Used) by Investing Activities	<u>(5,950,587)</u>	<u>(2,220,057)</u>
Cash Flows from Financing Activities		
Payments on lease liability	(742,177)	(703,907)
Repayment of bonds	(764,951)	(732,656)
Proceeds from loans	4,713,922	736,621
Net Cash Provided (Used) by Financing Activities	<u>3,206,794</u>	<u>(699,942)</u>
Net increase (decrease) in cash	1,878,600	144,211
Cash at Beginning of Year	7,441,199	7,296,988
Cash at End of Year	<u>\$ 9,319,799</u>	<u>\$ 7,441,199</u>
Cash Per the Statement of Financial Position		
Cash	\$ 4,745,096	\$ 3,330,298
Restricted Cash	4,574,703	4,110,901
Total Cash per the Statement of Financial Position	<u>\$ 9,319,799</u>	<u>\$ 7,441,199</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 2,365,831</u>	<u>\$ 2,414,207</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll costs	\$ 35,272,465	\$ 34,507,711
6200 Professional and contracted services	8,783,619	9,149,324
6300 Supplies and materials	3,758,885	2,434,629
6400 Other operating costs	3,386,049	3,720,356
6500 Debt	<u>2,253,482</u>	<u>2,307,865</u>
Total Expenses	<u>\$ 53,454,500</u>	<u>\$ 52,119,885</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 8,767,505	\$ 552,294
1110	Investments	-	7,690,245	-
1510	Land and improvements	-	8,040,923	-
1520	Buildings and improvements	60,542	49,902,304	-
1529	Right-of-use asset under financing lease	-	4,906,228	-
1539	Furniture and equipment	8,240	4,536,151	-
1580	Construction in progress	-	1,978,883	-
Total Property and Equipment		\$ 68,782	\$ 85,822,239	\$ 552,294

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - SAN ANTONIO
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		<u>Budgeted Amounts</u>			<u>Variance from Final</u>
		<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 630,957	\$ 613,308	\$ 585,268	\$ (28,040)
5750	Revenue from curricular	806,372	297,924	107,693	(190,231)
	Total Local Support	<u>1,437,329</u>	<u>911,232</u>	<u>692,961</u>	<u>(218,271)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	46,098,948	47,743,898	47,773,511	29,613
5820	State program revenues distributed by Texas Education Agency	590,797	946,424	476,335	(470,089)
5830	State program revenues distributed directly from other state agencies	-	-	10,394	10,394
	Total State Program Revenues	<u>46,689,745</u>	<u>48,690,322</u>	<u>48,260,240</u>	<u>(430,082)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	6,146,801	6,498,361	5,201,096	(1,297,265)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	-	356,625	356,625
5940	Federal revenues distributed directly from the Federal Government	241,175	938,906	750,152	(188,754)
	Total Federal Program Revenues	<u>6,387,976</u>	<u>7,437,267</u>	<u>6,307,873</u>	<u>(1,129,394)</u>
	Total Revenues	<u>54,515,050</u>	<u>57,038,821</u>	<u>55,261,074</u>	<u>(1,777,747)</u>
Expenses					
11	Instruction	29,129,393	29,395,199	29,748,638	(353,439)
12	Instructional resources and media services	-	28,920	1,011	27,909
13	Curriculum development and instructional staff development	2,158,543	3,622,139	3,705,261	(83,122)
21	Instructional leadership	198,116	230,892	230,354	538
23	School leadership	4,779,787	5,130,432	4,905,189	225,243
31	Guidance, counseling and evaluation services	1,516,744	1,157,250	966,700	190,550
33	Health services	19,750	86,905	69,642	17,263
34	Student transportation	40,000	-	-	-
35	Food service	2,013,924	1,771,093	1,449,863	321,230
36	Cocurricular/Extracurricular activities	675,397	313,221	210,466	102,755
41	General administration	3,479,937	3,643,601	3,422,567	221,034
51	Plant maintenance and operations	5,991,041	6,411,328	5,381,861	1,029,467
52	Security and monitoring services	323,562	354,065	265,723	88,342
53	Data processing services	936,773	967,254	843,743	123,511
71	Debt service	2,294,066	2,291,066	2,253,482	37,584
	Total Expenses	<u>53,557,033</u>	<u>55,403,365</u>	<u>53,454,500</u>	<u>1,948,865</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(14,621)	(14,621)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(14,621)</u>	<u>(14,621)</u>
	Change in net assets	<u>958,017</u>	<u>1,635,456</u>	<u>1,791,953</u>	<u>156,497</u>
	Net Assets, Beginning of Year	<u>12,365,899</u>	<u>12,365,899</u>	<u>12,365,899</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 13,323,916</u>	<u>\$ 14,001,355</u>	<u>\$ 14,157,852</u>	<u>\$ 156,497</u>



HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 2,789,536	\$ 10,146,491
Restricted cash	1,001,700	909,634
Investments	15,633,168	7,873,742
Receivables	7,837,876	6,166,899
Other receivables	2,008,996	124,619
Prepays	155,335	4,500
Total Current Assets	<u>29,426,611</u>	<u>25,225,885</u>
Property and Equipment:		
Land	5,147,703	154,893
Buildings and improvements	16,664,465	11,715,436
Furniture and equipment	4,498,223	3,873,515
Construction in progress	5,291,271	643,232
Right-to-use asset	27,711,445	26,704,113
	<u>59,313,107</u>	<u>43,091,189</u>
Less: Accumulated depreciation and amortization	<u>(14,357,380)</u>	<u>(14,937,022)</u>
	44,955,727	28,154,167
Other Assets:		
Deposits	22,613	22,613
Total Assets	<u>\$ 74,404,951</u>	<u>\$ 53,402,665</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 2,177,890	\$ 1,003,071
Accrued liabilities	-	1,714
Wages payable	3,725,800	3,037,445
Payroll taxes payable	1,471,871	1,223,941
Interest payable	180,190	183,405
Deferred revenue	4,245	4,245
Current portion of lease liability	712,769	469,756
Current portion of loans payable		437,545
Current portion of bonds payable	200,035	190,323
Total Current Liabilities	<u>8,472,800</u>	<u>6,551,445</u>
Long-Term Liabilities:		
Lease liability	25,691,780	22,619,849
Notes payable	14,139,851	-
Bonds payable net of premium, discount, issuance costs and current portion	9,548,991	9,774,762
Total Liabilities	<u>57,853,422</u>	<u>38,946,056</u>
Net Assets:		
Without donor restrictions	903,759	1,502,491
With donor restrictions	15,647,770	12,954,118
Total Net Assets	<u>16,551,529</u>	<u>14,456,609</u>
Total Liabilities and Net Assets	<u>\$ 74,404,951</u>	<u>\$ 53,402,665</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020
Revenues				
Local Support:				
5740	\$ 232,589	\$ -	\$ 232,589	\$ 454,798
5750	86,524	7,194	93,718	689,585
	Total Local Support	7,194	326,307	1,144,383
State Program Revenues:				
5810	-	42,242,378	42,242,378	35,983,237
5820	-	368,746	368,746	460,798
5830	-	48,500	48,500	-
	Total State Program Revenues	42,659,624	42,659,624	36,444,035
Federal Program Revenues:				
5920	-	4,744,254	4,744,254	3,679,607
5930	-	392,069	392,069	16,883
5940	-	669,453	669,453	880,839
	Total Federal Program Revenues	5,805,776	5,805,776	4,577,329
Net assets released from restrictions:				
	45,647,927	(45,647,927)	-	-
	Total Revenues	2,824,667	48,791,707	42,165,747
Expenses				
11	26,048,881	-	26,048,881	23,055,961
12	5,387	-	5,387	-
13	-	-	-	-
	2,773,515	-	2,773,515	2,269,992
21	258,413	-	258,413	158,974
23	4,107,391	-	4,107,391	3,998,430
31	834,050	-	834,050	569,280
33	104,026	-	104,026	16,705
35	849,903	-	849,903	1,529,636
36	211,539	-	211,539	510,280
41	2,864,657	-	2,864,657	3,048,636
51	7,088,800	-	7,088,800	4,524,659
52	141,951	-	141,951	198,618
53	748,455	-	748,455	581,267
71	528,804	-	528,804	1,615,189
	Total Expenses	-	46,565,772	42,077,627

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Change in net assets from operations	\$ (598,732)	\$ 2,824,667	\$ 2,225,935	\$ 88,120
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on early extinguishment of bonds	-	(131,015)	(131,015)	94,813
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(131,015)</u>	<u>(131,015)</u>	<u>94,813</u>
Total change in net assets	<u>(598,732)</u>	<u>2,693,652</u>	<u>2,094,920</u>	<u>182,933</u>
Net Assets, Beginning of Year	<u>1,502,491</u>	<u>12,954,118</u>	<u>14,456,609</u>	<u>14,273,676</u>
Net Assets, End of Year	<u>\$ 903,759</u>	<u>\$ 15,647,770</u>	<u>\$ 16,551,529</u>	<u>\$ 14,456,609</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 2,094,920	\$ 182,933
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of right-to-use assets under leases	2,365,346	2,355,036
Amortization - premium on bonds	(32,206)	(32,206)
Amortization - bond issuance costs	6,332	6,332
(Increase) Decrease in accounts receivable	(1,670,977)	(285,616)
(Increase) Decrease in other receivables	(1,884,377)	(89,202)
(Increase) Decrease in prepaids	(150,835)	-
Increase (Decrease) in due to state	-	(150)
Increase (Decrease) in accounts payable	1,174,819	278,176
Increase (Decrease) in wages payable	688,355	492,807
Increase (Decrease) in payroll taxes payable	247,930	178,559
Increase (Decrease) in deferred revenue	-	(32,755)
Increase (Decrease) in accrued liabilities	(1,714)	753
Increase (Decrease) in interest payable	(3,215)	(3,172)
Net Cash Provided (Used) by Operating Activities	<u>2,834,378</u>	<u>3,051,495</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(15,214,586)	(1,525,442)
Sale of investment	(7,759,426)	7,882,303
Net Cash Provided (Used) by Investing Activities	<u>(22,974,012)</u>	<u>6,356,861</u>
Cash Flows from Financing Activities		
Proceeds from loan	13,702,306	-
Repayment of bonds	(190,185)	(181,779)
Repayment of leases	(637,376)	(481,475)
Net Cash Provided (Used) by Financing Activities	<u>12,874,745</u>	<u>(663,254)</u>
Net increase (decrease) in cash	(7,264,889)	8,745,102
Cash at Beginning of Year	<u>11,056,125</u>	<u>2,311,023</u>
Cash at End of Year	<u>\$ 3,791,236</u>	<u>\$ 11,056,125</u>
Cash Per the Statement of Financial Position		
Cash	\$ 2,789,536	\$ 10,146,491
Restricted Cash	1,001,700	909,634
Total Cash per the Statement of Financial Position	<u>\$ 3,791,236</u>	<u>\$ 11,056,125</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 1,629,026</u>	<u>\$ 1,636,267</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll costs	\$ 30,240,523	\$ 27,879,607
6200 Professional and contracted services	7,694,462	6,963,490
6300 Supplies and materials	3,942,107	2,209,835
6400 Other operating costs	3,045,537	3,409,506
6500 Debt	<u>1,643,143</u>	<u>1,615,189</u>
Total Expenses	<u>\$ 46,565,772</u>	<u>\$ 42,077,627</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 421,967	\$ 3,262,164	\$ 107,105
1110	Investments	-	15,633,168	-
1510	Land and improvements	-	5,147,703	-
1520	Buildings and improvements	-	16,664,465	-
1529	Assets under capital lease	-	27,711,445	-
1539	Furniture and equipment	-	4,498,223	-
1580	Construction in progress	-	5,291,271	-
Total Property and Equipment		\$ 421,967	\$ 78,208,439	\$ 107,105

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - EL PASO
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		<u>Budgeted Amounts</u>			Variance from Final
		<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 460,378	\$ 244,999	\$ 232,589	\$ (12,410)
5750	Revenue from curricular	978,770	275,731	93,718	(182,013)
Total Local Support		<u>1,439,148</u>	<u>520,730</u>	<u>326,307</u>	<u>(194,423)</u>
State Program Revenues:					
5810	Foundation School Program Act Revenues	42,088,134	42,637,811	42,242,378	(395,433)
5820	State program revenues distributed by Texas Education Agency	428,077	823,439	368,746	(454,693)
5830	State program revenues distributed directly from other state agencies	-	-	48,500	48,500
Total State Program Revenues		<u>42,516,211</u>	<u>43,461,250</u>	<u>42,659,624</u>	<u>(801,626)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	5,606,319	5,208,408	4,744,254	(464,154)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	-	392,069	392,069
5940	Federal revenues distributed directly from the Federal Government	278,125	837,400	669,453	(167,947)
Total Federal Program Revenues		<u>5,884,444</u>	<u>6,045,808</u>	<u>5,805,776</u>	<u>(240,032)</u>
Total Revenues		<u>49,839,803</u>	<u>50,027,788</u>	<u>48,791,707</u>	<u>(1,236,081)</u>
Expenses					
11	Instruction	26,745,971	26,139,061	26,048,881	90,180
12	Instructional resources and media services	-	6,500	5,387	1,113
13	Curriculum development and instructional staff development	2,393,892	2,927,538	2,773,515	154,023
21	Instructional leadership	171,792	261,371	258,413	2,958
23	School leadership	4,209,943	4,329,254	4,107,391	221,863
31	Guidance, counseling and evaluation services	1,251,189	857,165	834,050	23,115
33	Health services	22,500	109,470	104,026	5,444
35	Food service	2,047,020	1,140,947	849,903	291,044
36	Cocurricular/Extracurricular activities	788,500	260,785	211,539	49,246
41	General administration	3,232,023	3,243,671	2,864,657	379,014
51	Plant maintenance and operations	6,378,406	7,470,795	7,088,800	381,995
52	Security and monitoring services	315,500	205,010	141,951	63,059
53	Data processing services	880,304	839,942	748,455	91,487
71	Debt service	486,116	562,616	528,804	33,812
Total Expenses		<u>48,923,156</u>	<u>48,354,125</u>	<u>46,565,772</u>	<u>1,788,353</u>
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(131,015)	(131,015)
Total Non-Operating Revenues (Expenses)		<u>-</u>	<u>-</u>	<u>(131,015)</u>	<u>(131,015)</u>
Change in net assets		<u>916,647</u>	<u>1,673,663</u>	<u>2,094,920</u>	<u>421,257</u>
Net Assets, Beginning of Year as Restated		<u>14,456,609</u>	<u>14,456,609</u>	<u>14,456,609</u>	<u>-</u>
Net Assets, End of Year		<u>\$ 15,373,256</u>	<u>\$ 16,130,272</u>	<u>\$ 16,551,529</u>	<u>\$ 421,257</u>



HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 8,377,320	\$ 4,744,445
Restricted cash	6,348,847	5,933,597
Investments	9,238,329	9,174,196
Receivables	11,843,332	10,273,471
Other receivables	767,457	204,225
Prepays	205,712	3,500
Total Current Assets	<u>36,780,997</u>	<u>30,333,434</u>
Property and Equipment:		
Land	15,428,388	8,233,479
Buildings and improvements	67,912,097	67,034,297
Furniture and equipment	5,513,192	4,980,039
Right-of-use asset	19,600,222	21,137,451
Construction in progress	3,702,404	3,083,053
	<u>112,156,303</u>	<u>104,468,319</u>
Less: Accumulated depreciation and amortization	(24,884,033)	(23,329,516)
	<u>87,272,270</u>	<u>81,138,803</u>
Other Assets:		
Deposits	5,500	5,500
	<u>5,500</u>	<u>5,500</u>
Total Assets	<u>\$ 124,058,767</u>	<u>\$ 111,477,737</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,893,595	\$ 1,419,369
Wages payable	5,016,154	4,340,111
Payroll taxes payable	2,039,750	1,813,421
Interest payable	1,113,883	1,130,416
Current portion of lease liability	662,003	608,362
Current portion of bonds payable	994,991	1,895,191
Total Current Liabilities	<u>11,720,376</u>	<u>11,206,870</u>
Long-Term Liabilities:		
Lease liability	18,032,481	18,644,184
Notes payable net of current portion	18,948,900	11,230,607
Bonds payable net of premium, discount, issuance costs and current portion	59,952,870	60,200,958
Total Long-Term Liabilities	<u>96,934,251</u>	<u>90,075,749</u>
Total Liabilities	<u>108,654,627</u>	<u>101,282,619</u>
Net Assets:		
Without donor restrictions	1,459,521	1,437,285
With donor restrictions	13,944,619	8,757,833
Total Net Assets	<u>15,404,140</u>	<u>10,195,118</u>
Total Liabilities and Net Assets	<u>\$ 124,058,767</u>	<u>\$ 111,477,737</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Revenues				
Local Support:				
5740	\$ 786,885	\$ -	\$ 786,885	\$ 672,280
5750	266,983	12,283	279,266	1,049,165
	<u>1,053,868</u>	<u>12,283</u>	<u>1,066,151</u>	<u>1,721,445</u>
Total Local Support				
State Program Revenues:				
5810	-	60,936,815	60,936,815	54,700,005
5820	-	464,080	464,080	711,264
5830	-	117,971	117,971	-
	<u>-</u>	<u>61,518,866</u>	<u>61,518,866</u>	<u>55,411,269</u>
Total State Program Revenues				
Federal Program Revenues:				
5920	-	4,812,622	4,812,622	5,628,237
5930	-	763,089	763,089	7,299
5940	-	842,826	842,826	1,234,047
	<u>-</u>	<u>6,418,537</u>	<u>6,418,537</u>	<u>6,869,583</u>
Total Federal Program Revenues				
Net assets released from restrictions:				
	62,630,423	(62,630,423)	-	-
Total Revenues				
	<u>63,684,291</u>	<u>5,319,263</u>	<u>69,003,554</u>	<u>64,002,297</u>
Expenses				
11	35,461,828	-	35,461,828	34,491,509
12	1,349	-	1,349	6,410
13	4,004,214	-	4,004,214	2,971,334
21	241,451	-	241,451	201,668
23	5,512,145	-	5,512,145	5,346,489
31	854,425	-	854,425	699,279
33	140,828	-	140,828	20,409
34	73,349	-	73,349	262,190
35	1,131,709	-	1,131,709	1,650,228
36	480,125	-	480,125	673,849
41	3,782,747	-	3,782,747	3,473,277
51	8,033,287	-	8,033,287	6,591,273
52	191,548	-	191,548	209,680
53	833,352	-	833,352	592,183
71	2,919,698	-	2,919,698	3,815,973
	<u>63,662,055</u>	<u>-</u>	<u>63,662,055</u>	<u>61,005,751</u>
Total Expenses				

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Change in net assets from operations	\$ 22,236	\$ 5,319,263	\$ 5,341,499	\$ 2,996,546
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(132,477)	(132,477)	47,647
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(132,477)</u>	<u>(132,477)</u>	<u>47,647</u>
Total Change in Net Assets	<u>22,236</u>	<u>5,186,786</u>	<u>5,209,022</u>	<u>3,044,193</u>
Net Assets, Beginning of Year	<u>1,437,285</u>	<u>8,757,833</u>	<u>10,195,118</u>	<u>7,150,925</u>
Net Assets, End of Year	<u>\$ 1,459,521</u>	<u>\$ 13,944,619</u>	<u>\$ 15,404,140</u>	<u>\$ 10,195,118</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 5,209,022	\$ 3,044,193
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	3,141,650	3,073,956
Amortization - premium on bonds	(240,748)	(240,749)
Amortization - bond issuance costs	40,261	40,262
(Increase) Decrease in receivables	(1,569,861)	(2,107,423)
(Increase) Decrease in other receivables	(563,232)	377,155
(Increase) Decrease in deposits	-	10,082
(Increase) Decrease in prepaids	(202,212)	-
Increase (Decrease) in accounts payable	474,226	430,995
Increase (Decrease) in wages payable	676,043	889,853
Increase (Decrease) in payroll taxes payable	226,329	356,230
Increase (Decrease) in accrued liabilities	-	-
Increase (Decrease) in interest payable	(16,533)	(16,339)
Net Cash Provided (Used) by Operating Activities	<u>7,174,945</u>	<u>5,858,215</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(9,226,979)	(11,335,187)
Sale of investments	(64,133)	(168,497)
Net Cash Provided (Used) by Investing Activities	<u>(9,291,112)</u>	<u>(11,503,684)</u>
Cash Flows from Financing Activities		
Lease liability payment	(606,200)	(478,970)
Repayment of bonds	(947,801)	(906,096)
Proceeds from loans	7,718,293	9,007,482
Net Cash Provided (Used) by Financing Activities	<u>6,164,292</u>	<u>7,622,416</u>
Net increase (decrease) in cash	4,048,125	1,976,947
Cash at Beginning of Year	<u>10,678,042</u>	<u>8,701,095</u>
Cash at End of Year	<u>\$ 14,726,167</u>	<u>\$ 10,678,042</u>
Cash Per the Statement of Financial Position		
Cash	\$ 8,377,320	\$ 4,744,445
Restricted Cash	6,348,847	5,933,597
Total Cash per the Statement of Financial Position	<u>\$ 14,726,167</u>	<u>\$ 10,678,042</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 3,684,984</u>	<u>\$ 3,986,356</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll Costs	\$ 40,664,724	\$ 38,838,122
6200 Professional and Contracted Services	9,889,728	10,369,435
6300 Supplies and Materials	4,832,414	3,757,259
6400 Other Operating Costs	4,504,345	4,224,962
6500 Debt	<u>3,770,844</u>	<u>3,815,973</u>
Total Expenses	<u>\$ 63,662,055</u>	<u>\$ 61,005,751</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		<u>Local</u>	<u>State</u>	<u>Federal</u>
1110	Cash	\$ 4,091,962	\$ 10,634,205	\$ -
1110	Investments	-	9,238,329	-
1510	Land and improvements	-	15,428,388	-
1520	Buildings and improvements	452,955	67,453,869	5,273
1529	Right-of-use asset	-	19,600,222	-
1539	Furniture and equipment	-	5,384,154	129,038
1580	Construction in Progress	-	3,702,404	-
	Total Property and Equipment	<u>\$ 4,544,917</u>	<u>\$ 131,441,571</u>	<u>\$ 134,311</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF EXCELLENCE
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		<u>Budgeted Amounts</u>			Variance from Final
		<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Budget</u>
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 671,880	\$ 659,148	\$ 786,885	\$ 127,737
5750	Revenue from curricular	1,368,921	607,852	279,266	(328,586)
	Total Local Support	<u>2,040,801</u>	<u>1,267,000</u>	<u>1,066,151</u>	<u>(200,849)</u>
State Program Revenues:					
5810	Foundation School Program Act revenues	56,945,996	60,821,202	60,936,815	115,613
5820	State program revenues distributed by Texas Education Agency	615,825	1,119,720	464,080	(655,640)
5830	State program revenues distributed directly from other state agencies	-	-	117,971	117,971
	Total State Program Revenues	<u>57,561,821</u>	<u>61,940,922</u>	<u>61,518,866</u>	<u>(422,056)</u>
Federal Program Revenues:					
5920	Federal revenues distributed by Texas Education Agency	5,015,404	5,635,066	4,812,622	(822,444)
5930	Federal revenue distributed by other state of Texas government agencies (other than TEA)	-	-	763,089	763,089
5940	Federal revenues distributed directly from the Federal Government	358,375	1,058,500	842,826	(215,674)
	Total Federal Program Revenues	<u>5,373,779</u>	<u>6,693,566</u>	<u>6,418,537</u>	<u>(275,029)</u>
	Total Revenues	<u>64,976,401</u>	<u>69,901,488</u>	<u>69,003,554</u>	<u>(897,934)</u>
Expenses					
11	Instruction	35,558,229	35,776,899	35,461,828	315,071
12	Instructional resources and media services	-	4,014	1,349	2,665
13	Curriculum development and instructional staff development	2,389,393	4,040,520	4,004,214	36,306
21	Instructional leadership	196,557	237,361	241,451	(4,090)
23	School leadership	5,264,847	5,730,575	5,512,145	218,430
31	Guidance, counseling and evaluation services	1,216,532	916,249	854,425	61,824
33	Health services	25,800	155,685	140,828	14,857
34	Student (pupil) transportation	300,000	82,980	73,349	9,631
35	Food service	2,070,034	1,366,557	1,131,709	234,848
36	Cocurricular/Extracurricular activities	1,117,000	553,792	480,125	73,667
41	General administration	3,745,370	4,042,398	3,782,747	259,651
51	Plant maintenance and operations	7,405,426	9,446,016	8,033,287	1,412,729
52	Security and monitoring services	263,600	247,817	191,548	56,269
53	Data processing services	928,789	935,180	833,352	101,828
71	Debt service	3,272,122	3,102,622	2,919,698	182,924
	Total Expenses	<u>63,753,699</u>	<u>66,638,665</u>	<u>63,662,055</u>	<u>2,976,610</u>
	Change in net assets from operations	1,222,702	3,262,823	5,341,499	2,078,676
Non-Operating Revenues (Expenses)					
8989	Gain (Loss) on sale of investments	-	-	(132,477)	(132,477)
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(132,477)</u>	<u>(132,477)</u>
	Change in net assets	1,222,702	3,262,823	5,209,022	1,946,199
	Net Assets, Beginning of Year as Restated	<u>10,195,118</u>	<u>10,195,118</u>	<u>10,195,118</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 11,417,820</u>	<u>\$ 13,457,941</u>	<u>\$ 15,404,140</u>	<u>\$ 1,946,199</u>



HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 18,796,488	\$ 10,392,984
Restricted cash	6,804,144	6,323,277
Investments	30,274,719	30,646,936
Receivables	18,313,117	17,595,135
Other receivables	674,998	183,349
Prepays	354,080	-
Total Current Assets	<u>75,217,546</u>	<u>65,141,681</u>
Property and Equipment:		
Land	19,943,822	17,350,088
Buildings and improvements	117,595,889	115,925,728
Furniture and equipment	11,272,434	10,170,598
Construction in progress	11,505,710	8,943,966
Right-of-use asset	44,354,285	44,365,775
	<u>204,672,140</u>	<u>196,756,155</u>
Less: Accumulated depreciation and amortization	<u>(46,618,988)</u>	<u>(41,333,214)</u>
	158,053,152	155,422,941
Other Assets:		
Deposits	60,700	60,700
Total Assets	<u>\$ 233,331,398</u>	<u>\$ 220,625,322</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 3,432,897	\$ 2,881,220
Accrued liabilities	266,897	1,230,371
Wages payable	8,604,019	7,112,636
Payroll taxes payable	3,542,930	2,897,577
Interest payable	2,071,337	2,106,293
Current portion of lease liability	594,809	524,062
Current portion of bonds payable	2,279,316	2,172,622
Total Current Liabilities	<u>20,792,205</u>	<u>18,924,781</u>
Long-Term Liabilities:		
Lease liability	41,803,933	42,367,995
Notes payable net of current portion	14,396,159	10,707,111
Bonds payable net of premium, discount, issuance costs and current portion	<u>117,635,640</u>	<u>120,236,417</u>
Total Liabilities	<u>194,627,937</u>	<u>192,236,304</u>
Net Assets:		
Without donor restrictions	4,131,046	1,798,992
With donor restrictions	<u>34,572,415</u>	<u>26,590,026</u>
Total Net Assets	<u>38,703,461</u>	<u>28,389,018</u>
Total Liabilities and Net Assets	<u>\$ 233,331,398</u>	<u>\$ 220,625,322</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020
Revenues				
Local Support:				
5740	\$ 3,072,497	\$ -	\$ 3,072,497	\$ 1,113,658
5750	286,384	20,058	306,442	1,463,958
	3,358,881	20,058	3,378,939	2,577,616
State Program Revenues:				
5810	-	103,049,427	103,049,427	95,676,193
5820	-	858,774	858,774	1,016,345
5830	-	66,152	66,152	-
	-	103,974,353	103,974,353	96,692,538
Federal Program Revenues:				
5920	-	7,718,596	7,718,596	8,612,074
5930	-	625,261	625,261	77,126
5940	-	1,100,665	1,100,665	1,465,214
	-	9,444,522	9,444,522	10,154,414
Net assets released from restrictions:				
	104,856,374	(104,856,374)	-	-
Total Revenues	108,215,255	8,582,559	116,797,814	109,424,568
Expenses				
11	57,639,836	-	57,639,836	56,331,886
12	3,186	-	3,186	12,866
13	6,168,206	-	6,168,206	4,038,231
21	248,225	-	248,225	280,930
23	9,905,768	-	9,905,768	9,317,527
31	2,233,430	-	2,233,430	2,532,023
33	522,221	-	522,221	49,081
34	7,328	-	7,328	193,220
35	1,572,101	-	1,572,101	2,743,583
36	540,878	-	540,878	1,055,207
41	6,239,502	-	6,239,502	5,781,089
51	13,560,425	-	13,560,425	13,060,705
52	485,399	-	485,399	402,733
53	1,387,242	-	1,387,242	1,314,808
71	5,369,454	-	5,369,454	7,866,536
Total Expenses	105,883,201	-	105,883,201	104,980,425

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Change in net assets from operations	\$ 2,332,054	\$ 8,582,559	\$ 10,914,613	\$ 4,444,143
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(600,170)	(600,170)	137,031
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(600,170)</u>	<u>(600,170)</u>	<u>137,031</u>
Total Change in Net Assets	<u>2,332,054</u>	<u>7,982,389</u>	<u>10,314,443</u>	<u>4,581,174</u>
Net Assets, Beginning of Year	<u>1,798,992</u>	<u>26,590,026</u>	<u>28,389,018</u>	<u>23,807,844</u>
Net Assets, End of Year	<u>\$ 4,131,046</u>	<u>\$ 34,572,415</u>	<u>\$ 38,703,461</u>	<u>\$ 28,389,018</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 10,314,443	\$ 4,581,174
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization asset under leases	5,285,774	6,859,588
Amortization - premium on bonds	(400,899)	(400,897)
Amortization - bond issuance costs	79,330	79,333
(Increase) Decrease in receivables	(717,982)	(2,011,977)
(Increase) Decrease in other receivables	(491,649)	(92,802)
(Increase) Decrease in prepaids	(354,080)	
Increase (Decrease) in accounts payable	551,677	(320,278)
Increase (Decrease) in wages payable	1,491,383	516,832
Increase (Decrease) in payroll taxes payable	645,353	247,448
Increase (Decrease) in accrued liabilities	(963,474)	365,105
Increase (Decrease) due to state	-	(611)
Increase (Decrease) in interest payable	(34,956)	(35,593)
Net Cash Provided (Used) by Operating Activities	<u>15,404,920</u>	<u>9,787,322</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(7,915,985)	(8,141,903)
Sale of investments	372,217	(806,498)
Net Cash Provided (Used) by Investing Activities	<u>(7,543,768)</u>	<u>(8,948,401)</u>
Cash Flows from Financing Activities		
Proceeds from loan	3,689,048	6,931,981
Repayment of bonds	(2,172,514)	(2,080,519)
Payments on leases	(493,315)	(383,994)
Net Cash Provided (Used) by Financing Activities	<u>1,023,219</u>	<u>4,467,468</u>
Net increase (decrease) in cash	8,884,371	5,306,389
Cash at Beginning of Year	<u>16,716,261</u>	<u>11,409,872</u>
Cash at End of Year	<u>\$ 25,600,632</u>	<u>\$ 16,716,261</u>
Cash Per the Statement of Financial Position		
Cash	\$ 18,796,488	\$ 10,392,984
Restricted Cash	6,804,144	6,323,277
Total Cash per the Statement of Financial Position	<u>\$ 25,600,632</u>	<u>\$ 16,716,261</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 7,393,562</u>	<u>\$ 8,118,128</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll costs	\$ 66,764,676	\$ 63,871,292
6200 Professional and contracted services	17,196,765	18,844,245
6300 Supplies and materials	7,666,424	5,449,827
6400 Other operating costs	6,747,596	8,948,525
6500 Debt	<u>7,507,740</u>	<u>7,866,536</u>
Total Expenses	<u>\$ 105,883,201</u>	<u>\$ 104,980,425</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 6,469	\$ 25,270,655	\$ 323,508
1110	Investments	-	30,274,719	-
1510	Land and improvements	-	19,943,822	-
1520	Buildings and improvements	71,079	117,434,715	90,095
1529	Right-of-use asset	-	44,354,285	-
1539	Furniture and equipment	119,836	11,129,579	23,019
1580	Construction in progress	-	11,505,710	-
Total Property and Equipment		\$ 197,384	\$ 259,913,485	\$ 436,622

HARMONY PUBLIC SCHOOLS
HARMONY SCIENCE ACADEMY - WACO
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		Budgeted Amounts		Actual Amounts		Variance from Final
		Original	Final	Actual Amounts	Budget	
Revenues						
Local Support:						
5740	Other revenues from local sources	\$ 1,126,442	\$ 1,111,199	\$ 3,072,497	\$ 1,961,298	
5750	Revenue from curricular	2,255,823	747,131	306,442	(440,689)	
	Total Local Support	<u>3,382,265</u>	<u>1,858,330</u>	<u>3,378,939</u>	<u>1,520,609</u>	
State Program Revenues:						
5810	Foundation School Program Act revenues	95,810,467	103,977,123	103,049,427	(927,696)	
5820	State program revenues distributed by Texas Education Agency	1,137,976	1,755,429	858,774	(896,655)	
5830	State program revenues distributed by Texas Education Agency	-	-	66,152	66,152	
	Total State Program Revenues	<u>96,948,443</u>	<u>105,732,552</u>	<u>103,974,353</u>	<u>(1,758,199)</u>	
Federal Program Revenues:						
5920	Federal revenues distributed by Texas Education Agency	7,926,464	8,682,585	7,718,596	(963,989)	
5940	Federal revenues distributed directly from the Federal Government	466,017	1,750,567	1,100,665	(649,902)	
	Total Federal Program Revenues	<u>8,392,481</u>	<u>10,433,152</u>	<u>9,444,522</u>	<u>(988,630)</u>	
	Total Revenues	<u>108,723,189</u>	<u>118,024,034</u>	<u>116,797,814</u>	<u>(1,226,220)</u>	
Expenses						
11	Instruction	55,622,171	57,276,580	57,639,836	(363,256)	
12	Instructional resources and media services	-	6,274	3,186	3,088	
13	Curriculum development and instructional staff development	4,071,371	5,957,117	6,168,206	(211,089)	
21	Instructional leadership	215,937	242,255	248,225	(5,970)	
23	School leadership	8,941,935	10,126,114	9,905,768	220,346	
31	Guidance, counseling and evaluation services	3,685,197	2,319,279	2,233,430	85,849	
33	Health services	47,100	605,292	522,221	83,071	
34	Student (pupil) transportation	130,000	8,500	7,328	1,172	
35	Food service	2,940,941	1,924,305	1,572,101	352,204	
36	Cocurricular/Extracurricular activities	1,895,500	746,371	540,878	205,493	
41	General administration	6,457,807	6,729,502	6,239,502	490,000	
51	Plant maintenance and operations	13,862,384	17,241,541	13,560,425	3,681,116	
52	Security and monitoring services	353,131	896,074	485,399	410,675	
53	Data processing services	1,714,095	1,746,648	1,387,242	359,406	
71	Debt service	5,786,993	5,608,203	5,369,454	238,749	
	Total Expenses	<u>105,724,562</u>	<u>111,434,055</u>	<u>105,883,201</u>	<u>5,550,854</u>	
Non-Operating Revenues (Expenses)						
8989	Gain (Loss) on sale of investments	-	-	(600,170)	(600,170)	
	Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>-</u>	<u>(600,170)</u>	<u>(600,170)</u>	
	Change in net assets	<u>2,998,627</u>	<u>6,589,979</u>	<u>10,314,443</u>	<u>3,724,464</u>	
	Net Assets, Beginning of Year	<u>28,389,018</u>	<u>28,389,018</u>	<u>28,389,018</u>	<u>-</u>	
	Net Assets, End of Year	<u>\$ 31,387,645</u>	<u>\$ 34,978,997</u>	<u>\$ 38,703,461</u>	<u>\$ 3,724,464</u>	



HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 4,061,274	\$ 3,105,535
Restricted cash	7,270,272	6,479,911
Investments	7,552,159	7,441,196
Receivables	7,488,602	7,265,825
Other receivables	1,169,044	106,913
Prepays	141,012	24,526
Total Current Assets	<u>27,682,363</u>	<u>24,423,906</u>
Property and Equipment:		
Land	9,184,269	6,992,543
Buildings and improvements	40,971,825	40,684,547
Furniture and equipment	3,058,404	2,739,050
Construction in progress	2,402,857	444,999
Right-of-use asset under finance leases	15,523,948	15,544,900
	<u>71,141,303</u>	<u>66,406,039</u>
Less: Accumulated depreciation and amortization	<u>(15,570,277)</u>	<u>(13,949,516)</u>
	<u>55,571,026</u>	<u>52,456,523</u>
Total Assets	<u>\$ 83,253,389</u>	<u>\$ 76,880,429</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 1,122,661	\$ 981,589
Accrued liabilities	14,236	33,339
Wages payable	3,496,056	2,982,515
Payroll taxes payable	1,362,916	1,192,557
Interest payable	777,062	786,339
Current portion of lease liability	178,918	168,155
Current portion of bonds payable	607,587	579,285
Total Current Liabilities	<u>7,559,436</u>	<u>6,723,779</u>
Long-Term Liabilities:		
Financing lease liability, net of current portion	14,885,669	15,074,577
Notes payable net of current portion	5,899,818	2,630,000
Bonds payable net of premium, discount, issuance costs and current portion	42,869,123	43,562,479
Total Long-Term Liabilities	<u>63,654,610</u>	<u>61,267,056</u>
Total Liabilities	<u>71,214,046</u>	<u>67,990,835</u>
Net Assets:		
Without donor restrictions	2,455,894	1,712,240
With donor restrictions	9,583,449	7,177,354
Total Net Assets	<u>12,039,343</u>	<u>8,889,594</u>
Total Liabilities and Net Assets	<u>\$ 83,253,389</u>	<u>\$ 76,880,429</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Revenues				
Local Support:				
5740	\$ 1,110,785	\$ -	\$ 1,110,785	\$ 789,281
5750	93,559	6,191	99,750	699,977
	<u>1,204,344</u>	<u>6,191</u>	<u>1,210,535</u>	<u>1,489,258</u>
Total Local Support				
State Program Revenues:				
5810	-	39,691,198	39,691,198	37,420,096
5820				
	-	523,658	523,658	441,201
5830	-	84,916	84,916	-
	<u>-</u>	<u>40,299,772</u>	<u>40,299,772</u>	<u>37,861,297</u>
Total State Program Revenues				
Federal Program Revenues:				
5920				
	-	2,860,555	2,860,555	2,862,982
5930				
	-	454,851	454,851	37,091
5940	-	524,525	524,525	500,724
	<u>-</u>	<u>3,839,931</u>	<u>3,839,931</u>	<u>3,400,797</u>
Total Federal Program Revenues				
Net Assets Released from Restrictions:				
	41,728,960	(41,728,960)	-	-
Total Revenues				
	<u>42,933,304</u>	<u>2,416,934</u>	<u>45,350,238</u>	<u>42,751,352</u>
Expenses				
11	24,186,992	-	24,186,992	22,617,227
12	212	-	212	155
13				
	2,594,781	-	2,594,781	1,798,177
21	35	-	35	222,981
23	4,012,987	-	4,012,987	3,892,043
31	925,417	-	925,417	911,124
33	82,655	-	82,655	20,288
35	412,008	-	412,008	907,249
36	233,546	-	233,546	620,467
41	2,207,220	-	2,207,220	2,401,390
51	4,411,362	-	4,411,362	3,902,160
52	118,782	-	118,782	150,356
53	655,356	-	655,356	620,278
71	2,348,297	-	2,348,297	3,184,175
	<u>42,189,650</u>	<u>-</u>	<u>42,189,650</u>	<u>41,248,070</u>
Total Expenses				

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	<u>2020</u>
Change in net assets from operations	\$ 743,654	\$ 2,416,934	\$ 3,160,588	\$ 1,503,282
Non-Operating Revenues (Expenses)				
8989 Gain (Loss) on sale of investments	-	(10,839)	(10,839)	25,982
Total Non-Operating Revenues (Expenses)	<u>-</u>	<u>(10,839)</u>	<u>(10,839)</u>	<u>25,982</u>
Total Change in Net Assets	<u>743,654</u>	<u>2,406,095</u>	<u>3,149,749</u>	<u>1,529,264</u>
Net Assets, Beginning of Year	<u>1,712,240</u>	<u>7,177,354</u>	<u>8,889,594</u>	<u>7,360,330</u>
Net Assets, End of Year	<u>\$ 2,455,894</u>	<u>\$ 9,583,449</u>	<u>\$ 12,039,343</u>	<u>\$ 8,889,594</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 3,149,749	\$ 1,529,264
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation and amortization of assets under leases	1,641,713	2,143,390
Amortization - premium on bonds	(119,363)	(119,365)
Amortization - bond issuance costs	33,599	33,597
(Increase) Decrease in receivables	(222,777)	(1,134,750)
(Increase) Decrease in other receivables	(1,062,131)	(42,524)
Increase (Decrease) in accounts payable	141,072	565,687
Increase (Decrease) in wages payable	513,541	251,444
Increase (Decrease) in payroll taxes payable	170,359	124,585
Increase (Decrease) in accrued liabilities	(19,103)	32,038
Increase (Decrease) in deferred revenue	-	(132)
Increase (Decrease) in interest payable	(9,277)	(11,449)
Net Cash Provided (Used) by Operating Activities	<u>4,100,896</u>	<u>3,371,785</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(4,756,216)	(3,426,881)
Purchase of investment	(110,963)	(169,260)
Net cash Provided (Used) by Investing Activities	<u>(4,867,179)</u>	<u>(3,596,141)</u>
Cash Flows from Financing Activities		
Payments on leases	(178,145)	(133,076)
Repayment of bonds	(579,290)	(554,567)
Proceeds from note payable	3,269,818	2,436,810
Net Cash Provided (Used) by Financing Activities	<u>2,512,383</u>	<u>1,749,167</u>
Net increase (decrease) in cash	1,746,100	1,524,811
Cash at Beginning of Year	9,585,446	8,060,635
Cash at End of Year	<u>\$ 11,331,546</u>	<u>\$ 9,585,446</u>
Cash Per the Statement of Financial Position		
Cash	\$ 4,061,274	\$ 3,105,535
Restricted Cash	7,270,272	6,479,911
Total Cash per the Statement of Financial Position	<u>\$ 11,331,546</u>	<u>\$ 9,585,446</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 3,046,975</u>	<u>\$ 3,254,436</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll costs	\$ 27,892,290	\$ 26,966,985
6200 Professional and contracted services	6,093,155	6,256,373
6300 Supplies and materials	3,054,417	2,078,907
6400 Other operating costs	2,042,697	2,761,630
6500 Debt	<u>3,107,091</u>	<u>3,184,175</u>
Total Expenses	<u>\$ 42,189,650</u>	<u>\$ 41,248,070</u>

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ -	\$ 11,331,546	\$ -
1110	Investments	-	7,552,159	-
1510	Land and improvements	-	9,184,269	-
1520	Buildings and improvements	81,730	40,835,809	54,286
1529	Right-of-use asset	-	15,523,948	-
1539	Furniture and equipment	36,049	2,999,126	23,229
1580	Construction in Progress	-	2,402,857	-
Total Property and Equipment		\$ 117,779	\$ 89,829,714	\$ 77,515

HARMONY PUBLIC SCHOOLS
HARMONY SCHOOL OF SCIENCE - HOUSTON
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		Budgeted Amounts		Actual Amounts		Variance from
		Original	Final	Actual Amounts	Final Budget	
Revenues						
Local Support:						
5740	Other Revenues from local sources	\$ 831,333	\$ 692,170	\$ 1,110,785	\$ 418,615	
5750	Revenue from curricular	723,766	281,930	99,750	(182,180)	
	Total Local Support	1,555,099	974,100	1,210,535	236,435	
State Program Revenues:						
5810	Foundation School Program Act revenues	38,006,858	40,063,584	39,691,198	(372,386)	
5820	State program revenues distributed by					
	Texas Education Agency	611,514	986,905	523,658	(463,247)	
5830	State program revenue from State of Texas					
	government agencies (other than TEA)	-	-	84,916	84,916	
	Total State Program Revenues	38,618,372	41,050,489	40,299,772	(750,717)	
Federal Program Revenues:						
5920	Federal revenues distributed by					
	Texas Education Agency	2,888,913	3,464,052	2,860,555	(603,497)	
5930	Federal revenue distributed by other state of					
	Texas government agencies (other than TEA)	-	-	454,851	454,851	
5940	Federal revenues distributed directly from					
	the Federal Government	179,900	664,400	524,525	(139,875)	
	Total Federal Program Revenues	3,068,813	4,128,452	3,839,931	(288,521)	
	Total Revenues	43,242,284	46,153,041	45,350,238	(802,803)	
Expenses						
11	Instruction	23,411,706	24,338,240	24,186,992	151,248	
12	Instructional resources and media services	-	215	212	3	
13	Curriculum development and instructional					
	staff development	1,572,992	2,547,947	2,594,781	(46,834)	
21	Instructional leadership	214,870	52	35	17	
23	School leadership	3,882,175	4,148,810	4,012,987	135,823	
31	Guidance, counseling and evaluation services	1,454,608	996,191	925,417	70,774	
33	Health services	24,000	119,102	82,655	36,447	
35	Food service	1,058,337	655,066	412,008	243,058	
36	Cocurricular/Extracurricular activities	576,651	315,250	233,546	81,704	
41	General administration	2,415,479	2,400,035	2,207,220	192,815	
51	Plant maintenance and operations	4,464,779	5,709,394	4,411,362	1,298,032	
52	Security and monitoring services	203,250	169,086	118,782	50,304	
53	Data processing services	861,379	690,074	655,356	34,718	
71	Debt service	2,341,035	2,387,435	2,348,297	39,138	
	Total Expenses	42,481,261	44,476,897	42,189,650	2,287,247	
Non-Operating Revenues (Expenses)						
8989	Gain (Loss) on sale of investments	-	-	(10,839)	(10,839)	
	Total Non-Operating Revenues (Expenses)	-	-	(10,839)	(10,839)	
	Change in net assets	761,023	1,676,144	3,149,749	1,473,605	
	Net Assets, Beginning of Year	8,889,594	8,889,594	8,889,594	-	
	Net Assets, End of Year	\$ 9,650,617	\$ 10,565,738	\$ 12,039,343	\$ 1,473,605	



HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF FINANCIAL POSITION
June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Assets		
Current Assets:		
Cash	\$ 6,609,362	\$ 9,645
Restricted cash	24,164	29,619
Investments	5,879,363	7,167,371
Receivables	1,857,861	591,976
Other receivables	17,770	749,705
Prepays	86,205	112,919
Total Current Assets	<u>14,474,725</u>	<u>8,661,235</u>
Property and Equipment:		
Buildings and improvements	1,573,663	1,535,119
Furniture and equipment	2,128,536	2,073,620
Construction in progress	1,078,793	824,309
	<u>4,780,992</u>	<u>4,433,048</u>
Less: Accumulated depreciation	<u>(2,105,658)</u>	<u>(1,827,532)</u>
	<u>2,675,334</u>	<u>2,605,516</u>
Total Assets	<u>\$ 17,150,059</u>	<u>\$ 11,266,751</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts payable	\$ 781,044	\$ 285,137
Accrued liabilities	4,682,253	28,975
Wages payable	1,958,110	1,806,036
Payroll taxes payable	889,412	753,827
Interest payable	78,822	79,268
Current portion of bonds payable	26,169	24,957
Total Current Liabilities	<u>8,415,810</u>	<u>2,978,200</u>
Long-term Liabilities:		
Notes payable net of current portion	40,822	-
Bonds payable net of premium, discount, issuance costs and current portion	<u>1,425,771</u>	<u>1,468,349</u>
Total Liabilities	<u>9,882,403</u>	<u>4,446,549</u>
Net Assets:		
Without donor restrictions	7,267,656	6,820,202
Total Net Assets	<u>7,267,656</u>	<u>6,820,202</u>
Total Liabilities and Net Assets	<u>\$ 17,150,059</u>	<u>\$ 11,266,751</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	Without Donor Restrictions	With Donor Restrictions	Total	2020
Revenues				
Local Support:				
5740	\$ 27,106,188	\$ -	\$ 27,106,188	\$ 24,085,040
	<u>27,106,188</u>	<u>-</u>	<u>27,106,188</u>	<u>24,085,040</u>
Federal Program Revenues:				
5940	-	4,478,822	4,478,822	3,147,617
	<u>-</u>	<u>4,478,822</u>	<u>4,478,822</u>	<u>3,147,617</u>
Net assets released from restrictions:				
	4,478,822	(4,478,822)	-	-
	<u>31,585,010</u>	<u>-</u>	<u>31,585,010</u>	<u>27,232,657</u>
Expenses				
11	329,497	-	329,497	203,714
13	-	-	-	-
21	5,294,638	-	5,294,638	5,303,860
23	1,179,717	-	1,179,717	709,371
31	410,265	-	410,265	644,626
35	10,947	-	10,947	5,134
41	3,311	-	3,311	-
51	17,333,021	-	17,333,021	14,950,436
52	3,885,633	-	3,885,633	3,534,221
53	26,054	-	26,054	19,438
71	2,572,393	-	2,572,393	2,365,145
	66,533	-	66,533	60,995
	<u>31,112,009</u>	<u>-</u>	<u>31,112,009</u>	<u>27,796,940</u>
	\$ 473,001	\$ -	\$ 473,001	\$ (564,283)
Non-Operating Revenues (Expenses)				
8989	(25,547)	-	(25,547)	26,354
	<u>(25,547)</u>	<u>-</u>	<u>(25,547)</u>	<u>26,354</u>
	<u>447,454</u>	<u>-</u>	<u>447,454</u>	<u>(537,929)</u>
	<u>6,820,202</u>	<u>-</u>	<u>6,820,202</u>	<u>7,358,131</u>
	<u>\$ 7,267,656</u>	<u>\$ -</u>	<u>\$ 7,267,656</u>	<u>\$ 6,820,202</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 447,454	\$ (537,929)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Depreciation	278,126	205,157
Amortization - premium on bonds	(17,352)	(17,352)
Amortization - bond issuance costs	1,005	1,005
(Increase) Decrease in receivables	(1,265,885)	218,815
(Increase) Decrease in other receivables	731,935	(695,229)
(Increase) Decrease in prepaids	26,714	321,212
Increase (Decrease) in accounts payable	495,907	(729,882)
Increase (Decrease) in wages payable	152,074	210,395
Increase (Decrease) in payroll taxes payable	135,585	159,637
Increase (Decrease) in accrued liabilities	4,653,278	(12,623)
Increase (Decrease) in interest payable	(446)	(515)
Net Cash Provided (Used) by Operating Activities	<u>5,638,395</u>	<u>(877,309)</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	(347,944)	(1,373,602)
Sale (purchase) of investments	1,287,946	(119,177)
Net Cash Provided (Used) by Investing Activities	<u>940,002</u>	<u>(1,492,779)</u>
Cash Flows from Financing Activities		
Proceeds from note payable	40,822	-
Repayment of bonds	(24,957)	(23,951)
Net Cash Provided (Used) by Financing Activities	<u>15,865</u>	<u>(23,951)</u>
Net increase (decrease) in cash	6,594,262	(2,394,039)
Cash at Beginning of Year	<u>39,264</u>	<u>2,433,303</u>
Cash at End of Year	<u>\$ 6,633,526</u>	<u>\$ 39,264</u>
Cash Per the Statement of Financial Position		
Cash	\$ 6,609,362	\$ 9,645
Restricted Cash	24,164	29,619
Total Cash per the Statement of Financial Position	<u>\$ 6,633,526</u>	<u>\$ 39,264</u>
<u>Supplemental Disclosures</u>		
Cash paid during the year for:		
Interest	<u>\$ 130,270</u>	<u>\$ 122,583</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
SCHEDULE OF EXPENSES
For the Year Ended June 30, 2021
(With Comparative Totals for 2020)

	<u>2021</u>	<u>2020</u>
Expenses		
6100 Payroll costs	\$ 16,310,924	\$ 14,898,052
6200 Professional and contracted services	11,027,671	9,207,642
6300 Supplies and materials	663,108	496,869
6400 Other operating costs	3,043,773	3,133,382
6500 Debt	<u>66,533</u>	<u>60,995</u>
Total Expenses	<u>\$ 31,112,009</u>	<u>\$ 27,796,940</u>

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
SCHEDULE OF CAPITAL ASSETS
For the Year Ended June 30, 2021

		Ownership Interest		
		Local	State	Federal
1110	Cash	\$ 3,992,570	\$ 2,640,956	\$ -
1110	Investments	-	5,879,363	-
1520	Buildings and improvements	-	1,573,663	-
1539	Furniture and equipment	-	2,128,536	-
1580	Construction in progress	-	1,078,793	-
	Total Property and Equipment	\$ 3,992,570	\$ 13,301,311	\$ -

HARMONY PUBLIC SCHOOLS
CENTRAL OFFICE
BUDGETARY COMPARISON SCHEDULE
For the Year Ended June 30, 2021

		<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance from Final Budget</u>
		<u>Original</u>	<u>Final</u>		
Revenues					
Local Support:					
5740	Other Revenues from local sources	\$ 26,885,000	\$ 26,940,124	\$ 27,106,188	\$ 166,064
	Total Local Support	<u>26,885,000</u>	<u>26,940,124</u>	<u>27,106,188</u>	<u>166,064</u>
Federal Program Revenues:					
5940	Federal revenues distributed directly from the Federal Government	-	7,072,683	4,478,822	(2,593,861)
	Total Federal Program Revenues	<u>-</u>	<u>7,072,683</u>	<u>4,478,822</u>	<u>(2,593,861)</u>
	Total Revenues	<u>26,885,000</u>	<u>34,012,807</u>	<u>31,585,010</u>	<u>(2,427,797)</u>
Expenses					
11	Instruction	300,038	442,103	329,497	112,606
13	Curriculum development and instructional staff development	3,399,419	5,385,408	5,294,638	90,770
21	Instructional leadership	600,558	2,401,214	1,179,717	1,221,497
23	School leadership	50,000	507,312	410,265	97,047
31	Guidance, counseling and evaluation services	10,000	5,134	10,947	(5,813)
35	Food services	3,000	4,368	3,311	1,057
41	General administration	16,470,974	15,056,675	17,333,021	(2,276,346)
51	Plant maintenance and operations	3,546,489	3,613,664	3,885,633	(271,969)
52	Security and monitoring services	108,250	20,571	26,054	(5,483)
53	Data processing services	2,316,272	2,075,215	2,572,393	(497,178)
71	Debt service	80,000	76,850	66,533	10,317
81	Facilities acquisition and construction	-	40,000	-	40,000
	Total Expenses	<u>26,885,000</u>	<u>29,628,514</u>	<u>31,112,009</u>	<u>(1,483,495)</u>
Non-Operating revenues (expenses)					
8989	Gain (Loss) on sale of investments	-	-	(25,547)	(25,547)
	Total Non-Operating revenues (expenses)	<u>-</u>	<u>-</u>	<u>(25,547)</u>	<u>(25,547)</u>
	Change in net assets	-	4,384,293	447,454	(3,936,839)
	Net Assets, Beginning of Year	<u>6,820,202</u>	<u>6,820,202</u>	<u>6,820,202</u>	<u>-</u>
	Net Assets, End of Year	<u>\$ 6,820,202</u>	<u>\$ 11,204,495</u>	<u>\$ 7,267,656</u>	<u>\$ (3,936,839)</u>

FEDERAL AWARDS SECTION



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

To The Board of Directors of
Harmony Public Schools
Houston, 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 Harmony Public Schools ("HPS") (a nonprofit organization), which comprise the statement of financial position as of June 30, 2021, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated November 5, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered HPS'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of HPS's internal control. Accordingly, we do not express an opinion on the effectiveness of HPS's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HPS'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. These procedures performed included tests designed to verify Harmony Public School's compliance with the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) during fiscal year 2021. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors of
Harmony Public Schools

Purpose of this Report

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

Whitley Penn LLP

Houston, Texas
November 5, 2021

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE *UNIFORM GUIDANCE***

To The Board of Directors of
Harmony Public Schools
Houston, Texas

Report on Compliance for Each Major Federal Program

We have audited Harmony Public Schools' ("HPS") (a nonprofit organization) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of HPS's major federal programs for the year ended June 30, 2021. HPS's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs,

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of HPS's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about HPS's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of HPS's compliance.

Opinion on Each Major Federal Program

In our opinion, HPS complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2021.

To the Board of Directors of
Harmony Public Schools

Report on Internal Control over Compliance

Management of HPS is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered HPS's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of HPS's internal control over compliance.

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

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

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.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, professional style.

Houston, Texas
November 5, 2021

HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2021

I. Summary of Auditors' Results

Financial Statements

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
Material weakness (es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	None reported
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal controls over major programs:	
Material weakness (es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weaknesses?	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 section 2 CFR 200.516(a)?	No

Identification of Major Programs:

<u>Name of Federal Program or Cluster</u>	<u>Federal Assistance Listing Number</u>
--	---

U.S. Department of Treasury

<i>Coronavirus Relief Fund (COVID-19)</i>	21.019
<i>Operation Connectivity Bulk Purchase Program Local Match Reimbursement Program, Texas Education Agency (COVID-19)</i>	21.019

U.S. Department of Education

Special Education Cluster:	
<i>IDEA-B Formula</i>	84.027
<i>IDEA-B High Cost Fund</i>	84.027
<i>Title III, Part A – ELA</i>	84.365
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D
<i>2020-21 PCSP Start-Up</i>	84.282
<i>2019-21 PCSP Start-Up</i>	84.282

Dollar threshold used to distinguish Between Type A and Type B federal programs:	\$1,368,780
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Auditee qualified as low-risk auditee?	Yes
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HARMONY PUBLIC SCHOOLS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended June 30, 2021

II. Financial Statement Findings

None Reported

III. Federal Awards Findings and Questioned Costs

None Reported

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number*	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education			
Direct:			
<i>Education Innovation and Research (EIR)</i>	84.411B	U411B180014	\$ 987,295
<i>Teacher Incentive Fund</i>	84.374A	U374A160039	5,356,454
<i>Training Instructional Leadership Team (TILT/TSL)</i>	84.374A	S374A200021	<u>3,102,207</u>
<i>Total ALN 84.374</i>			<u>8,458,661</u>
Pass-Through Texas Education Agency:			
<i>Title I 1003 School Improvement</i>	84.010A	21610141161807	79,536
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	21610101227816	1,125,411
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	20610101161807	78,185
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	21610101161807	2,302,445
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	20610101071806	9,643
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	21610101071806	1,269,243
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	20610101101846	33,433
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	21610101101846	1,521,935
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	20610101101858	20,731
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	21610101101858	1,426,958
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	20610101101862	44,246
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	21610101101862	900,581
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	20610101015828	21,578
<i>Title I, Part A - Improving Basic Programs</i>	84.010A	21610101015828	<u>1,481,842</u>
<i>Total ALN 84.010</i>			<u>10,315,767</u>
<i>IDEA-B Formula</i>	84.027A	216600012278166000	602,514
<i>IDEA-B Formula</i>	84.027A	216600011618076000	1,362,270
<i>IDEA-B Formula</i>	84.027A	216600010718066000	527,614.00
<i>IDEA-B Formula</i>	84.027A	216600011018466000	517,342.00
<i>IDEA-B Formula</i>	84.027A	216600011018586000	772,756.00
<i>IDEA-B Formula</i>	84.027A	216600011018626000	560,131.00
<i>IDEA-B Formula</i>	84.027A	216600010158286000	646,273.00
<i>IDEA-B High Cost Fund</i>	84.027A	66002106	151,007
Total Special Education Cluster (ALN 84.027)			<u>5,139,907</u>
<i>2020-21 PCSP Start-Up</i>	84.282A	205900137110006	800,000
<i>2019-21 PCSP Start-Up</i>	84.282A	195900137110003	18,587
<i>Total ALN 84.282</i>			<u>818,587</u>
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	21694501227816	123,654
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	21694501161807	295,438
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	21694501071806	167,874
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	21694501101846	182,181
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	21694501101858	195,273
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	21694501101862	87,426
<i>Title II, Part A Supporting Effective Instruction Transferred to Title I Part A</i>	84.367A	21694501015828	227,941
<i>Total ALN 84.367</i>			<u>1,279,787</u>

*ALN formerly known as CFDA.

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number*	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Education (continued)			
Pass-Through Texas Education Agency (continued):			
<i>Title III, Part A - ELA</i>	84.365A	21671001227816	184,056
<i>Title III, Part A - ELA</i>	84.365A	21671001161807	275,027
<i>Title III, Part A - ELA</i>	84.365A	21671001071806	86,649
<i>Title III, Part A - ELA</i>	84.365A	21671001101846	116,044
<i>Title III, Part A - ELA</i>	84.365A	21671001101858	145,919
<i>Title III, Part A - ELA</i>	84.365A	21671001101862	80,693
<i>Title III, Part A - ELA</i>	84.365A	21671001015828	148,225
<i>Total ALN 84.365</i>			1,036,613
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	21680101227816	80,569
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	21680101161807	193,948
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	21680101071806	88,978
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	21680101101846	116,305
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	21680101101858	101,471
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	21680101101862	63,672
<i>Title IV, Part A funds Transferred to Title I Part A</i>	84.424A	21680101015828	126,417
<i>Total ALN 84.424</i>			771,360
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D	20521001227816	277,542
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D	20521001161807	814,492
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D	20521001071806	705,794
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D	20521001101846	800,109
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D	20521001101858	407,053
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D	20521001101862	257,634
<i>Cares Act, Section 18003 Elementary and Secondary School Emergency Relief Fund (ESSER) - COVID-19</i>	84.425D	20521001015828	1,030,065
<i>Total ALN 84.425</i>			4,292,689
<i>20-21 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	21420006227816	35,601
<i>20-21 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	21420006161807	71,157
<i>20-21 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	21420006071806	36,992
<i>20-21 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	21420006101846	51,415
<i>20-21 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	21420006101858	77,915
<i>20-21 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	21420006101862	49,669
<i>20-21 Perkins V: Strengthening CTE for 21st Century</i>	84.048A	21420006015828	63,539
<i>Total ALN 84.048</i>			386,288
<i>Instructional Continuity</i>	84.377A	17610740227816	12,815
<i>Instructional Continuity</i>	84.377A	17610740101858	5,184
<i>Instructional Continuity</i>	84.377A	17610740015828	6,050
<i>Instructional Continuity</i>	84.377A	17610740161807	7,110
<i>Instructional Continuity</i>	84.377A	17610740071806	3,765
<i>Instructional Continuity</i>	84.377A	17610740101846	5,432
<i>Total ALN 84.377</i>			40,356
Total U.S. Department of Education			33,527,310

*ALN formerly known as CFDA.

HARMONY PUBLIC SCHOOLS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2021

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor Program Title	Federal Assistance Listing Number*	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. Department of Treasury			
Passed Through the Texas Division of Emergency Management:			
<i>Coronavirus Relief Fund (COVID-19)</i>	21.019	2020-CF-21019	\$ 2,847,252
Passed Through the Office of the Governor of the State of Texas:			
<i>Operation Connectivity Bulk Purchase Program Local Match Reimbursement Program, Texas Education Agency (COVID-19)</i>	21.019	52202002	3,928,477
Passed Through Harris County:			
<i>Operation Connectivity Bulk Purchase Program Local Match Reimbursement Program, Harris County (COVID-19)</i>	21.019	39312101	598,120
<i>Total ALN 21.019</i>			<u>7,373,849</u>
Total U.S. Department of Treasury			<u>7,373,849</u>
U.S. Department of Agriculture			
Passed-Through Texas Education Agency:			
<u>Federal Food Service Reimbursement:</u>			
<i>School Breakfast Program (SBP)</i>	10.553	71402001	211,206
<i>School Breakfast Program (SBP)</i>	10.553	71402101	1,149,458
<i>School Breakfast Program (SBP)</i>	10.553	52402001	344,936
<i>National School Lunch Prg-NSLP</i>	10.555	71302101	2,555,431
<i>National School Lunch Prg-NSLP</i>	10.555	71302001	361,634
<i>National School Lunch Prg-NSLP</i>	10.555	52302001	102,190
Total Child Nutrition Cluster (10.553,10.555)			<u>4,724,855</u>
Total U. S. Department of Agriculture			<u>4,724,855</u>
Total Expenditures of Federal Awards			<u>\$ 45,626,014</u>

*ALN formerly known as CFDA.

HARMONY PUBLIC SCHOOLS

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Note 1 - Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes federal award activity of HPS under programs of the federal government for the year ended June 30, 2021. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operation of HPS, it is not intended to and does not present the financial position, changes in net assets, or cash flows of HPS.

Note 3 - Indirect Cost Rate

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods. HPS has elected not to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.

Note 4 - Title I, Part A Transferability

As described in the U.S. Department of Education Cross-Cutting Section (CFDA 84.000), Sections II.B.3 *Activities Allowed or Unallowed - Transferability (SEAs and LEAs)* and IV.3 *Other Information - Transferability* of the 2021 OMB Compliance Supplement, expenditures of funds should be included in the audit universe and total expenditures of the receiving program. For fiscal year 2021, HPS transferred 100% Title IV, Part A (CFDA 84.424) expenditures to its Title I, Part A (CFDA 84.010A) program as submitted to the Texas Education Agency in its consolidated application and as denoted on the Schedule of Expenditures of Federal Awards. As such, Title IV, Part A (CFDA 84.424) were included as part of Title I, Part A (CFDA 84.010).

HARMONY PUBLIC SCHOOLS
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2021

Federal regulations, Title 2 U.S. Code of Federal Regulations Section 200.511 states, "The auditee is responsible for follow-up and corrective action on all audit findings. As part of this responsibility, the auditee must prepare a summary schedule of prior audit findings." The summary schedule of prior audit findings must report the status of the following:

- All audit findings included in the prior audit's schedule of findings and questioned costs and
- All audit findings reported in the prior audit's summary schedule of prior audit findings except audit findings listed as corrected.

I. Prior Audit Findings

None Noted

HARMONY PUBLIC SCHOOLS

CORRECTIVE ACTION PLAN

For the Year Ended June 30, 2021

Federal regulations, Title 2 U.S. Code of Federal Regulations §200.511 states, "At the completion of the audit, the auditee must prepare, in a document separate from the auditor's findings described in §200.516 Audit findings, a corrective action plan to address each audit finding included in the current year auditor's reports."

I. Corrective Action Plan

Not Applicable

APPENDIX D

FORM OF BOND COUNSEL OPINION

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June 11, 2024

Arlington Higher Education Finance Corporation
Arlington, Texas

Regions Bank
Houston, Texas

\$212,440,000
Arlington Higher Education Finance Corporation
Education Revenue Bonds (Harmony Public Schools) Series 2024

Ladies and Gentlemen:

We have been engaged by Harmony Public Schools, a Texas nonprofit corporation (the “**Company**”), to serve as bond counsel in connection with the issuance by the Arlington Higher Education Finance Corporation (the “**Issuer**”) of its Education Revenue Bonds (Harmony Public Schools) Series 2024 (the “**Bonds**”). The Bonds are issued pursuant to a Trust Indenture and Security Agreement, dated as of June 1, 2024 (the “**Trust Indenture**”), by and between the Issuer and Regions Bank, as trustee (the “**Trustee**”) and are secured by a tax-exempt promissory note (the “**Note**”) entitled to the benefit of a Master Trust Indenture and Security Agreement, dated as of May 1, 2007 (the “**Original Master Indenture**”) by and between the Company and Regions Bank, as master trustee (the “**Master Trustee**”), as supplemented by Supplemental Master Trust Indenture No. 35, dated as of June 1, 2024 (the “**Supplemental Indenture**”) (the Original Master Indenture, as supplemented, is referred to herein as the “**Master Indenture**”). The proceeds of the Bonds will be loaned by the Issuer to the Company pursuant to a Loan Agreement, dated as of June 1, 2024 (the “**Loan Agreement**”), by and between the Issuer and the Company. Under the Loan Agreement, the Company has agreed to make payments to or for the account of the Issuer in amounts necessary to pay when due the principal of, premium, if any, and interest on the Bonds. Such payments and the rights of the Issuer under the Loan Agreement (except certain rights to indemnification, rebate payments and administrative fees) and the Note are pledged and assigned by the Issuer under the Trust Indenture to the Trustee as security for the Bonds. A capitalized term not otherwise defined herein shall have the meaning assigned to such term in the Trust Indenture and the Loan Agreement. The Bonds are payable solely from the Trust Estate created under the Trust Indenture.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to (i) the legality and validity of the Bonds under the Constitution and laws of the State of Texas

and (ii) the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the Company or the disclosure thereof in connection with the offer and sale of the Bonds.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the authorization and issuance of the Bonds on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Board of Directors of the Company and the Board of Directors of the Issuer, and certain certificates and other documents of representatives of the Issuer, the Trustee, the Company, and of others. We have also examined such portions of the Constitution and statutes of the State of Texas, and such applicable provisions of the Internal Revenue Code of 1986, as amended (the “*Code*”), court decisions, regulations and published rulings of the Internal Revenue Service (the “*Service*”), as we have deemed necessary for the purposes of this opinion.

As to questions of fact material to our opinion, we have relied, with your permission, upon representations of the Issuer and the Company contained in the Trust Indenture and the Loan Agreement, the certified proceedings and other certifications of public officials furnished to us, and certifications, documents, and other information furnished to us by or on behalf of the Company, the Issuer, RBC Capital Markets, LLC and PNC Capital Markets (the “*Underwriters*”), and others, without undertaking to verify the same by independent investigation.

Reference is made to our opinion of even date herewith, as counsel to the Company, as to among other things, the 501(c)(3) status of the Company, the due authorization, execution and delivery of the Master Indenture, the Note, and related documents by the Company and the validity and enforceability of such documents against the Company.

We have assumed, with your permission, and without independent verification (i) the genuineness of certificates, records and other documents and the accuracy and completeness of the statements contained therein; (ii) the due authorization, execution and delivery of the Trust Indenture by the Trustee and the validity and binding effect of the Trust Indenture on the Trustee; (iii) that all documents and certificates submitted to us as originals are accurate and complete; (iv) that all documents and certificates submitted to us as copies are true and correct copies of the originals thereof; and (v) that all information submitted to us was accurate and complete. No information has come to our attention that is inconsistent with the material facts that have been certified by the Issuer, the Company and others, and upon which we have relied in our opinions.

Based on the foregoing, and subject to the matters set forth herein, we are of the opinion that under existing law:

1. The Trust Indenture has been duly authorized, executed and delivered by the Issuer and is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms. The Issuer has assigned its rights, title, and interest in and to the Note and the Loan Agreement (except for certain rights of the Issuer to indemnification and payment of its fees and expenses) and amounts on deposit or held for the credit of the funds and accounts held by the Trustee pursuant to the terms of the Trust Indenture and all amounts held therein (other than

the Rebate Fund) and has granted a valid security interest therein to the Trustee pursuant to the Trust Indenture as security for the Bonds.

2. The Bonds have been duly authorized, executed, issued and delivered by the Issuer, and are legal, valid and binding special obligations of the Issuer entitled to the benefits and security of the Trust Indenture and that all conditions precedent provided in the Trust Indenture relating to the authentication and delivery of the Bonds have occurred. The Bonds are limited obligations of the Issuer payable solely from the Trust Estate under the Trust Indenture and the revenues derived therefrom. The Bonds are not obligations of the City of Arlington, Texas, nor of any political corporation, subdivision or agency of the State of Texas.

3. Interest on the Bonds is not included in gross income of the holders of the Bonds for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum income tax

4. The Loan Agreement has been duly authorized, executed and delivered by the Issuer and is a legal, valid and binding obligation of the Issuer enforceable against the Issuer in accordance with its terms.

Except as stated in paragraph 3 above, we express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or disposition of the Bonds.

The opinions expressed herein are limited to the extent that (i) the performance and enforceability of the Trust Indenture, the Bonds and the Loan Agreement may be subject to applicable bankruptcy, reorganization, moratorium or other similar laws affecting generally the enforcement of creditors' rights; (ii) general equitable principles may limit the availability of equitable remedies, including, but not limited to, the remedy of specific performance; and (iii) the enforceability of provisions relating to indemnification may be limited by public policy or applicable securities law.

In rendering these opinions, we have relied, with your permission, on, among other things, certificates signed by officers of the Issuer, the Company and the Underwriters with respect to certain material facts, estimates and expectations which are solely within the knowledge of the Issuer, the Company and the Underwriters, respectively, and which we have not independently verified. In addition, in rendering the opinions set forth in **paragraph 3**, we have assumed continuing compliance with the covenants in the Loan Agreement and the Trust Indenture pertaining to those sections of the Code that affect the status of the Company as an organization described in Section 501(c)(3) of the Code and the exclusion from gross income of interest on the Bonds for federal income tax purposes. If the certificates upon which we have relied are determined to be inaccurate or incomplete, or the Issuer or the Company fails to comply with such covenants, interest on the Bonds could become includable in gross income from the date of their original delivery, regardless of the date on which the event causing such inclusion occurs.

Owners of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States of America, certain S corporations with Subchapter C earnings and

June 11, 2024

Page 4

profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and individuals otherwise qualifying for the earned income tax credit.

The opinions expressed herein are not a guarantee of result and are not binding on the Service; rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the Issuer as the taxpayer. We observe that the Company has covenanted in the Loan Agreement not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, would adversely affect the excludability of interest on the Bonds from gross income for federal income tax purposes.

The foregoing opinions speak only as of the date hereof and only in connection with the Bonds and may not be applied to any other transaction. We do not undertake to advise you of matters which may come to our attention subsequent to the date hereof that may affect our legal opinion and conclusions expressed herein. Further, the foregoing opinions are specifically limited to the laws of the State of Texas and, to the extent applicable, the federal laws of the United States of America.

Very truly yours,

APPENDIX E

FORM OF CONTINUING DISCLOSURE AGREEMENT

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CONTINUING DISCLOSURE AGREEMENT

\$212,440,000

**ARLINGTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(HARMONY PUBLIC SCHOOLS)
SERIES 2024**

This **CONTINUING DISCLOSURE AGREEMENT**, dated June 1, 2024 (the “Disclosure Agreement”), is executed and delivered by Harmony Public Schools (the “Borrower”), in connection with the issuance by the Arlington Higher Education Finance Corporation (the “Issuer”), of its \$212,440,000 Education Revenue Bonds (Harmony Public Schools) Series 2024 (the “Bonds”), dated as of June 1, 2024 and issued pursuant to a Trust Indenture and Security Agreement (the “Indenture”), between the Issuer and Regions Bank, as trustee (the “Trustee”). The proceeds of the Bonds are being loaned to the Borrower pursuant to a Loan Agreement (the “Loan Agreement”), between the Issuer and the Borrower. The Borrower hereby covenants and agrees as follows:

Section 1. Purpose. This Disclosure Agreement is being executed and delivered by the Borrower for the benefit of the holders of the Bonds and in order to assist the purchasers of the Bonds in complying with the provisions of Section (b)(5)(i) of the Rule, as herein defined, promulgated by the Securities and Exchange Commission by providing certain annual financial information and material event notices required by the Rule (collectively, “Continuing Disclosure”).

Section 2. Definitions. In addition to the definitions set forth in the Indenture, which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Borrower pursuant to, and as described in, Section 3 of this Disclosure Agreement.

“Financial Obligation” shall mean a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) guarantee of (i) or (ii). The term “Financial Obligation” shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final Official Statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

“Holder” shall mean the person in whose name any Bond shall be registered.

“MSRB” shall mean the Municipal Securities Rulemaking Board or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at <http://emma.msrb.org>.

“Official Statement” shall mean the Official Statement dated June 14, 2024, prepared in connection with the issuance of the Bonds.

“Rule” shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Annual Report.

(a) The Borrower shall provide an Annual Report and operating data in accordance with the provisions of Section (b)(5)(i) of the Rule as follows:

(i) Audited Financials: Each Annual Report shall include a copy of the Borrower’s annual audited financial statements for the immediately preceding fiscal year, together with a copy of any accompanying management letter and a copy of the accompanying audit report; provided, however, that such annual audited financial statements may be submitted separately from the balance of the Annual Report and that, if such audited financial statements are not available within six months of the end of the immediately preceding fiscal year, then the Borrower shall provide unaudited financial statements by that date and shall subsequently provide the pertinent audited financial statements as soon as they become available. Such financial statements shall be prepared in accordance with the accounting principles prescribed by the Texas State Board of Education or such other accounting principles as the Borrower may be required to employ from time to time pursuant to State law or regulation.

(ii) Updated Table Data from APPENDIX B to the Official Statement. Each Annual Report shall include updated financial information and operating data with respect to the Borrower of the general type included in APPENDIX B to the Official Statement including only the following tables, but subject to adjustments as may be noted below:

(A) TABLE 1: CHARTER SCHOOLS;

(B) TABLE 2: EXISTING AND PROPOSED FACILITIES;

(C) TABLE 3: ACCOUNTABILITY RATING AND FIRST RATING;

(D) TABLE 4: HISTORICAL AND FUTURE PROJECTED ENROLLMENT; provided, however, that only historical data will be provided; and

(B) TABLE 5: WAITING LIST DATA.

(b) The Borrower shall provide the Annual Report no later than the last calendar day of December of each year, commencing December 31, 2024, to the MSRB.

(c) Any Annual Report may be included by specific reference to other documents previously provided to the MSRB or filed with the SEC; provided, however, that any final Official Statement incorporated by reference must be available from the MSRB.

(d) The Borrower shall file with the MSRB in a timely manner the notice specifying any failure to provide the Annual Report by the date specified.

Section 4. Reserved.

Section 5. Event Disclosure. The Borrower shall file with the MSRB in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of any of the following events with respect to the Bonds:

- (a) principal and interest payment delinquencies;
- (b) non-payment related defaults, if material;
- (c) unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) unscheduled draws on any credit enhancement reflecting financial difficulties;
- (e) substitution of credit or liquidity providers, or their failure to perform;
- (f) 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;
- (g) modifications to rights of holders, if material;
- (h) bond calls, if material, and tender offers;
- (i) defeasances of all or any portion of the Bonds;
- (j) release, substitution, or sale of property securing repayment of the Bonds, if material;
- (k) rating changes;
- (l) bankruptcy, insolvency, receivership or similar event of the Borrower;

Note: for the purposes of the event identified in subparagraph (l), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. 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 obligated person, or if such jurisdiction has been assumed by leaving the existing governmental 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 obligated person.

(m) the consummation of a merger, consolidation, or acquisition involving the Borrower or the sale of all or substantially all of the assets of the Borrower, 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;

(n) appointment of a successor or additional trustee or the change of name of a trustee, if material; provided that nothing in this Section 5 shall require the Borrower to maintain any debt service reserve, credit enhancement or credit or liquidity providers with respect to the Bonds or to pledge any property as security for repayment of the Bonds;

(o) incurrence of a Financial Obligation of the Borrower or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Borrower or obligated person, any of which affect security holders, if material; and

(p) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the Borrower or obligated person, any of which reflect financial difficulties.

Section 6. Termination. The obligations of the Borrower hereunder will terminate upon the redemption, defeasance (within the meaning of the Rule) or payment in full of all the Bonds.

Section 7. Amendment. The Borrower may modify its obligations hereunder without the consent of Bondholders, provided that this Disclosure Agreement as so modified complies with the Rule as it exists at the time of modification. The Borrower shall file in a timely manner a description of any such modification of its obligations hereunder to the MSRB.

Section 8. Defaults. (a) Failure by the Borrower to comply with any covenant or obligation regarding the Continuing Disclosure specified in this Disclosure Agreement shall not constitute an “Event of Default” under the Indenture or under the Loan Agreement, as provided therein.

(b) Notwithstanding subparagraph (a), any holder (within the meaning of the Rule) of Bonds then outstanding may, by notice to the Borrower and the Trustee, proceed to protect and enforce its rights and the rights of the holders by an action for specific performance of the Borrower’s covenant to provide the Continuing Disclosure.

Section 9. Filing Method. Any filing required hereunder shall be made by transmitting such disclosure, notice or other information in electronic format to the MSRB through the MSRB’s Electronic Municipal Market Access (EMMA) system pursuant to procedures promulgated by the MSRB.

Section 10. Additional Disclosure. The Borrower may from time to time disclose certain information and data in addition to the Continuing Disclosure. Notwithstanding anything herein to the contrary, the Borrower shall not incur any obligation to continue to provide, or to update, such additional information or data, unless it specifically agrees to such obligation.

Section 11. Acknowledgment by Borrower. The Borrower acknowledges and agrees that the Issuer is not a material obligated person for purposes of the Rule and, therefore, is not required to provide any Annual Report, Quarterly Report, or notice of the occurrence of any of the events listed in Section 5, with respect to the Bonds.

Section 12. Governing Law. This Disclosure Agreement shall be construed and enforced in accordance with the laws of the State of Texas.

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Dated: _____, 2024

BORROWER:

HARMONY PUBLIC SCHOOLS

By: _____

Name: _____

Title: _____

APPENDIX F

**FINAL FORM OF THE MASTER INDENTURE AND SUBSTANTIALLY FINAL
FORM OF THE SUPPLEMENTAL MASTER INDENTURE**

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MASTER TRUST INDENTURE AND SECURITY AGREEMENT

between

COSMOS FOUNDATION, INC.

and

AMEGY BANK NATIONAL ASSOCIATION,
as Master Trustee

Dated as of

May 1, 2007

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MASTER TRUST INDENTURE AND SECURITY AGREEMENT

THIS MASTER TRUST INDENTURE AND SECURITY AGREEMENT (this “Master Indenture”), dated as of May 1, 2007, is between COSMOS FOUNDATION, INC., a Texas non-profit corporation (the “Company”), and AMEGY BANK NATIONAL ASSOCIATION, a national banking association with a corporate trust office in Houston, Texas, not in its individual capacity but solely as the Master Trustee (the “Master Trustee”).

WITNESSETH:

WHEREAS, the Company is authorized by law and deems it necessary and desirable to enter into this Master Indenture for the purpose of providing for the incurrence of Debt and the issuance of Notes hereunder to evidence and secure such Debt.

WHEREAS, all acts and things necessary to constitute these presents a valid indenture and agreement according to its terms, have been done and performed and the execution of this Master Indenture has in all respects been duly authorized, and the Company, in the exercise of the legal right and power vested in it has executed this Master Indenture and may incur Debt and make, execute, issue and deliver Notes hereunder.

NOW, THEREFORE, THIS MASTER INDENTURE WITNESSETH:

GRANTING CLAUSES

In order to declare the terms and conditions upon which Notes are to be authenticated, issued and delivered, and to secure the payment of Notes and the performance and observance of all of the covenants and conditions herein or therein contained, and in consideration of the premises, of the purchase and acceptance of Notes by the Holders thereof and of the sum of One Dollar to them duly paid by the Master Trustee at the execution of these presents, the receipt and sufficiency of which is hereby acknowledged, the Company has executed and delivered this Master Indenture and by these presents does hereby convey, grant, assign, transfer, pledge, set over, confirm and grant a security interest in and to the Master Trustee, its successor or successors and its or their assigns forever, all and singular the property, real and personal, hereinafter described (said property being herein sometimes referred to as the “Trust Estate”) to wit:

(a) all Adjusted Revenues of the Company except and excluding all such items, whether now owned or hereafter acquired by the Company, which by their terms or by reason of applicable law would become void or voidable if granted, assigned, or pledged hereunder by the Company, or which cannot be granted, pledged, or assigned hereunder without the consent of other parties whose consent is not secured, or without subjecting the Master Trustee to a liability not otherwise contemplated by the provisions hereof, or which otherwise may not be, or are not, hereby lawfully and effectively granted, pledged, and assigned by the Company, provided that the Company may subject to the lien

hereof any such excepted property, whereupon the same shall cease to be excepted property;

(b) all moneys and securities, if any, at any time held by the Master Trustee in the Revenue Fund and any other fund or account established under the terms of this Master Indenture, or held by other banks or fiduciary institutions which are collaterally assigned to the Master Trustee as security for the Notes including the depository account specified in the Deposit Account Control Agreement and all securities, financial assets (as defined in Section 8-102(a)(9) of the UCC) and securities entitlements (within the meaning of Section 8-102(a)(17) of the UCC) and, with respect to Book-Entry Securities, in the applicable Federal Book Entry Regulations, carried in or credited to such fund or account;

(c) all accounts, bank accounts, general intangibles, Contract Rights, and related rights of the Company (each as defined in the UCC), whether now owned or hereafter acquired or arising and wherever located;

(d) any and all other property of every kind and nature from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned or transferred as additional security hereunder by the Company or by anyone on its behalf to the Master Trustee, subject to the terms thereof, including without limitation, funds of the Company held by the Master Trustee as security for the Notes;

(e) the lien of the Deed of Trust (as hereinafter defined);

(f) the lien of the Leasehold Mortgage (as hereinafter defined); and

(g) proceeds of the foregoing, including cash proceeds and cash equivalents, products, accessions and replacements.

In addition to the foregoing, the "Trust Estate" includes all goods, documents, instruments, tangible and electronic chattel paper, letter of credit rights, investment property, accounts, deposit accounts, general intangibles (including payment intangibles and software), money and other items of personal property, including proceeds (as each such term is defined in the UCC) which constitute any of the property described in the foregoing Granting Clauses.

TO HAVE AND TO HOLD IN TRUST, upon the terms herein set forth, subject to Section 210 hereof, for the equal and proportionate benefit, security, and protection of all Holders of the Notes issued under and secured by this Master Indenture without privilege, priority or distinction as to the lien or otherwise of any of the Notes over any other; provided, however, that if the Company shall pay, or cause to be paid, the principal of the Notes or the obligations secured thereby and the redemption or prepayment premium, if any, and the interest and any other amounts due or to become due thereon in full at the times and in the manner mentioned in the Notes according to the true intent and meaning thereof, and the Company shall keep, perform and observe all the covenants and conditions pursuant to the terms of this Master Indenture to be kept, performed and observed by it, and shall pay or cause to be paid to the Master Trustee all sums of money due or to become due to it in accordance with the terms and

provisions hereof, then upon such final payment this Master Indenture and the rights hereby granted and the restrictions hereby incurred shall cease, determine and be void; otherwise this Master Indenture shall be and remain in full force and effect. Notwithstanding anything in this Master Indenture to the contrary, when all of the Notes are no longer Outstanding, the Master Trustee may execute a release of the lien of this Master Indenture on the Deed of Trust and any property of the Company encumbered thereby.

NOW, THEREFORE, in consideration of the premises, the Company covenants and agrees with the Master Trustee, for the equal and proportionate benefit of the respective Holders from time to time of the Notes, as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 101. Construction of Terms; Definitions.

(a) For all purposes of this Master Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) The term this “Master Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Master Indenture as a whole and not to any particular Article, Section or other subdivision.

(3) The terms defined in this Article have the meanings assigned to them in this Article throughout this Master Indenture, and include the plural as well as the singular. Reference to any Person means that Person and its successors and assigns.

(4) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

(5) The terms used in this Master Indenture and not defined herein have the meanings assigned to them in the Related Bond Documents.

(b) The following terms have the meanings assigned to them below whenever they are used in this Master Indenture:

“Accountant” means a Person engaged in the practice of accounting who is a certified public accountant and who (except as otherwise expressly provided herein) may be employed by or affiliated with the Company.

“Adjusted Revenues” means, for any period of calculation, the total of all operating and nonoperating revenues of the Company, including but not limited to State Revenues, federal and local funds for school lunches and other food programs, special education, and transportation, including accounts receivable and rights to receive the same plus investment and other income or loss of the Company for such period; provided, however, that no determination thereof shall take into account (a) income derived from Defeasance Obligations that are irrevocably deposited in escrow to pay the principal of or interest on Debt or Related Bonds, (b) any gains or losses resulting from the early extinguishment of Debt, the sale, exchange or other disposition of Property not in the ordinary course of business, or the reappraisal, reevaluation or write-up of assets, or any other extraordinary gains or losses, (c) gifts, grants (excluding grants from the State), bequests or donations and income thereon restricted as to use by the donor or grantor for a purpose inconsistent with the payment of debt service on Debt or Related Bonds or Notes (i.e., unrelated to the purposes for which such obligations were issued), (d) net unrealized gain (losses) on investments and Financial Products Agreements and (e) proceeds of borrowing. Notwithstanding any provision herein to the contrary, State Revenues received by each of the Borrower’s campuses will be used in accordance with Section 12.107(a) of the Texas Education Code, as amended.

“Annual Debt Service Requirements” of any specified Person means, for any Fiscal Year, the principal of (and premium, if any) and interest and other debt service charges (which include for purposes hereof, any fees or premiums for any letter of credit, surety bond, policy of insurance, bond purchase agreement, or any similar credit or liquidity support secured in connection therewith) on all Long Term Debt of such Person coming due at Maturity or Stated Maturity, and, for such purposes, any one or more of the following rules shall apply:

(a) Committed Take Out - if such Person has received a binding commitment, within normal commercial practice, from any bank, savings and loan association, insurance company, or similar institution to refund or purchase any of its Long Term Debt at its Stated Maturity (or, if due on demand, or payable in respect of any required purchase of such Debt by such Person, at any date on which demand may be made), then the portion of the Long Term Debt committed to be refunded or purchased shall be excluded from such calculation and the principal of (and premium, if any) and interest on the Long Term Debt incurred for such refunding or purchase that would be due in the Fiscal Year for which the calculation is being made, if incurred at the Maturity or purchase date of the Long Term Debt to be refunded or purchased, shall be added;

(b) Pro Forma Refunding - in the case of Balloon Debt, if the Person obligated thereon shall deliver to the Master Trustee a certificate of a nationally recognized firm of investment bankers or financial consultants dated within 90 days prior to the date of delivery of such certificate to the Master Trustee stating that financing at a stated interest rate (which shall not be less than the Bond Buyer Revenue Bond Index or, if the Bond Buyer Revenue Bond Index is unavailable, a

comparable index acceptable to any Bond Insurer of a majority of Related Bonds Outstanding) with a Stated Maturity not greater than 30 years is reasonably attainable (and such opinion is reasonably acceptable to acceptable to any Bond Insurer of a majority of Related Bonds Outstanding) on the date of such certificate to refund any of such Balloon Debt, then for the purpose of calculating what future annual debt service requirements will be, any installment of principal of (and premium, if any) and interest and other debt service charges on such Balloon Debt that could so be refunded shall be excluded from such calculation and the principal plus interest of the refunding debt shall be evenly allocated over the life of the refunding debt with equal principal payments plus interest deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

(c) Prefunded Payments - principal of (and premium, if any) and interest and other debt service charges on Debt, or portions thereof, shall not be included in the computation of the Annual Debt Service Requirements for any Fiscal Year for which such principal, premium, interest, or other debt service charges are payable from funds irrevocably deposited or set aside in trust for the payment thereof at the time of such calculations (including without limitation capitalized interest and accrued interest so deposited or set aside in trust or escrowed with the Master Trustee or another Independent Person approved by the Master Trustee);

(d) Variable Rate Debt - as to any Debt that bears interest at a variable interest rate which cannot be ascertained at the time of calculation, an interest rate equal to the greater of an annual interest rate equal to the Bond Buyer Revenue Bond Index (or, if the Bond Buyer Revenue Bond Index is unavailable, a comparable index chosen by ACA) and the weighted average rate of interest born by such Debt (or other indebtedness of comparable credit quality, maturity and purchase terms in the event that such Debt was not outstanding) during the preceding Fiscal Year (or any period of comparable length ending within 180 days) prior to the date of calculation shall be presumed to apply for all future dates and the principal shall be evenly allocated over the life of the Bond issue with an equal amount of principal deemed due each year but solely for the purpose of spreading the principal requirements for calculation of coverage;

(e) Contingent Obligations - in the case of any guarantees or other Debt described in clause (3) of the definition of Debt, the principal of (and premium, if any) and interest and other debt service charges on such Debt for any Fiscal Year shall be deemed to be 25% of the principal of (and premium, if any) and interest and other debt service charges on the indebtedness guaranteed due in such Fiscal Year; provided, however, that if the Person which guarantees or is otherwise obligated in respect of such Debt is actually required to make any payment in respect of such Debt, the total amount payable by such Person in respect of such guarantee or other obligation in such Fiscal Year shall be included in any computation of the Annual Debt Service Requirements of such Person for such year and the amount payable by such Person in respect of such guarantee or

other obligation in any future Fiscal Year shall be included in any computation of the estimated Annual Debt Service Requirements for such Fiscal Year; and

(f) Financial Products - in the event there shall have been issued or entered into in respect of all or a portion of any Debt a Financial Products Agreement with respect to Long Term Debt, interest on such Long Term Debt shall be included in the calculation of Annual Debt Service Requirements by including for such period an amount equal to the amount payable on such Long Term Debt in such period at the rate or rates stated in such Long Term Debt plus any payments payable by such Person in respect of such Financial Products Agreement minus any payments receivable by such Person in respect of such Financial Products Agreement, as calculated by the Financial Advisor to the Company.

“Authorized Denominations” means the amounts, if any, set forth therefor in the Supplemental Indenture authorizing any series of Notes.

“Authorized Representative” means the Assistant Superintendent of Operations of the Company, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company, each as evidenced by a written certificate furnished to the Master Trustee and any Bond Insurer containing the specimen signature of such person or persons and signed on behalf of the Company by an authorized officer of the Company. The Master Trustee and any Bond Insurer may rely on such written certificate until it is given written notice to the contrary.

“Available Revenues” means, for any period of determination thereof, the amount of excess (deficit) of Adjusted Revenues over Expenses for such period, plus any gifts, grants, requests or donations and income thereon restricted as to use by the donor or grantor for the sole purpose of paying Expenses of the Company, but less: (a) unrealized pledges for such period to make a donation, gift, or other charitable contribution to the extent encumbered, as permitted herein to secure the payment of Debt that is not Long Term Debt, and (b) insurance (other than business interruption) and condemnation proceeds.

“Balloon Debt” means Debt where the principal of (and premium, if any) and interest and other debt service charges on such Long Term Debt due (or payable in respect of any required purchase of such Debt by such Person on demand) in any Fiscal Year either are equal to at least 25% of the total principal of (any premium, if any) and interest and other debt service charges on such Long Term Debt or exceed by more than 50% the greatest amount of principal of (and premium, if any) and interest and other debt service charges on such Long Term Debt due in any preceding or succeeding Fiscal Year.

“Board Resolution” means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body to have been duly

adopted by the Governing Body and to be in full force and effect on the date of such certification and delivered to the Master Trustee.

“Bond Insurer” means any insurance provider that is providing bond insurance for any series of Related Bonds.

“Bond Trustee” means Amegy Bank National Association, as trustee (the “Bond Trustee”) pursuant to that certain Trust Indenture and Security Agreement, dated as of May 1, 2007, among the Texas Public Finance Authority Charter School Finance Corporation and the Bond Trustee.

“Code” means the Internal Revenue Code of 1986, as amended from time to time and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Company” means Cosmos Foundation, Inc., a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Consent,” “Order,” and “Request” means a written consent, order or request signed in the name of the Company and delivered to the Master Trustee by the Chairman of the Governing Body, the President, an Executive or Senior Vice President, the Chief Financial Officer or any other Person designated by the Company to execute any such instrument on behalf of the Company as evidenced by an Officer’s Certificate.

“Corporate Trust Office” means the address or addresses of the Master Trustee designated from time to time in accordance with Section 104.

“Debt” means all:

(i) indebtedness incurred or assumed by the Company for borrowed money or for the acquisition, construction or improvement of property other than goods that are acquired in the ordinary course of business of the Company;

(ii) lease obligations of the Company that, in accordance with generally accepted accounting principles, are shown on the liability side of a balance sheet;

(iii) all indebtedness (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or the acquisition, construction or improvement of property or capitalized lease obligations guaranteed, directly or indirectly, in any manner by the Company, or in effect guaranteed, directly or indirectly, by the Company through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other

manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise; and

(iv) all indebtedness (other than items described under Section 201(b)(iii)) secured by any mortgage, lien, charge, encumbrance, pledge or other security interest upon property owned by the Company whether or not the Company has assumed or become liable for the payment thereof.

For the purpose of computing the “Debt”, there shall be excluded any particular Debt if, upon or prior to the Maturity thereof, there shall have been deposited with the proper depository in trust the necessary funds (or evidences of such Debt or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption or satisfaction of such Debt; and thereafter such funds, evidences of Debt and investments so deposited shall not be included in any computation of the assets of the Company, and the income from any such deposits shall not be included in the calculation of Adjusted Revenues or Available Revenues.

“Deed of Trust” means that certain Deed of Trust and Security Agreement dated as of even date herewith from the Company to the Master Trustee, as such Deed of Trust may be amended, supplemented or restated, and/or any security instrument executed in substitution therefore or in addition thereto, as such substitute or additional security instrument may be amended, supplemented or restated from time to time.

“Defeasance Obligations” means any obligations authorized under Texas law and the related financing documents to be deposited in escrow for the defeasance of any Debt.

“Deposit Account Control Agreement” means the Deposit Account Control Agreement, dated May 1, 2007, entered into among the Company, the Master Trustee and the Depository Bank, and any other deposit account control agreement entered into by the Company, the Master Trustee and a Depository Bank from time to time.

“Depository Bank” means any bank designated by the Company as its depository bank pursuant to the Texas Education Code, as amended, Section 45.202.

“Event of Default” is defined in Section 601 of this Master Indenture.

“Expenses” means, for any period of time for which calculated, the total of all operating and non-operating expenses or losses incurred during such period by the Company for which such calculation is made, determined in accordance with generally accepted accounting principles, other than (a) interest expense, (b) depreciation and amortization and (c) extraordinary losses resulting from the early extinguishment of debt, the sale or other disposition of assets not in the

ordinary course of business or any reappraisal, revaluation or write-down of assets, and any other extraordinary losses or expenses.

“Financial Products Agreement” means any type of financial management instrument or contract, which shall include, but not be limited to, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or a series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors or caps, options, puts or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate or other financial risk forward supply agreements; and (v) any other type of contract or arrangement that the Governing Body of the Company determines is to be used, or is intended to be used, to manage or reduce the cost of debt (including but not limited to a bond insurance policy), to convert any element of debt from one form to another, to maximize or increase investment return, to minimize investment return risk or to protect against any type of financial risk or uncertainty.

“Fiscal Year” means any twelve-month period beginning on September 1 of any calendar year and ending on August 31 of the following year or such other twelve-month period selected by the Company as the fiscal year for the Company; provided that, if any Bond Insurer is providing bond insurance for any series of Related Bonds Outstanding, such Bond Insurer shall pre-approve in writing any change to such Fiscal Year and Company shall give written notice of any such change to the Master Trustee.

“Governing Body” means the board of directors of the Company or any duly authorized committee of that board.

“Holder” or “Note Holder” means a Person in whose name a Note is registered in the Note Register.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is provided that any Independent Person’s opinion or certificate shall be furnished to the Master Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Insurance Consultant” means a firm of Independent professional insurance consultants approved by each Bond Insurer knowledgeable in the operations of educational facilities and having a favorable reputation for skill and

experience in the field of educational facilities insurance consultation and which may include a broker or agent with whom the Company transacts business.

“Interest Payment Date” means the Stated Maturity of an installment of interest on any Note.

“Leasehold Mortgage” means that certain Leasehold Mortgage, Assignment of Rents and Leases, Security Agreement and Fixture Filing dated as of even date herewith from the Company to the Master Trustee, as such Leasehold Mortgage may be amended, supplemented or restated, and/or any security instrument executed in substitution therefore or in addition thereto, as such substitute or additional security instrument may be amended, supplemented or restated from time to time.

“Long Term Debt” means all Debt created, assumed or guaranteed by the Company that matures by its terms (in the absence of the exercise of any earlier right of demand), or is renewable at the option of the Company to a date, more than one year after the original creation, assumption, or guarantee of such Debt by the Company.

“Management Consultant” means a firm of Independent professional management consultants, or an independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation; provided that, if any Bond Insurer is currently providing bond insurance for any series of Related Bonds, such Bond Insurer shall preapprove in writing such management consultant.

“Master Indenture” means this Master Trust Indenture, as amended and supplemented from time to time in accordance with its terms.

“Master Trustee” means Amegy Bank National Association, a national banking association with a corporate trust office in Houston, Texas, serving as trustee pursuant to this Master Indenture, and its successors and assigns.

“Maturity” when used with respect to any Debt (or any Note) means the date on which the principal of such Debt (or Note) becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by declaration of acceleration, call for redemption or otherwise.

“Maximum Annual Debt Service” means, as of any date of calculation, the highest Annual Debt Service Requirements (excluding the final maturity payment for any Debt) with respect to all Outstanding Debt for any succeeding Fiscal Year.

“Note” means any obligation of the Company issued pursuant to Section 201 of this Master Indenture and executed, authenticated, and delivered pursuant to Section 203 hereof.

“Note Register” and “Note Registrar” have the respective meanings specified in Section 205 hereof.

“Notice of Exclusive Control” means the Notice of Exclusive Control specified in the Deposit Account Control Agreement.

“Officer’s Certificate” means a certificate of the Company signed by the chairman of the Governing Body, superintendent, president, an executive or senior vice president, chief financial officer, the Authorized Representative or any other Person designated by any of such Persons to execute an Officer’s Certificate as evidenced by a certificate of the Company delivered to the Master Trustee.

“Opinion of Counsel” means a written opinion of counsel selected by the Company, who may (except as otherwise expressly provided) be counsel to any party to any transaction involving the issuance of Notes pursuant to Section 201 hereof.

“Outstanding” when used with respect to the Notes means, as of the date of determination, all Notes theretofore authenticated and delivered under this Master Indenture, except:

(i) Notes theretofore cancelled by the Master Trustee or the Paying Agent;

(ii) Notes for whose payment or redemption money (or Defeasance Obligations to the extent permitted by Section 902 of this Master Indenture) in the necessary amount has been theretofore deposited with the Master Trustee or any Paying Agent for such Notes in trust for the Holders of such Notes pursuant to this Master Indenture or any Supplemental Master Indenture authorizing such Notes; provided, that if such Notes are to be redeemed, notice of such redemption has been duly given pursuant to this Master Indenture or irrevocable provision therefor satisfactory to the Master Trustee has been made; and

(iii) Notes upon transfer of or in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Master Indenture or any Supplemental Master Indenture authorizing such Notes; provided, however, that in determining whether the Holders of the requisite principal amount of Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Master Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which the Master Trustee knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Master Trustee the pledgee’s right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any other Person Obligated thereon. If there is

any conflict between the aforementioned provisions of this subsection (iii) and Section 103 of this Master Indenture, Section 103 shall control.

“Participating Campuses” means the authorized charter schools operated by the Company that are (i) acquired, constructed, renovated, improved or equipped with the proceeds of Related Bonds and (ii) made part of the Trust Estate pursuant to any Supplemental Master Indenture.

“Paying Agent” means the Master Trustee or any other Person authorized by the Company to pay the principal of (and premium, if any) or interest on any series of Notes.

“Person” means any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“Place of Payment” for any series of Notes means a city or any political subdivision thereof designated as such in the Notes of such series.

“Property” means any and all rights, titles and interests of the Company in and to any and all property located upon a Participating Campus whether real or personal, tangible or intangible, and wherever situated including cash.

“Qualified Provider” means any financial institution or insurance company which is a party to a Financial Products Agreement if the unsecured long term debt obligations of such financial institution or insurance company (or of the parent or a subsidiary of such financial institution or insurance company if such parent or subsidiary guarantees the performance of such financial institution or insurance company under such Financial Products Agreement), or obligations secured or supported by a letter of credit, contract, guarantee, agreement, insurance policy or surety bond issued by such financial institution or insurance company (or such guarantor parent or subsidiary), are rated in one of the two highest rating categories of a Rating Service at the time of the execution and delivery of the Financial Products Agreement.

“Rating Service” means each nationally recognized securities rating service which at the time has a credit rating assigned to any series of Notes (or any other indebtedness secured by Notes) at the request of the Company.

“Record Date” means the regular record date specified for each series of Notes.

“Related Bond Documents” means the Related Bonds, Related Bond Indenture, the Related Loan Documents, and the Related Deed of Trust.

“Related Bond Indenture” means any indenture, bond resolution or similar instrument pursuant to which any series of Related Bonds is issued.

“Related Bonds” means the bonds with respect to which any Notes are issued and any other revenue bonds or similar obligations issued by any state of the United States or any municipal corporation or other political subdivision formed under the laws thereof or any constituted authority, agency or instrumentality of any of the foregoing empowered to issue obligations on behalf thereof, the proceeds of which are loaned or otherwise made available to the Company in consideration, whether in whole or in part, of the execution, authentication and delivery of a Note or Notes to such governmental issuer.

“Related Bonds Outstanding” means all Related Bonds which have been duly authenticated and delivered by a Related Bond Trustee under a Related Bond Indenture, except:

(i) Related Bonds theretofore cancelled by the Related Bond Trustee or delivered to the Related Bond Trustee for cancellation;

(ii) Related Bonds for whose payment or redemption money (or defeasance obligations to the extent permitted by the Related Bond Indenture) in the necessary amounts has been theretofore deposited with the Related Bond Trustee or any paying agent for such Related Bonds in trust for the holders of such Related Bonds pursuant to the Related Bond Indenture; provided, that, if such Related Bonds are to be redeemed, notice of such redemption has been duly given pursuant to the Related Bond Indenture or irrevocable provision therefor satisfactory to the Related Bond Trustee has been made;

(iii) Related Bonds upon transfer of or in exchange for or in lieu of which other Related Bonds have been authenticated and delivered pursuant to the Related Bond Indenture; provided, however, that in determining whether the holders of the requisite principal amount of Related Bonds Outstanding have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Related Bonds owned by the Company or any other obligor thereon shall be disregarded and deemed not to be Outstanding except that, in determining whether the Related Bond Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Related Bonds which the Related Bond Trustee knows to be so owned shall be so disregarded. Related Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to satisfaction of the Related Bond Trustee the pledgee’s right so to act with respect to such Related Bonds and that the pledgee is not the Company or any other obligor upon the Related Bonds or any other Person obligated thereon. If there is any conflict between the aforementioned provisions in this subsection (iii) and Section 103 of this Master Indenture, Section 103 shall control; and

(iv) Related Bonds owned or held by or for the account of the Company, for the purpose of consent or other action or any calculation of Related Bonds Outstanding provided for in this Master Indenture.

“Related Bond Trustee” means any trustee under any Related Bond Indenture and any successor trustee thereunder or, if no trustee is appointed under a Related Bond Indenture, the Related Issuer.

“Related Deed of Trust” means any deed of trust or other mortgage instrument delivered by the Company to the Master Trustee in connection with Related Bonds or any Debt.

“Related Issuer” means any issuer of a series of Related Bonds.

“Related Loan Documents” means any loan agreement, credit agreement or other document pursuant to which a Related Issuer loans the proceeds of a series of Related Bonds to the Company.

“Related Project” means any project financed by Debt issued under this Master Indenture and for which Debt remains outstanding.

“Responsible Officer” when used with respect to the Master Trustee means the officer in the Corporate Trust Office of the Master Trustee having direct responsibility for administration of this Master Indenture.

“Revenue Fund” has the meaning specified in Section 406 hereof.

“Series 2007 Notes” shall mean any Notes issued pursuant to a Supplemental Master Indenture and secured by this Master Indenture to evidence payment obligations of the Company with respect to the Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds (Cosmos Foundation) Series 2007A and the Texas Public Finance Authority Charter School Finance Corporation Education Taxable Education Revenue Bonds (Cosmos Foundation) Series 2007B.

“Short-Term Debt” means indebtedness that is subordinate to any Debt under this Master Indenture; shall be utilized for the acquisition, construction, renovation or equipment of educational facilities; and shall be payable within five (5) years of the incurrence of said indebtedness. Short Term Debt shall not be considered “Debt” under this Master Indenture.

“State” means the State of Texas.

“State Revenues” means, for any period of time for which calculated, the total of all moneys received by the Company from the State during such period directly attributable to Participating Campuses.

“Stated Maturity” when used with respect to any Debt or any Note or any installment of interest thereon means the date specified in such Debt or Note as the fixed date on which the principal of such Debt or Note or such installment of interest is due and payable.

“Supplemental Master Indenture” means an indenture amending or supplementing this Master Indenture entered into pursuant to Article VIII hereof.

“TCEP Note” means the Note issued pursuant to a Supplemental Master Indenture and secured by this Master Indenture to evidence payment obligations of the Company with respect to that certain Guaranty Agreement, dated May 1, 2007 between the Company and the Texas Public Finance Authority Charter School Finance Corporation.

“Trust Estate” means the property described as the Trust Estate in the Granting Clauses of this Master Indenture or any Supplemental Master Indenture that is subject to the lien and security interest of this Master Indenture.

“UCC” means the Uniform Commercial Code as in effect in the State of Texas.

Section 102. Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Master Indenture shall include a statement that the person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of any officer of a Person may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Master Indenture, they may, but need not, be consolidated and form one instrument.

Section 103. Acts of Note Holders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Master Indenture to be given or taken by Note Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Note Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Master Trustee or Paying Agent, and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Note Holders signing such instrument or instruments. Proof of execution of any such instrument, or of a writing appointing any such agent, shall be sufficient for any purpose of this Master Indenture and (subject to Section 801) conclusive in favor of the Master Trustee and the Company, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership, on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Master Trustee deems sufficient.

(c) The ownership of Notes shall be proved by the Note Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other action by any Note Holder shall bind every Holder of any Note issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Master Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Note.

(e) The ownership of Related Bonds may be proved by the registration books for such Related Bonds maintained pursuant to the Related Bond Indenture.

(f) In determining whether the Holders of the requisite aggregate principal amount of Notes have concurred in any demand, direction, request, notice, consent, waiver or other action under this Master Indenture, or for any other purpose of this Master Indenture, Notes or Related Bonds that are owned by the Company shall be disregarded and deemed not to be Outstanding or outstanding under the Related Bond Indenture, as the case may be, for the purpose of any such determination, provided that for the purposes of determining whether the Master Trustee shall be protected in relying on any such direction, consent or waiver, only such Notes or Related Bonds which the Master Trustee has actual notice or knowledge are so owned shall be so disregarded and deemed not to be Outstanding Notes or Related Bonds Outstanding. Notes or Related Bonds so owned that have been pledged in good faith may be regarded as outstanding or outstanding under the Related Bond Indenture, as the case may be, for purposes of this Section, if the pledgee

shall establish to the satisfaction of the Master Trustee the pledgee's right to vote such Notes or Related Bonds. In case of a dispute as to such right, any decision by the Master Trustee taken upon the advice of counsel shall be full protection to the Master Trustee. In the event that a Note secures the obligation of a Person under an agreement or instrument that provides for the making of advances to or on behalf of such Person, such Note shall only be counted to be Outstanding in a principal amount equal to the amount so advanced or otherwise due and owing under the terms of such agreement (and only if such amount remains outstanding or unpaid) to or on behalf of such Person. In the event that a Note secures a Financial Products Agreement, such Note shall only be deemed to be Outstanding in a principal amount equal to any amount with which the Company is in default with respect to the payment thereof. In no event however, shall the amount owed to a holder be counted twice because there are the same amounts due and owing under two Notes relating to the same obligations (e.g., the principal amount reimbursable to the provider of a liquidity facility as the holder of bonds purchased by such liquidity provider as well as the principal amount of such purchased bonds by such liquidity provider as holder of the purchased bonds).

(g) At any time prior to (but not after) the time the Master Trustee takes action in reliance upon evidence, as provided in this Section 103, of the taking of any action by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action, any Holder of such Note or Related Bond that is shown by such evidence to be included in Notes the Holders of which have consented to such action may, by filing written notice with the Master Trustee and upon proof of holding as provided in this Section 103, revoke such action so far as concerns such Note or Related Bond. Except upon such revocation or such action taken by the Holder of a Note or Related Bond in any direction, demand, request, waiver, consent, vote or other action of the Holder of such Note or Related Bond which by any provision hereof is required or permitted to be given shall be conclusive and binding upon such Holder and upon all future Holders and owners of such Note or Related Bond, and of any Note or Related Bond issued in lieu thereof, whether or not any notation in regard thereto is made upon such Note or Related Bond. Any action taken by the Holders of the percentage in aggregate principal amount of Notes specified herein in connection with such action shall be conclusively binding upon the Company, the Master Trustee and the Holders of all of such Notes or Related Bonds.

Section 104. Notices, etc., to Master Trustee and Company. Any request, demand, authorization, direction, notice, consent, waiver or Act of Note Holders or other document provided or permitted by this Master Indenture to be made upon, given or furnished to, or filed with:

(1) the Master Trustee by any Note Holder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Master Trustee at Amegy Bank National Association, 1221 McKinney Street, Suite P-1, Houston, Texas 77010, Attention: Mary Jane Henson, Corporate Trust Administrator, or at any other address subsequently furnished in writing to the Company and the Holders by the Master Trustee;

(2) the Company by any Note Holder or by any Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Company at 5435 South Braeswood Blvd., Houston, Texas 77096, Attention: Chairman,

or at any other address subsequently furnished in writing to the Master Trustee by the Company; or

(3) The Bond Insurer shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Bond Insurer at the address specified in the Related Bond Documents.

Section 105. Notices to Note Holders; Waiver. Where this Master Indenture provides for notice to Note Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Note Holder affected by such event, at his address as it appears on the Note Register, not later than the latest date, and not earlier than the earliest date, prescribed for the first giving of such notice. In any case where notice to Note Holders is given by mail, neither the failure to mail such notice, nor any default in any notice so mailed to any particular Note Holder shall affect the sufficiency of such notice with respect to other Note Holders. Where this Master Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders of Notes shall be filed with the Master Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 106. Successors and Assigns. All covenants and agreements in this Master Indenture by the Company and the Master Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 107. Severability Clause. If any provision of this Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

Section 108. Benefits of Master Indenture. Nothing in this Master Indenture or in the Notes, express or implied, shall give to any Person, other than the parties hereto, and their successors hereunder and the Holders of the Notes, any benefit or any legal or equitable right, remedy or claim under this Master Indenture.

Section 109. Governing Law. This Master Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the law of the State.

Section 110. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

ARTICLE II

ISSUANCE AND FORM OF NOTES

Section 201. Series, Amount and Denomination of Notes.

(a) At any time and from time to time after the execution and delivery of this Master Indenture, Notes shall be issued under this Master Indenture in series issued pursuant to a Supplemental Master Indenture. Each series shall be designated to differentiate the Notes of such series from the Notes of any other series. Notes shall be issued as fully registered notes with the Notes of each series to be lettered and numbered MR-1 upwards (with such prefix as may be designated in the Supplemental Master Indenture authorizing any series). The aggregate principal amount of Notes of each series that may be created under this Master Indenture is not limited, except by the additional Long Term Debt limitations provided in this Master Indenture. A series of Notes may consist of a single Note or more than one Note.

(b) Notes may be issued hereunder to evidence (i) any type of Debt, including without limitation any Debt in a form other than a promissory note (such as commercial paper, bonds, or similar debt instruments), (ii) any obligation to make payments pursuant to a Financial Products Agreement, or (iii) debt consisting of an obligation to reimburse payments made under a letter of credit, surety bond, bond insurance policy, standby bond purchase agreement or similar credit or liquidity support obtained to secure payment of other Debt. The Supplemental Master Indenture pursuant to which any Notes are issued may provide for such supplements or amendments to the provisions hereof, including without limitation Article II hereof, as are necessary to permit the issuance of such Notes hereunder. Any Note evidencing obligations under a Financial Products Agreement shall be equally and ratably secured hereunder with all other Notes issued hereunder, except as otherwise expressly provided herein; provided, however, that (i) to be secured hereunder, the Master Trustee must receive, at the time of execution and delivery of such Financial Products Agreement, an Officer's Certificate stating that such Financial Products Agreement was entered into by the Company with a Qualified Provider, as provided hereunder, and is entitled to the benefits of the Master Indenture and (ii) such Note, with respect to such Financial Products Agreement, shall be deemed to be Outstanding hereunder solely for the purpose of receiving payment hereunder and the Qualified Provider shall not be entitled to exercise any rights of a Holder hereunder unless amounts payable by the Company are due and unpaid.

Section 202. Conditions to Issuance of Notes. Any Note or series of Notes shall be authenticated by the Master Trustee and delivered to the lender or purchaser only upon its receipt of the following:

(a) An Officer's Certificate stating (1) that no Event of Default under this Master Indenture has occurred or will result from the issuance of such Note or series of Notes; (2) that the Governing Body has authorized or approved the issuance of such Note or series of Notes; and (3) that the Supplemental Master Indenture relating thereto authorizes such Debt and that such Supplemental Master Indenture complies with the provisions of Article VIII hereof;

(b) An original executed counterpart of a Supplemental Master Indenture providing for the issuance of such Note or series of Notes; such Supplemental Master Indenture shall set forth the purpose for which the Debt evidenced thereby is being incurred, the principal amount, maturity date or dates, interest rate or rates and the other pertinent terms of the Note or series of Notes and the name of the Company; and

(c) Other than in connection with the Series 2006 Notes, an Opinion of Counsel to the effect that (1) the conditions to issuance of any particular Note or series of Notes set forth in this Section 202 and in Sections 212 and 407 of this Master Indenture have been satisfied, (2) upon the execution of such Note or series of Notes by the Company and the authentication thereof by the Master Trustee, such Notes will be the valid and binding obligations of the Company enforceable in accordance with its (their) terms, subject to the customary bankruptcy, insolvency and equitable principles exceptions and such other exceptions as may be acceptable to the initial payee thereof, (3) registration of such Note or series of Notes under the Securities Act of 1933, as amended, is not required, or, if such registration is required, that the Company has complied with all applicable provisions of said Act and (4) qualification of the Master Indenture and any Supplemental Master Trust Indenture providing for the issuance of such Note or series of Notes under the Trust Indenture Act of 1939 is not required, or if such qualification is required, that the Company has complied with all applicable provisions of such Act.

(d) The title insurance policy, or endorsement thereof, required by Section 212 or 408, if necessary.

(e) If in connection with the issuance of additional Debt, any other certificate, report or other item required under Section 212.

Section 203. Execution, Authentication and Delivery.

(a) Notes shall be executed by the Company through the chairman of its Governing Body or its president or any officer authorized by the Governing Body and attested to by the secretary or an assistant secretary of the Company, as appropriate, and Notes may have the corporate seal impressed or reproduced thereon. The signature of any officer on the Notes may be manual or facsimile.

(b) Notes bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Notes or did not hold such offices at the date of such Notes.

(c) At any time, and from time to time, after the execution and delivery of this Master Indenture, the Company may deliver executed Notes to the Master Trustee together with the Supplemental Master Indenture creating such series; and upon the receipt of the Supplemental Master Indenture, the Master Trustee shall authenticate and deliver such Notes as in this Master Indenture and the relevant Supplemental Master Indenture provided.

(d) No Note shall be entitled to any benefit under this Master Indenture or be valid or obligatory for any purpose, unless there appears on or attached to such Note a certificate of authentication substantially in the form set forth below executed by the Master Trustee by its

manual signature, and such certificate upon any Note shall be conclusive evidence, and the only evidence, that such Note has been duly authenticated and delivered hereunder. The form of certificate of authentication shall be as follows:

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

AMEGY BANK NATIONAL ASSOCIATION,
as Master Trustee, or its agent

By: _____
Authorized Signature

Section 204. Form and Terms of Notes. The Notes of each series of Notes shall contain such terms, and be in substantially the form set forth in the Supplemental Master Indenture creating such series, with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Master Indenture and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any regulatory body, or as may, consistently herewith, be determined by the officers executing such Notes, as evidenced by their signing of the Notes. The Notes of any series or the relevant Supplemental Master Indenture may contain additional (or different) representations, warranties, covenants, defaults and remedies and other provisions which do not contradict the terms of this Master Indenture, to the extent provided in the related Supplemental Master Indenture, and such additional terms shall supplement and be in addition to the terms of this Master Indenture. Unless the Notes of a series have been registered under the Securities Act of 1933, as amended, each Note of such series shall be endorsed with a legend which shall read substantially as follows: “This Note has not been registered under the Securities Act of 1933, as amended.”

Section 205. Registration, Transfer and Exchange.

(a) The Company shall cause to be kept at the corporate trust office of the Master Trustee in Houston, Texas, or the payment office of the Master Trustee in Houston, Texas, a register (sometimes herein referred to as the “Note Register”) in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Notes and of transfers of Notes. The Master Trustee is hereby appointed Note Registrar (the “Note Registrar”) for the purpose of registering Notes and transfers of Notes as herein provided. The Master Trustee may delegate any of its duties hereunder pursuant to the terms of a Supplemental Master Indenture. In such case, the Note Register may consist of one or more

records of ownership of the various series of Notes and any part of such register may be maintained by the agent of the Master Trustee relating to such series.

(b) Upon surrender for transfer of any Note at the office or agency of the Company in a Place of Payment, the Company shall execute, and the Master Trustee or its designated agent shall authenticate and deliver, in the name of the designated transferee, one or more new Notes of any Authorized Denominations, of a like aggregate principal amount, series, Stated Maturity and interest rate.

(c) At the option of the Holder, Notes may be exchanged for Notes of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Notes to be exchanged at such office or agency. Whenever any Notes are so surrendered for exchange, the Master Trustee or its designated agent shall authenticate and deliver the Notes which the Note Holder making the exchange is entitled to receive.

(d) All Notes issued upon any transfer or exchange of Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Master Indenture as the Notes surrendered upon such transfer or exchange.

(e) Every Note presented or surrendered for transfer or exchange shall (if so required by the Company or the Master Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Master Trustee or its designated agent duly executed by the Holder thereof or his attorney duly authorized in writing.

(f) No charge shall be made for any transfer or exchange of Notes, and any transfer or exchange of Notes shall be made without expense or without charge to Holders.

Section 206. Mutilated, Destroyed, Lost and Stolen Notes.

(a) If (i) any mutilated Note is surrendered to the Master Trustee or the Paying Agent, and the Master Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, and (ii) there is delivered to the Master Trustee such security or indemnity as may be required by the Master Trustee to save each of the Master Trustee and the Company harmless, then, in the absence of notice to the Company or the Master Trustee that such Note has been acquired by a bona fide purchaser, the Company shall execute and, upon its request, the Master Trustee shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Note, a new Note of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

(b) In case any such mutilated, destroyed, lost or stolen Note has become or is about to become due and payable, the Company may, in its discretion, instead of issuing a new Note, pay such Note.

(c) Upon the issuance of any new Note under this Section, the Master Trustee or its designated agent under any Supplemental Master Indenture may require the payment by the Company of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Master Trustee) connected therewith.

(d) Every new Note issued pursuant to this Section in lieu of any destroyed, lost or stolen Note shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Note shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Master Indenture equally and proportionately with any and all other Notes duly issued hereunder.

(e) The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 207. Method of Payment of Notes.

(a) The principal of, premium, if any, and interest on the Notes shall be payable in any currency of the United States of America which, at the respective dates of payment thereof, is legal tender for the payment of public and private debts, and such principal, premium, if any, and interest shall be payable at the principal payment office of the Master Trustee in Houston, Texas, or at the office of any alternate Paying Agent or agents named in any such Notes. Unless contrary provision is made in the Supplemental Master Indenture pursuant to which such Note is issued or the election referred to in the next sentence is made, payment of the interest on the Notes and payment of any redemption or prepayment price on any Note pursuant to Section 303 hereof shall be made to the Person appearing on the Note Register as the Holder thereof and shall be paid by check or draft mailed to the Holder thereof at his address as it appears on such registration books or at such other address as is furnished the Master Trustee in writing by such Holder; provided, however, that any Supplemental Master Indenture creating any Note may provide that interest on such Note may be paid, upon the request of the Holder of such Note, by wire transfer. Anything to the contrary in this Master Indenture notwithstanding, if an Event of Default has not occurred and is not continuing hereunder and the Company so elects, payments on a Note shall be made directly by the Company, by check or draft hand delivered to the Holder thereof or its designee or shall be made by the Company by wire transfer to such Holder, in either case delivered on or prior to the date on which such payment is due. The Company may give notice (on which the Master Trustee may conclusively rely) of any such payment to the Master Trustee concurrently with the making thereof, specifying the amount paid and identifying the Note or Notes with respect to which such payment was made by series designation, number and Holder thereof. Except with respect to Notes directly paid, the Company agrees to deposit with the Master Trustee on or prior to each due date, as specified in the Related Bond Documents, a sum sufficient to pay the principal of, premium, if any, and interest on any of the Notes due on such date. Any such moneys shall, upon direction of the Company set forth in an Officer's Certificate, be invested as set forth therein. The foregoing notwithstanding, amounts deposited with the Master Trustee to provide for the payment of Notes pledged to the payment of Related Bonds shall be invested in accordance with the provisions of the Related Bond Indenture and Related Loan Document. The Master Trustee shall not be liable or responsible for any loss resulting from any such investments, and shall not be responsible for determining whether any such investment is permitted hereunder or in accordance with any such Related Bond Indenture or Related Loan Agreement.

(b) Subject to the foregoing provisions of this Section 207, each Note delivered under this Master Indenture upon transfer of or in exchange for or in lieu of any other Note shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Notes.

Section 208. Persons Deemed Owners. The Company, the Master Trustee and any agent thereof may treat the Person in whose name any Note is registered as the owner of such Note for the purpose of receiving payment of principal of (and premium, if any) and interest on such Note and for all other purposes whatsoever whether or not such payment is past due, and neither the Company, the Master Trustee, nor any agent of the Company or the Master Trustee shall be affected by notice to the contrary.

Section 209. Cancellation. All Notes surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Master Trustee, be delivered to the Master Trustee and, if not already cancelled or required to be otherwise delivered by the terms of the Supplemental Master Indenture authorizing the series of Notes of which such Note is a part, shall be promptly cancelled by the Master Trustee. The Company may at any time deliver to the Master Trustee for cancellation any Notes previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and all Notes so delivered shall be promptly cancelled by the Master Trustee. No Notes shall be authenticated in lieu of or in exchange for any Notes cancelled as provided in this Section, except as expressly permitted by this Master Indenture. All cancelled Notes held by the Master Trustee shall be disposed of according to the retention policies of the Master Trustee.

Section 210. Security for Notes.

(a) All Notes issued and Outstanding under this Master Indenture are equally and ratably secured by the pledge and assignment of a security interest in the Trust Estate pursuant to the Granting Clauses of this Master Indenture. Any one or more series of Notes or obligations issued hereunder may be secured by additional and separate security (including without limitation letters or lines of credit, property or security interests in debt service reserve funds or debt service, purchase, construction or similar funds or guarantees of payment by third parties). Such security need not extend to any other Debt (including any other Notes or series of Notes) unless so specified and may contain provisions not inconsistent with this Master Indenture which provide for separate realization upon such security. Except as otherwise expressly provided herein or in any Supplemental Master Indenture pursuant to which such Note or obligation is issued, all Notes issued hereunder shall be equally and ratably secured by any lien created pursuant to or constituting a part of the Trust Estate under this Master Indenture.

(b) To the extent that any Debt which is permitted to be issued pursuant to this Master Indenture is not issued directly in the form of a Note, a Note may be issued hereunder and pledged as security for the payment of such Debt in lieu of directly issuing such Debt as a Note hereunder.

Section 211. Mortgage, Pledge and Assignment; Further Assurances.

(a) Subject only to the provisions of this Master Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein and in order to secure

the payment of the Notes and the performance of the duties and obligations of the Company under the Notes and this Master Indenture, the Company has pledged and assigned unto the Master Trustee and its successors and assigns forever, and granted a security interest thereunto in, among other things, all of the Adjusted Revenues and any other amounts (including proceeds of the sale of Bonds) held in the Revenue Fund to secure the payment of the principal of and interest on the Notes in accordance with their terms and the provisions of this Master Indenture and the Deed of Trust. Said pledge shall constitute a lien on and security interest in such assets and shall attach, be perfected and be valid and binding from and after delivery of the Notes and the execution of the Deposit Account Control Agreement, without any physical delivery thereof or further act.

In order to perfect the Master Trustee's security interest in the Adjusted Revenues as security for the payment of the Notes, the Master Trustee is authorized and directed to enter into, and shall be indemnified for (pursuant to Article VII hereof), the Deposit Account Control Agreement; provided, that the Master Trustee shall have no duty or responsibility to determine the existence of, or the necessity of perfecting any security interest of the Master Trustee in, any fund or account in which the Master Trustee has been granted a security interest, including without limitation, as described in Granting Clause (b) of this Master Indenture.

Upon the occurrence of an Event of Default, the Master Trustee shall be entitled to, subject to its rights to be indemnified pursuant to Article VII, (i) at the direction of each Bond Insurer, issue a Notice of Exclusive Control under the Deposit Account Control Agreement and (ii) collect and receive all of the Adjusted Revenues. The Master Trustee also shall be entitled to and shall (1) enforce the terms, covenants and conditions of, and preserve and protect the priority of its interest in and under this Master Indenture and the Deed of Trust and (2) assure compliance with all covenants, agreements and conditions of the Company contained in this Master Indenture with respect to the Adjusted Revenues; provided that, without limiting the generality of any of the provisions of this Master Indenture or the Deed of Trust, the Master Trustee need not foreclose the Deed of Trust (or accept a deed in lieu of foreclosure or otherwise exercise remedies with respect to the Mortgaged Property) if the effect of any such foreclosure (or acceptance of a deed in lieu of foreclosure, or other exercise of remedies with respect to the Mortgaged Property) would be to cause the Master Trustee to: (i) incur financial liability for any then existing environmental contamination at or from the Mortgaged Property or (ii) risk its own funds for the remediation of any such existing environmental contamination.

(b) The Company shall, at its own expense, take all necessary action to maintain and preserve the security interest in the property granted by this Master Indenture and the Deed of Trust so long as any Notes are Outstanding. In addition, the Company shall, immediately after the execution and delivery of this Agreement and thereafter from time to time, cause the Deed of Trust and any financing statements in respect thereof to be filed, registered and recorded in such manner and in such places as may be required by law in order to fully perfect and protect such security interest and from time to time will perform or cause to be performed any other act as provided by law and will execute or cause to be executed and filed as provided herein any and all continuation statements as required for such perfection and protection. Copies of all filings and recordings hereunder shall be promptly filed with the Master Trustee and any Bond Insurer. Except to the extent it is exempt therefrom, the Company shall pay or cause to be paid all filing, registration and recording fees and all expenses incident to the preparation, execution and

acknowledgment of such instruments of perfection, and all federal or state fees and other similar fees, duties, imposts, assessments and charges arising out of or in connection with the execution and delivery of the Deed of Trust and such instruments of perfection. The Master Trustee shall not be responsible for the sufficiency of or the recording of this instrument, any supplemental indenture, any mortgage, deed of trust, other security or other instruments of further assurance.

The Master Trustee shall confirm, on an annual basis, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents.

(c) The Company covenants not to take any action that would create or allow any liens to exist, except any Permitted Encumbrances (as defined in the Deed of Trust), on any real property owned by the Company other than a lien arising in connection with the issuance of additional Debt. The Company has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Company has not described such collateral in a UCC financing statement that will remain effective on the Closing Date. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

(d) The Company covenants that all Adjusted Revenues will be deposited into the account (or accounts) that is subject of a Deposit Account Control Agreement hereunder.

Section 212. Additional Debt.

(a) Upon satisfaction of the applicable requirements of Section 202, one or more series of Debt payable from the Adjusted Revenues of the Company may be delivered pursuant to this Master Indenture for the purposes provided in the Act, to pay the costs associated with such Debt, and/or for the purpose of refunding any Outstanding Debt if the following conditions are met:

(1) No Default. Delivery of an Officer's Certificate stating that this Master Indenture is in effect and no Event of Default is then existing under this Master Indenture or any Debt Outstanding or any agreement entered into in conjunction with such Debt;

(2) Parity Pledge. Such Debt shall be secured on a parity with respect to the Trust Estate and shall be payable by the issuer solely from the Adjusted Revenues and other amounts derived from the loan agreement relating to such debt (except to the extent paid out of moneys attributable to the proceeds derived from the sale of the additional Debt or to income from the temporary investment thereof);

(3) Sufficient funds must be evidenced as follows:

(A) Historical Coverage on Outstanding Debt. Delivery of an Officer's Certificate stating that, for either the Company's most recently completed Fiscal Year or for any consecutive 12 months out of the most recent 18 months immediately preceding the issuance of the additional Debt, the Available Revenues equal at least 1.20 times Maximum Annual Debt Service on all Debt then Outstanding prior to the issuance of the additional Debt; and

(B) Projected Coverage for Additional Debt. An Independent Management Consultant selected by the Company and approved by each Bond Insurer provides a written report setting forth projections which indicate that the estimated Available Revenues are equal to at least 1.00 times Maximum Annual Debt Service for all Debt then Outstanding, including the proposed additional Debt, in the Fiscal Year immediately following the completion of the Project being financed. The report of the Independent consultant shall take into account (i) the audited results of operations and verified enrollment of the Project for the most recently completed Fiscal Year and (ii) the projected enrollment for the Fiscal Year immediately following the completion of the new Project, and shall assume that the proposed additional Debt shall have been outstanding for the entire year;

(4) Alternate Coverage for Additional Debt. In lieu of the requirements described in Section 212(a)(3) above, the Company may deliver an Officer's Certificate stating that, based on the audited results of the operations for the most recently completed Fiscal Year, the Available Revenues equal at least 1.10 times Maximum Annual Debt Service on all Debt then Outstanding as well as the additional Debt;

(5) [RESERVED];

(6) Bond Counsel Opinion. Bond Counsel shall render an opinion to the Master Trustee and each Bond Insurer to the effect that the issuance of the proposed additional Debt will not cause the interest on the Related Bonds Outstanding issued as tax-exempt bonds to be includable in the gross income of the Owners thereof for purposes of federal income taxation; and

(7) Opinion of Counsel. The Company shall obtain and provide to the Master Trustee and any Bond Insurer on or prior to the closing date of the proposed additional Debt, an Opinion of Counsel addressed to the Master Trustee and the Bond Insurer to the effect that the security interest in fixtures and equipment and personal property granted under the Deed of Trust has been created and perfected under the Uniform Commercial Code as currently in effect in the State, including but not limited to, Article 9, as amended; and

(8) Title Insurance. So long as the Trust Estate contains the lien of the Deed of Trust upon any real property of the Company, the Company shall obtain and provide to the Master Trustee an endorsement of the title insurance policy issued in connection with

the Debt increasing the coverage thereunder by an amount equal to the aggregate principal amount of the additional Debt.

The satisfaction of the conditions set forth in paragraphs (1) through (8) above shall be evidenced to the Master Trustee. The Master Trustee may rely on an Opinion of Counsel that items (1) through (8) were completed.

(b) Refunding. If additional Debt is being issued for the purpose of refunding any Outstanding Debt, the report required by Sections 212(a)(3) and (4) to be delivered shall not apply so long as both the total and Maximum Annual Debt Service Requirements on all Outstanding Debt after issuance of the additional Debt will not exceed both the total and the Maximum Annual Debt Service Requirements on all Outstanding Debt prior to the issuance of such additional Debt.

(c) Completion Debt. In the event such additional Debt is being issued or incurred for the purpose of completing any Project (as that term is defined from time to time in connection with the issuance of additional Debt) for which additional Debt is issued or incurred, such series of completion bonds may be issued in amounts not to exceed 10% of the principal amount of the Debt originally issued for such Project upon delivery of an Officer's Certificate that such additional Debt is required to fund the costs of completion; provided that, such additional Debt must comply with any applicable requirements imposed by the Related Bond Indenture and Related Loan Documents.

(d) Interim Construction Financing. The Company reserves the right to issue and incur Short-Term Debt.

(e) Compliance with Insurer Requirements. Notwithstanding the foregoing, if any Bond Insurer is providing bond insurance for any series of Related Bonds Outstanding, such conditions and requirements as are set forth in the Related Bond Indenture and Related Loan Documents related to such series of Related Bonds shall be met prior to the issuance of additional Debt, as evidenced by the written approval or appropriate waiver of such Bond Insurer delivered to the Master Trustee.

(f) Exemption. The TCEP Note, the Series 2007 Notes and related Texas Public Finance Authority Charter School Finance Corporation Education Revenue Bonds, Series 2007A and Taxable Education Revenue Bonds, Series 2007B (Cosmos Foundation) shall not be considered additional Debt and are not subject to the provisions of this Section 212.

(g) Except for the parity additional Debt and any subordinate Debt authorized by this Section 212, no other additional Debt shall be issued by the Company, whether or not issued under this Master Trust Indenture, without the prior written consent of each Bond Insurer.

Section 213. Insurance. (a) The Company shall at all times following completion of any Related Project, keep and maintain such Related Project insured against such risks and in such amounts, with such deductible provisions, as are customary in connection with the operation of facilities of the type and size comparable to the Related Project and consistent with the requirements of state law. Subject to subsection (c) hereof, the Company shall carry and

maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for, at least the following insurance with respect to the Related Project and the Company:

(1) insurance coverage for buildings and contents, including steam boilers, fired pressure vessels and certain other machinery for fire, lightning, windstorm and hail, explosion, aircraft and vehicles, sprinkler leakage, elevator, and all other risks of direct physical loss, at all times in an amount not less than the replacement cost of the Related Project as originally determined to be \$16,700,000 on the Closing Date of the Series 2007 Bonds and subsequently determined after construction is completed on any properties covered under the Deed of Trust;

(2) during the course of any construction, reconstruction, remodeling or repair of the Related Project, builders' all risk extended coverage insurance (non-reporting Completed Value with Special Cause of Loss form) in amounts based upon the completed replacement value of the Related Project, including soft costs and, to the extent not covered by (6) below, coverage for lost gross revenues due to damage or destruction of the Related Project prior to construction in an amount consistent with (6) below, and endorsed to provide that occupancy by any person shall not void such coverage;

(3) general liability (other than as set forth in subsection (4) of this subsection (a));

(4) comprehensive professional liability insurance, including malpractice and other professional liability insurance (other than as set forth in subparagraph (3) of this subsection (a));

(5) worker's compensation insurance as required by the laws of the State; and

(6) business interruption insurance covering actual losses in gross revenues from the Related Project resulting directly from necessary interruption of the operation of the Company caused by damage to or destruction (resulting from fire and lightning; accident to a fired pressure vessel or machinery; and other perils, including windstorm and hail, explosion, civil commotion, aircraft and vehicles, sprinkler leakage, smoke, vandalism and malicious mischief, and accident) to real or personal property constituting part of the Related Project, less charges and expenses which do not necessarily continue during the interruption of business, for such length of time as may be required with the exercise of due diligence and dispatch to rebuild, repair, or replace such properties as have been damaged or destroyed (but in no event less than 12 months) with limits equal to at least 100 percent of the maximum annual principal and interest requirements on the Outstanding Bonds for the current or any subsequent Fiscal Year.

If it is ever determined that any structure within the Related Project is located in a flood plain (as defined by federal regulations), the Company shall carry and maintain, or cause to be carried and maintained, and pay or cause to be paid timely the premiums for flood insurance for the Related Project. Such flood insurance shall constitute the type of such insurance that is available at the

time and as is customary in connection with the operation of facilities of the type and size comparable to the Related Project.

(b) Insurers and Policies. Each insurance policy required by subparagraph (a) above (i) shall be issued or written by such insurer (or insurers) as mutually acceptable to the Company and each Bond Insurer, or by an insurance fund established by the United States or State or an agency or instrumentality thereof unless such insurance is not otherwise available on commercially reasonable terms from an insurer rated at least “A” by S&P or “Excellent (A or A-) by Best, (ii) shall be in such form and with such provisions (including, without limitation and where applicable, loss payable clauses payable to the Master Trustee, waiver of subrogation clauses, provisions relieving the insurer of liability to the extent of minor claims and the designation of the named insureds) as are generally considered standard provisions for the type of insurance involved, (iii) shall prohibit cancellation or substantial modification by the insurer without at least thirty days’ prior written notice to the Master Trustee, each Bond Insurer and the Company and (iv) shall name the Master Trustee and the Bond Insurer as additional insured. Without limiting the generality of the foregoing, all insurance policies carried pursuant to clause (a)(1) of this Section 213 contain a standard NY Mortgagee clause in favor of the Master Trustee and the Bond Insurer (as mortgagee/loss payee) shall name the Master Trustee, the Bond Insurer and the Company as parties insured thereunder as the respective interest of each of such parties may appear, and loss thereunder shall be made payable and shall be applied as provided in the Related Loan Documents. The Company shall deliver to each Bond Insurer and the Trustee, no later than the date on which it is required to obtain an insurance policy pursuant to Section 213(a), proof of each such insurance policy.

(c) Insurance Consultant. The Company covenants to review each year the insurance carried by the Company with respect to the Company and the Related Project and, to the extent feasible, will carry insurance insuring against risks and hazards specified in Section 213(a) to the same extent that other entities comparable to the Company and owning or operating facilities of the size and type comparable to the Related Project carry such insurance. At least once every two years, from and after the date hereof, the Company shall retain an Independent Insurance Consultant, for the purpose of reviewing the insurance coverage of, and the insurance required for, the Company and the Related Project and making recommendations respecting the types, amounts and provisions of insurance that should be carried with respect to the Company and the Related Project and their operation, maintenance and administration. A signed copy of the report of the Independent Insurance Consultant shall be filed with the Master Trustee and each Bond Insurer. The insurance requirements of Section 213(a) and this subsection (c) shall be deemed modified or superseded as necessary to conform with the recommendations contained in said report to the extent the report recommends additional or increased coverage.

(d) Certifications. The Company shall, on the closing date for any Debt and thereafter within 120 days after the end of each of its Fiscal Years submit to the Master Trustee and each Bond Insurer an Officer’s Certificate verifying that (i) all insurance required by this Master Indenture is in full force and effect as of the date of such Officer’s Certificate and (ii) all Impositions (as defined in Section 4.1(k) of the Deed of Trust) have been paid. The Master Trustee shall have no responsibility for monitoring the existence of or maintaining any insurance policies other than to receive the certificate required by this Section 213(d).

ARTICLE III

REDEMPTION OR PREPAYMENT OF NOTES

Section 301. Redemption or Prepayment. Notes of each series shall be subject to optional and mandatory redemption or prepayment (subject to Section 602) in whole or in part and may be redeemed prior to Stated Maturity only as provided in the Supplemental Master Indenture creating such series. Unless otherwise provided by the Supplemental Master Indenture creating a series of Notes, the provisions of Sections 302 through 305 of this Master Indenture shall also apply to the redemption of Notes.

Section 302. Election to Redeem or Prepay; Notice to Master Trustee. The Company shall notify the Master Trustee in writing of the election of the Company to redeem or prepay all or any portion of the Notes of any series, together with the redemption or prepayment date and the principal amount of Notes of each Stated Maturity and series to be redeemed or prepaid, at least 60 days prior to the redemption or prepayment date fixed by the Company, unless a shorter notice shall be satisfactory to the Master Trustee.

Section 303. Deposit of Redemption or Prepayment Price. On or prior to any redemption or prepayment date, the Company shall deposit with the Master Trustee or its designated agent an amount of money sufficient to pay the redemption or prepayment price of all the Notes which are to be redeemed or prepaid on such date.

Section 304. Notes Payable on Redemption or Prepayment Date.

(a) Notice of redemption or prepayment having been given as aforesaid, and the monies for redemption or prepayment having been deposited as described in Section 303, the Notes to be redeemed or prepaid shall become due and payable on the redemption or prepayment date at the redemption or prepayment price therein specified, and from and after such date such Notes shall cease to bear interest. Upon surrender of any such Note for redemption or prepayment in accordance with said notice, such Note shall be paid by the Company at the redemption or prepayment price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the registered Note Holders on the relevant Record Dates according to their terms.

(b) If any Note called for redemption shall not be so paid upon surrender thereof for redemption, the principal (and premium, if any) shall, until paid, bear interest from the redemption date at the rate borne by the Note.

Section 305. Notes Redeemed or Prepaid in Part. Any Note which is to be redeemed or prepaid only in part shall be surrendered at a Place of Payment (with, if the Company or the Master Trustee so requires, due endorsement by, or a written instrument of transfer satisfactory in form to, the Company and the Master Trustee, and duly executed by the Holder thereof or by his attorney who has been duly authorized in writing) and the Company shall execute and the Master Trustee shall authenticate and deliver without service charge a new Note or Notes of the same series, interest rate and maturity, and of any Authorized Denomination, to the Holder of

such Note as requested by such Holder in aggregate principal amount equal to and in exchange for the unredeemed or unpaid portion of the principal of the Note so surrendered.

ARTICLE IV

COVENANTS OF THE COMPANY

Section 401. Payment of Debt Service. The Company unconditionally and irrevocably covenants that it will promptly pay the principal of, premium, if any, and interest and any other amount due on every Note issued under this Master Indenture at any time at the place, on the dates and in the manner provided in said Notes according to the true intent and meaning thereof. Notwithstanding any schedule of payments upon the Notes set forth in the Notes, the Company unconditionally and irrevocably covenants and agrees to make payments upon each Note and be liable therefor at the times and in the amounts (including principal, interest and premium, if any) equal to the amounts to be paid as interest, principal at maturity or by mandatory sinking fund redemption, or premium, or purchase price, if any, upon any Notes or Related Bonds from time to time outstanding.

Section 402. Rating. The Company covenants that it will not knowingly take any action that would likely result in the reduction of the then current municipal ratings of the Notes (or any other indebtedness secured by the Notes) by Fitch, Inc., Moody's Investors Services, Inc., or Standard & Poors Ratings Services, Inc.

Section 403. Money for Note Payments to be Held in Trust; Appointment of Paying Agents.

(a) The Company may appoint a Paying Agent for each series of the Notes.

(b) Each such Paying Agent appointed by the Company shall be (i) a corporation organized and doing business under the laws of the United States of America or of any state, (ii) authorized under such laws to exercise corporate trust powers, (iii) have a combined capital and surplus of at least \$50,000,000, and (iv) be subject to supervision or examination by federal or state authority.

(c) Subject to Section 207 hereof, the Company will, on or prior to each due date of the principal of (and premium, if any) or interest or any other amounts on any Notes, deposit with the Master Trustee which shall thereupon deposit such with the Paying Agent, a sum sufficient to pay the principal (and premium, if any) or interest or purchase price so becoming due and any other amounts due in accordance with the terms of the Notes and this Master Indenture, such sum to be held in trust for the benefit of the Holders of such Notes, and the Company will promptly notify the Master Trustee of its action or failure so to act unless such Paying Agent is the Master Trustee.

(d) The Company will cause each Paying Agent other than the Master Trustee to execute and deliver to the Master Trustee an instrument in which such Paying Agent shall agree with the Master Trustee, subject to the provisions of this Subsection, that such Paying Agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest or any other amounts on the Notes in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Master Trustee notice of any default by the Company or any other obligor upon the Notes in the making of any such payment of principal (and premium, if any) or interest or any other amounts; and

(3) upon request by the Master Trustee, pay to the Master Trustee all sums so held in trust by such Paying Agent forthwith at any time during the continuance of such default.

(e) For the purpose of obtaining the satisfaction and discharge of this Master Indenture or for any other purpose, the Company may at any time by Order direct any Paying Agent to pay to the Master Trustee all sums held in trust by such Paying Agent, such sums to be held by the Master Trustee upon the same trusts as those upon which such sums were held by such Paying Agent. Upon such payment by any Paying Agent to the Master Trustee, such Paying Agent shall be released from all further liability with respect to such money.

(f) Subject to applicable escheat laws of the State, any money deposited in trust with the Master Trustee or any Paying Agent for the payment of the principal of (and premium, if any) or interest on any Notes and remaining unclaimed for the later of (i) the first anniversary of the Stated Maturity of the Notes or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall to the extent permitted by law be paid to the Company on its Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the Holder of such Note shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Master Trustee or such Paying Agent with respect to such trust money, and all liability of the Company, shall thereupon cease; provided, however, that the Master Trustee or such Paying Agent, before being required to make any such repayment, may publish notice in an Authorized Newspaper at the expense of the Company that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company; provided further, notwithstanding the foregoing, the Master Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Master Trustee's customary procedures. The Master Trustee shall hold any such funds in trust uninvested (without liability for interest accrued after the date of deposit or other compensation) for the benefit of holders entitled thereto.

Section 404. Notice of Non-Compliance. Promptly upon the discovery of any default, the Company will deliver to the Master Trustee a written statement describing each default and status thereof which has not been cured or waived under any Note. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 405. Corporate Existence. Subject to Sections 501 and 502, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights (charter and statutory), and franchises; provided, however, that the Company shall not be required to preserve any right or franchise if the Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of its business and that the loss thereof is not disadvantageous in any material respect to the Holders of the Notes.

Section 406. Revenue Fund.

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the “Cosmos Education Revenue Fund” (herein referred to as the “Revenue Fund”). The Revenue Fund shall contain a principal account (the “Principal Account”) and an interest account (the “Interest Account”) and such other accounts as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish and maintain the Revenue Fund prior to the occurrence and continuance of an Event of Default. The money deposited to the Revenue Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and in Section 606.

(b) If, and only if, an Event of Default under this Master Indenture shall occur, the Company shall deposit, within five (5) business days from the date of receipt, with the Master Trustee, for credit to the Revenue Fund all of its Adjusted Revenues, including without limitation amounts subject to the Deposit Account Control Agreement for which a Notice of Exclusive Control has been delivered, (except to the extent otherwise provided by or inconsistent with any permitted instrument creating any mortgage, lien, charge, encumbrance, pledge or other security interest granted, created, assumed, incurred or existing) as well as any insurance and condemnation proceeds, beginning on the first day of such Event of Default thereof and on each day thereafter, until no default under Section 601(a) of this Indenture then exists.

(c) Immediately upon receipt of any payments to the Master Trustee for deposit into the Revenue Fund, the Master Trustee shall withdraw and pay or deposit from the amounts on deposit in the Revenue Fund the following amounts in the order indicated:

- (1) to the Master Trustee any fees or expenses which are then payable;
- (2) equally and ratably to the Holder of each instrument evidencing a Note on which there has been a default pursuant to Section 601(a) an amount equal to all defaulted principal of (or premium, if any), interest and obligations on such Note;
- (3) a transfer to the Interest Account of an amount necessary to accumulate in equal monthly installments the interest on the Notes due and payable on the next Interest Payment Date, provided, however, that to the extent available, each transfer made on the fifth Business Day before the end of each month immediately preceding each Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Interest Account, the balance of the interest due on the Notes on the next succeeding Interest Payment Date. There shall be paid from the Interest Account equally and ratably

to the Holder of each instrument evidencing a Note the amount of interest on each Note as such interest becomes due;

(4) a transfer to the Principal Account of the amount necessary to accumulate in equal monthly installments the principal of the Notes maturing or subject to mandatory sinking fund redemption on the next Interest Payment Date taking into account with respect to each such payment (i) any other money actually available in the Principal Account for such purpose and (ii) any credit against amounts due on each Interest Payment Date granted pursuant to other provisions of this Master Indenture; provided, however, that to the extent available, the transfer made on the fifth Business Day before the end of each month immediately preceding such Interest Payment Date shall be in an amount to provide, together with amounts then on deposit in the Principal Account, the balance of the principal maturing or subject to mandatory sinking fund redemption on such Interest Payment Date. There shall be paid from the Principal Account equally and ratably to the Holder of each instrument evidencing a Note the amount of principal payments due on each Note, whether at maturity or earlier mandatory redemption (other than by reason of acceleration of maturity or other demand for payment), as such principal becomes due;

(5) to the Holder of any Note entitled to maintain a reserve fund for the payment of such Note, an amount sufficient to cause the balance on deposit in such reserve fund to equal the required balance in 12 equal monthly installments or as otherwise in such amounts required by the applicable Related Bond Documents; and

(6) to the Company, the amount specified in a Request as the amount of ordinary and necessary expenses of the Company for its operations for the following month.

(d) Any amounts remaining on deposit in the Revenue Fund on the day following the end of the month in which all Events of Default under Section 601(a) of this Master Indenture have been cured or waived, shall be paid to the Company upon Request for deposit in a deposit account of the Company subject to a Deposit Account Control Agreement, which may be used for any lawful purpose.

(e) Pending disbursements of the amounts on deposit in the Revenue Fund, the Master Trustee shall promptly invest and reinvest such amounts in the Defeasance Obligations specified in any Order. All such investments shall have a maturity not greater than 91 days from date of purchase.

Section 407. Insurance and Condemnation Proceeds Fund.

(a) There is hereby created by the Company and established with the Master Trustee the special fund of the Company designated the “Cosmos Education Insurance and Condemnation Proceeds Fund” (herein referred to as the “Insurance and Condemnation Fund”). The Master Trustee is hereby authorized to create any accounts within such Insurance and Condemnation Fund as the Master Trustee finds necessary or desirable, provided, the Master Trustee shall have no duty to establish the Insurance and Condemnation Fund prior to the first

occurring receipt of proceeds under an insurance policy held pursuant to Section 213 hereof or a condemnation of all or a portion of any Related Project. The money deposited to the Insurance and Condemnation Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section.

(b) Immediately upon receipt of any payments to the Master Trustee for deposit into the Insurance and Condemnation Fund, the Master Trustee shall transfer such amounts to the Related Bond Trustee in accordance with the Related Indenture to which such insurance or condemnation proceeds relate for use pursuant to such Related Indenture and the Related Loan Documents for such Related Project.

Section 408. Title Insurance. The Company shall obtain and deliver to the Master Trustee on or prior to the closing date of any Debt a standard ALTA owner's policy of title insurance and a standard ALTA mortgage loan policy of title insurance issued by a title insurance company acceptable to the Master Trustee, showing the Master Trustee and any Bond Insurer as insured parties, as their interests may appear, with respect to the Mortgaged Property, together with such endorsements as may be required by the Master Trustee and any Bond Insurer, in an aggregate amount not less than the principal amount of the Debt outstanding (including the Debt to be issued) secured by the Mortgaged Property (as defined in the Deed of Trust). The policies shall insure that the Company has fee title in the Mortgaged Property and the Master Trustee has a valid first lien on the Company's interest in the Mortgaged Property described in the Deed of Trust; subject to Permitted Encumbrances and subject to the Master Trustee's protection in Section 703(n) hereof. There shall be deleted in such policies to the satisfaction of any Bond Insurer the standard exceptions for discrepancies, encroachments, overlaps, conflicts in boundary lines, servitudes or such other matters that would be disclosed by an accurate survey and inspection of the Mortgaged Property, for mechanics' and materialmen's liens, or for rights or claims of parties in possession and easements and claims of easements not shown on the public records.

Section 409. Waiver of Certain Covenants. The Company may omit in any particular instance to comply with any covenant or condition set forth in Sections 402 through 407 hereof if before or after the time for such compliance the Holders of the same percentage in principal amount of all Notes then Outstanding the consent of which would be required to amend the provisions hereof to permit such noncompliance and each Bond Insurer shall either waive such compliance in such instance or generally waive compliance with such covenant or condition, but no such waiver shall extend to or affect such covenant or condition except to the extent so expressly waived and, until such waiver shall become effective, the obligations of the Company and the duties of the Master Trustee in respect of any such covenant or condition shall remain in full force and effect.

ARTICLE V

CONSOLIDATION, MERGER, CONVEYANCE AND TRANSFER

Section 501. Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms. In addition to any other requirements set forth in the Related Bond Documents, the

Company covenants and agrees that it will not consolidate with or merge into any corporation or convey or transfer its properties substantially as an entirety to any Person, unless:

(a) all of the following conditions exist:

(1) the Person formed by such consolidation or into which the Company merges or the Person which acquires substantially all of the properties of the Company as an entirety shall be a Person organized and existing under the laws of the United States of America or any state or the District of Columbia and shall expressly assume by instrument supplemental hereto executed and delivered to the Master Trustee, the due and punctual payment of the principal (and premium, if any) and interest on the Notes and any other amounts due thereunder or in accordance with this Master Indenture and the performance and observance of every covenant and condition hereof on the part of the Company to be performed or observed;

(2) an Officer's Certificate shall be delivered to the Master Trustee to the effect that such consolidation, merger or transfer shall not, immediately after giving effect to such transaction, cause a default hereunder to occur and be continuing;

(3) the Company shall have delivered to the Master Trustee and Related Bond Trustee an Officer's Certificate and Opinion of Counsel, each stating that such consolidation, merger, conveyance, or transfer and such supplemental instrument comply with this Article and that all conditions precedent relating to such transaction provided for herein have been complied with, and a Favorable Opinion of Bond Counsel; and

(4) the consent of each Bond Insurer shall have been obtained.

Section 502. Successor Corporation Substituted. Upon any consolidation or merger, or any conveyance or transfer of the properties and assets of the Company substantially as an entirety in accordance with Section 501, the successor Person formed by such consolidation or into which the Company is merged or to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company hereunder with the same effect as if such successor Person had been named as the Company herein.

ARTICLE VI

REMEDIES OF THE MASTER TRUSTEE AND HOLDERS OF NOTES IN EVENT OF DEFAULT

Section 601. Events of Default. "Event of Default," whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(a) default in the payment of the principal of (premium, if any) or interest or any other amount due on any Note when due (giving effect to any applicable period of grace, if any); or

(b) default in the performance, or breach, of any covenant or agreement on the part of the Company contained in this Master Indenture (other than a covenant or agreement the default in the performance or observance of which is elsewhere in this Section specifically addressed) and continuance of such default or breach for a period of 30 days after a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder has been given by registered or certified mail by (i) the Holders of at least 25% in principal amount of Notes then Outstanding, or (ii) any Bond Insurer, or (iii) the Master Trustee to the Company (with a copy to the Master Trustee in the case of notice by the Holders); provided that if such default under this Section 601(b) can be cured by the Company but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Company within such 30-day period and diligently pursued until the default is corrected; or

(c) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Company under the federal Bankruptcy Code of 1978, as amended (the “Bankruptcy Code”), or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of 90 days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Company or the Company’s property, or for the winding up or liquidation of the Company or the Company’s affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of 90 days; or

(d) the Company shall institute proceedings to be adjudicated a voluntary bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes;

(e) an event of default, as therein defined, under any instrument or agreement under which any Note may be incurred or secured, or under any Related Bond Documents occurs and is continuing beyond any applicable period of grace, if any;

(f) a Qualified Provider under a Financial Products Agreement which is secured by a Note notifies the Master Trustee that an event of default under the Swap Agreement, as therein defined, has occurred and is continuing beyond the applicable grace period, if any.

Section 602. Acceleration of Maturity In Certain Cases; Rescission and Annulment.

(a) If an Event of Default occurs and is continuing, then and in every such case the Master Trustee may, and upon the request of: (i) the Holders of not less than 25% in principal amount of the Notes Outstanding with the consent of the Majority Insurers (or, in the case of any Event of Default described in clause (e) above resulting in the loss of any exclusion from gross income of interest on, or the invalidity of, any Debt secured by a pledge of Notes, the Holders of not less than 25% in principal amount of the Notes Outstanding of the affected series) or (ii) any Bond Insurer, shall, by a notice in writing to the Company, accelerate the Maturity of the Notes, and upon any such declaration such principal (premium, if any) and interest and any other amount due on any Note shall become immediately due and payable.

(b) At any time after such a declaration of acceleration has been made and before a judgment or decree for payment of the money due has been obtained by the Master Trustee as hereinafter in this Article provided, the Holders of a majority in principal amount of the Notes Outstanding, by written notice to the Company and the Master Trustee, may rescind and annul such declaration and its consequences if:

(1) the Company has caused to be paid or deposited with the Master Trustee a sum sufficient to pay:

(i) all overdue installments of interest on all Notes;

(ii) the principal of (and premium, if any, on) any Notes which have become due otherwise than by such declaration of acceleration and interest thereon at the rate borne by the Notes as well as any other amounts due and owing as provided in such Notes; and

(iii) all sums paid or advanced by the Master Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel; and

(2) all Events of Default, other than the non-payment of the principal of Notes which have become due solely by such acceleration, have been cured or waived as provided in Section 613.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

(c) Acceleration of Notes pursuant to this Section 602 may be declared separately and independently with or without an acceleration of the Related Bonds.

Section 603. Collection of Indebtedness and Suits for Enforcement by Master Trustee.

(a) The Company covenants that if:

(1) default is made in the payment of any installment of interest on any Note when such interest becomes due and payable;

(2) default is made in the payment of the principal of (or premium, if any, on) any Note when such principal (or premium, if any) becomes due and payable; or

(3) default is made in the payment of any other amount when such amount is due and payable;

the Company will, subject to Section 401 hereof, upon demand of the Master Trustee, pay to it, for the benefit of the Holders of such Notes, the whole amount then due and payable on such Notes for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any) and any other amount due; and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel.

(b) If the Company fails to pay any of the foregoing amounts forthwith upon demand, the Master Trustee, in its own name and as trustee of an express trust, may institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same, against the Company and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the Property of the Company.

(c) If an Event of Default occurs and is continuing, the Master Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Notes and other obligations secured hereunder by such appropriate judicial proceedings as the Master Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Master Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy, including without limitation proceeding under the UCC as to all or any part of the Trust Estate, and the Company hereby covenants and agrees with the Master Trustee that the Master Trustee shall have and may exercise with respect to the Trust Estate all the rights, remedies and powers of a secured party under the UCC as in effect in the State of Texas.

(d) If an Event of Default occurs and is continuing, the Master Trustee shall, at the direction of each Bond Insurer, provide a Notice of Exclusive Control to the Company's Depository Bank.

(e) If an Event of Default occurs and is continuing, the Mortgage Trustee may foreclose on any property subject to the Deed of Trust.

Section 604. Master Trustee May File Proofs of Claim.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Company or Property of the Company or of such other obligor or their creditors, the Master Trustee (irrespective of whether the principal of the Notes shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Master Trustee shall have made any demand on the Company for the payment of overdue principal or interest) shall be entitled and empowered, by intervention in such proceeding or otherwise:

(1) to file and prove a claim for the whole amount of principal (and premium, if any) and interest and any other amounts owing and unpaid in respect of the Notes and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Master Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel) and of the Holders of Notes allowed in such judicial proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Holder of Notes to make such payments to the Master Trustee, and in the event that the Master Trustee shall consent to the making of such payments directly to the Holders of Notes, to pay to the Master Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel, and any other amounts due the Master Trustee under this Master Indenture.

(b) Nothing herein contained shall be deemed to authorize the Master Trustee to authorize or consent to or accept or adopt on behalf of any Holder of Notes any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Master Trustee to vote in respect of the claim of any Holder of Notes in any such proceeding.

Section 605. Master Trustee May Enforce Claims Without Possession of Notes. All rights of action and claims under this Master Indenture or the Notes may be prosecuted and enforced by the Master Trustee without the possession of any of the Notes or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Master Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Master Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Notes in respect of which such judgment has been recovered.

Section 606. Application of Money Collected. Any money collected by the Master Trustee pursuant to this Article and any proceeds of any sale (after deducting the costs and expenses of such sale, including a reasonable compensation to the Master Trustee, its agents and counsel, and any taxes, assessments, or liens prior to the lien of this Indenture, except any thereof subject to which such sale shall have been made), whether made under any power of sale herein

granted or pursuant to judicial proceedings, together with, in the case of an entry or sale as otherwise provided herein, any other sums then held by the Master Trustee as part of the Trust Estate, shall be deposited in the Revenue Fund created by this Master Indenture, shall be applied in the order specified in Section 406, at the date or dates fixed by the Master Trustee and, in case of the distribution of such money on account of principal (or premium, if any), upon presentation of the Notes and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid.

Section 607. Limitation on Suits. No Holder of any Note shall have any right to institute any proceeding, judicial or otherwise, with respect to this Master Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

- (1) such Holder has previously given written notice to the Master Trustee of a continuing Event of Default;
- (2) the Holders of not less than 25% in principal amount of the Outstanding Notes shall have made written request to the Master Trustee to institute proceedings in respect of such Event of Default in its own name as Master Trustee hereunder;
- (3) such Holder or Holders have provided to the Master Trustee indemnity satisfactory to it against the costs, expenses and liabilities to be incurred in compliance with such request;
- (4) the Master Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and
- (5) no direction inconsistent with such written request has been given to the Master Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Notes;

it being understood and intended that no one or more Holders of Notes shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Master Indenture to affect, disturb or prejudice the rights of any other Holders of Notes, or to obtain or to seek to obtain priority or preference over any other Holders, or to enforce any right under this Master Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Holders of Notes.

Section 608. Unconditional Right of Holders of Notes to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Master Indenture, the Holder of any Note shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Note, but (without waiving or impairing any rights such Holder may have under any other instrument or agreement) solely from the sources provided in this Master Indenture, on the respective Stated Maturities expressed in such Note (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

Section 609. Restoration of Rights and Remedies. If the Master Trustee or any Holder of Notes has instituted any proceeding to enforce any right or remedy under this Master Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Master Trustee or to such Holder of Notes, then and in every such case the Company, the Master Trustee and the Holders of Notes shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Master Trustee and the Holders of Notes shall continue as though no such proceeding had been instituted.

Section 610. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Master Trustee or to the Holders of Notes is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 611. Delay or Omission Not Waiver. No delay or omission of the Master Trustee or of any Holder of any Note to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Master Trustee or to the Holders of Notes may be exercised from time to time, and as often as may be deemed expedient, by the Master Trustee or by the Holders of Notes, as the case may be.

Section 612. Control by Holders of Notes. The Holders of a majority in principal amount of the Outstanding Notes shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Master Trustee or exercising any trust or power conferred on the Master Trustee, provided that such direction shall not be in conflict with any rule of law or with this Master Indenture, and provided further that the Master Trustee shall have the right to decline to comply with any such request in accordance with Section 703(e) hereof or if the Master Trustee shall be advised by counsel (who may be its own counsel) that the action so directed may not lawfully be taken or the Master Trustee in good faith shall determine that such action would be unjustly prejudicial to the Holders of the Notes not parties to such direction. The Master Trustee may take any other action deemed proper by the Master Trustee which is not inconsistent with such direction.

Section 613. Waiver of Past Defaults.

(a) The Holders of not less than a majority in principal amount of the Outstanding Notes may on behalf of the Holders of all the Notes waive any past default hereunder and its consequences, except:

(1) a default in the payment of the principal of (or premium, if any) or interest or any other amount on any Note; or

(2) a default in respect of a covenant or provision hereof which under Article VIII cannot be modified or amended without the consent of the Holder of each Outstanding Note affected.

(b) Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Master Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 614. Undertaking for Costs. All parties to this Master Indenture agree, and each Holder of any Note by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Master Indenture, or in any suit against the Master Trustee for any action taken or omitted by it as Master Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Master Trustee, to any suit instituted by any Holder of Notes, or group of Holders of Notes, holding in the aggregate more than 10% in principal amount of the Outstanding Notes, or to any suit instituted by any Holder of Notes for the enforcement of the payment of the principal of (or premium, if any) or interest on any Note on or after the respective Stated Maturities expressed in such Note (or, in the case of redemption, on or after the redemption date).

Section 615. Waiver of Stay or Extension Laws. The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Master Indenture; and the Company (to the extent that it may lawfully do so), hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent that it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Master Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 616. No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Master Indenture or any indenture supplemental hereto, or in any Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Master Trustee or the Company or of any successor corporation, either directly or through the Company, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Master Indenture and the Notes are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Master Trustee or the Company or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Master Indenture or in any of the Notes or implied therefrom; and that any and all such personal liability, either at

common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Master Indenture and the issue of such Notes.

Section 617. Third Party Beneficiary. The parties hereto expressly recognize that each Bond Insurer is a third party beneficiary of this Master Indenture, entitled, but not obligated, to enforce any right, remedy, or claim conferred, given or granted hereunder. Each of the parties hereto expressly acknowledges and agrees that, irrespective of any action taken or omitted to be taken by each Bond Insurer under or in connection with this Master Indenture or otherwise in connection with any Related Bonds, the sole liability and obligation of each Bond Insurer in connection with any Related Bonds and this Master Indenture shall be those obligations which are expressly undertaken by each Bond Insurer in its municipal bond insurance policy issued in connection with any Related Bonds.

ARTICLE VII

CONCERNING THE MASTER TRUSTEE

Section 701. Duties and Liabilities of Master Trustee.

(a) The Master Trustee accepts and agrees to execute the trusts imposed upon it by this Master Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Master Indenture against the Master Trustee.

(b) In case any Event of Default has occurred and is continuing (of which a Responsible Officer of the Master Trustee has actual knowledge or is deemed to have actual knowledge under Section 703(h) hereof), the Master Trustee shall exercise such of the rights and powers vested in it by this Master Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Master Indenture shall be construed to relieve the Master Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except, that:

(1) this Subsection shall not be construed to limit the effect of Subsection (a) of this Section or Section 703 hereof;

(2) the Master Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts;

(3) the Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with Section 602(a) hereof or otherwise with the direction of the Holders of not less than a majority in aggregate principal amount of the Notes then Outstanding relating to the time, method and place of

conducting any proceeding for any remedy available to the Master Trustee, or exercising any trust or power conferred upon the Master Trustee, under this Master Indenture; and

(4) no provision of this Master Indenture shall require the Master Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that the repayment of such funds or adequate indemnity against such risk or liability or the payment of its fees and expenses is not reasonably assured to it.

(d) Whether or not therein expressly so provided, every provision of this Master Indenture relating to the conduct or affecting the liability of or affording protection to the Master Trustee shall be subject to the provisions of this Section and Section 703.

Section 702. Notice of Defaults. Within 60 days after the occurrence of any default of which the Master Trustee is deemed to have knowledge hereunder, the Master Trustee shall transmit by mail to all Holders of Notes and each Bond Insurer notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Notes or in the payment of any sinking or purchase fund installment, the Master Trustee shall be protected in withholding such notice if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Master Trustee in good faith determine that the withholding of such notice from the Holders of the Notes is in the interest of the Holders of Notes; and provided, further, that in the case of any default of the character specified in Section 601(b), no such notice to Holders of Notes shall be given until at least 30 days after the notice described in Section 601(b) is given and a cure is not forthcoming. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

Section 703. Certain Rights of Master Trustee.

(a) The Master Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto.

(b) Any request or direction of the Company shall be sufficiently evidenced by a Request; and any resolution of the Governing Body may be evidenced to the Master Trustee by a Board Resolution.

(c) Whenever in the administration of this Master Indenture the Master Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Master Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer’s Certificate.

(d) The Master Trustee may consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(e) The Master Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Master Indenture at the request or direction of any of the Holders of the Notes pursuant to the provisions of this Master Indenture, unless such Holders shall have offered to the Master Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Master Trustee's fees in connection therewith.

(f) The Master Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document, but the Master Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Master Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney and to take such memoranda from and in regard thereto as may be reasonably desired. The Master Trustee shall have no obligation to perform any of the duties of the Company under this Master Indenture.

(g) The Master Trustee may execute any of the trusts or powers hereunder either directly or by or through agents or attorneys or may act or refrain from acting in reliance upon the opinion or advice of such agents or attorney, but the Master Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed by it with due care. The Master Trustee may act upon the opinion or advice of attorney or agent selected by it in the exercise of reasonable care or, if selected or retained by the Company, approved by the Master Trustee in the exercise of such care. The Master Trustee shall not be responsible for any loss or damage resulting from any action or nonaction based on its good faith reliance upon such opinion or advice. The Master Trustee may in all cases pay reasonable compensation to any attorney or agent retained or employed by it in connection herewith.

(h) The Master Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder unless the Master Trustee shall be specifically notified of such Event of Default in writing by the Company or by the Holder of an Outstanding Note, and in the absence of such notice the Master Trustee may conclusively assume that no Event of Default exists; provided, however, that the Master Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of principal, premium, if any, or interest on any Note.

(i) The Master Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Master Trustee was negligent in ascertaining the pertinent facts.

(j) The Master Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Holders of the Outstanding Notes permitted to be given by them under this Master Indenture.

(k) No provision of this Master Indenture shall require the Master Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(l) The permissive right of the Master Trustee to do things enumerated in this Master Indenture shall not be construed as a duty and the Master Trustee shall not be answerable for other than its negligence or willful misconduct in accordance with the terms of this Master Indenture.

(m) The Master Trustee shall not be required to give any bond or surety in respect of the execution of the said trusts and powers or otherwise in respect of the premises.

(n) The Master Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in the Deed of Trust) exists against the Project or the Trust Estate.

Section 704. Not Responsible For Recitals or Issuance of Notes. The recitals contained herein and in the Notes (other than the certificate of authentication on such Notes) shall be taken as the statements of the Company and the Master Trustee assumes no responsibility for their correctness. The Master Trustee makes no representations as to the validity or sufficiency of this Master Indenture or of the Notes. The Master Trustee shall not be accountable for the use or application by the Company of any of the Notes or of the proceeds of such Notes, for the use or application of any money paid over by the Master Trustee in accordance with the provisions of this Master Indenture or for the use and application of money received by any Paying Agent.

Section 705. Master Trustee May Own Notes. The Master Trustee or other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with the Company with the same rights it would have if it were not Master Trustee or such other agent.

Section 706. Moneys to Be Held in Trust. All moneys received by the Master Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under the next to last paragraph of Section 403), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Master Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees to pay.

Section 707. Compensation and Expenses of Master Trustee.

(a) The Company hereby agrees:

(1) to pay to the Master Trustee from time to time reasonable compensation for all services rendered by it hereunder (which compensation shall not be limited by any law limiting the compensation of the trustee of an express trust), whether as Master Trustee or as Paying Agent;

(2) except as otherwise expressly provided in this Section 707(a), to reimburse the Master Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Master Trustee in accordance with any provision of this Master Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel); and

(3) to indemnify the Master Trustee, its directors, employees, agents and affiliates (including without limitation, the Master Trustee as Paying Agent hereunder) (collectively, the "Indemnitees") for, and to defend and hold them harmless against, loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing ("Losses"), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of any Notes or Related Bonds, or the Company's or the Issuer's, as the case may be, authority therefore; (iii) this Master Indenture and any instrument related thereto, (iv) the Master Trustee's execution, delivery and performance of the Master Indenture, except in respect of any Indemnitee to the extent such Indemnitee's negligence or bad faith caused such the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Master Trustee may rely under the Master Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a materially fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Master Trustee or the Holder of any Note, including, but not limited to, any disclosure document utilized in connection with the sale of any Related Bonds; or (2) the inaccuracy of the statement contained in any section of any Related Bond Indenture relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other offering document furnished to the Master Trustee or the purchaser of any Notes or Related Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering

document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is in addition to any other rights, including rights to indemnification, to which the Master Trustee may otherwise be entitled, including without limitation, pursuant to the Deed of Trust.

(b) As such security for the performance of the obligations of the Company under this Section the Master Trustee shall have a lien prior to the Notes upon all property and funds held or collected by the Master Trustee as such. The payment obligations set forth above shall include all such fees and expenses of the Master Trustee and its agents under any Supplemental Master Indenture.

Section 708. Corporate Master Trustee Required; Eligibility. There shall at all times be a Master Trustee hereunder which shall be a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise corporate trust powers, having a combined capital and surplus of at least \$50,000,000, subject to supervision or examination by Federal or state authority. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Master Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 709. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Master Trustee and no appointment of a successor Master Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Master Trustee under Section 710.

(b) The Master Trustee may resign at any time by giving written notice thereof to the Company and any Bond Insurer. If an instrument of acceptance by a successor Master Trustee shall not have been delivered to the Master Trustee within 30 days after the giving of such notice of resignation, the resigning Master Trustee may petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

(c) The Master Trustee may be removed at any time by act (i) of the Holders of a majority in principal amount of the Outstanding Notes, with the consent of the Bond Insurers of a majority of the aggregate principal amount of the Related Bonds Outstanding or (ii) the Bond Insurers of a majority of the aggregate principal amount of the Related Bonds Outstanding, delivered to the Master Trustee and the Company.

(d) If at any time:

(1) the Master Trustee shall cease to be eligible under Section 708 and shall fail to resign after written request therefor by the Company or by any Holder of Notes; or

(2) the Master Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or conservator or a receiver of the Master Trustee or of its property shall be appointed or any public officer shall take charge or control of the Master Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation;

then, in any such case, (i) the Company by a Request may remove the Master Trustee, or (ii) subject to Section 614, any Holder of Notes who has been a bona fide Holder of a Note for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Master Trustee and the appointment of a successor Master Trustee.

(e) If the Master Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Master Trustee for any cause, the Company shall promptly appoint a successor Master Trustee. If, within six months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Master Trustee shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Notes delivered to the Company and the retiring Master Trustee, the successor Master Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Master Trustee and supersede the successor Master Trustee appointed by the Company. If no successor Master Trustee shall have been so appointed by the Company or the Holders of Notes and accepted appointment in the manner hereinafter provided, the Master Trustee or any Holder of Notes who has been a bona fide Holder of a Note for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Master Trustee.

(f) The Company shall give notice of each resignation and each removal of the Master Trustee and each appointment of a successor Master Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Holders of Notes at their addresses as shown in the Note Register. Each notice shall include the name and address of the designated corporate trust office of the successor Master Trustee.

Section 710. Acceptance of Appointment by Successor.

(a) Every successor Master Trustee appointed hereunder shall execute, acknowledge and deliver to the Company and to the retiring Master Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Master Trustee shall become effective and such successor Master Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Master Trustee; but, on Request of the Company or the successor Master Trustee, such retiring Master Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Master Trustee all the rights, powers and trusts of the retiring Master Trustee, and shall duly assign, transfer and deliver to the successor Master Trustee all property and

money held by such retiring Master Trustee hereunder. Upon request of any such successor Master Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Master Trustee all such rights, powers and trusts.

(b) No successor Master Trustee shall accept its appointment unless at the time of such acceptance such successor Master Trustee shall be qualified and eligible under this Article.

Section 711. Merger or Consolidation. Any corporation into which the Master Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Master Trustee shall be a party, or any corporation acquiring and succeeding to all or substantially all of the municipal corporate trust business of the Master Trustee, shall be the successor Master Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Notes shall have been authenticated, but not delivered, by the Master Trustee then in office, any successor by merger or consolidation to such authenticating Master Trustee may adopt such authentication and deliver the Notes so authenticated with the same effect as if such successor Master Trustee had itself authenticated such Notes.

Section 712. Release of Property. At the request of a majority of the Holders of the Notes and with the consent of each Bond Insurer, if any, the Master Trustee shall execute and deliver in recordable form any releases of Property encumbered hereby or by the Deed of Trust.

Section 713. Partial Release of Real Property Included in Deed of Trust. (a) The Master Trustee shall consent to the release of portions of the real property included in the Deed of Trust upon receipt of a written Request for such release and a Certificate of an Authorized Representative providing that:

- (1) the requested release is for a facility funded solely with restricted donations (the “Endowed Facility”);
- (2) the Endowed Facility is solely owned by the Company;
- (3) the Company has no outstanding Debt incurred in connection with the construction of the Endowed Facility;
- (4) the real property requested for release is limited to the immediate area occupied by the Endowed Facility and, upon release thereof, does not materially impair the value of the aggregate real property then-securing all outstanding Debt; and
- (5) the Endowed Facility is complete.

The Master Trustee shall take the necessary steps to release such portions of the real property subject to the Deed of Trust at the expense of the Company.

(b) Notwithstanding the provisions of Section 713(a) above, the Master Trustee shall consent to the release of portions of the real property included in the Deed of Trust upon receipt of:

- (1) a Certificate of an Authorized Representative requesting the release;
- (2) the identification of the facility and land requested for release (the “Released Facility”);
- (3) an appraisal of the Facility and land that remain subject to the Deed of Trust (the “Retained Facility”);
- (4) evidence that cash, letter of credit or securities have been deposited with the Master Trustee that, together with the appraised value of the Retained Facility, equal at least 50% of the principal amount of all Notes Outstanding hereunder; and
- (5) a Supplemental Master Indenture, pursuant to Section 801(n) permitting the substitution of cash, letter of credit or securities for real property in the Trust Estate.

ARTICLE VIII

SUPPLEMENTS

Section 801. Supplemental Master Indentures Without Consent of Holders of Notes. Without the consent of the Holders of any Notes, but with the consent of each Bond Insurer, the Company, when authorized by a Board Resolution, and the Master Trustee at any time may enter into or consent to one or more indentures supplemental hereto, subject to Section 803 hereof, for any of the following purposes:

- (a) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Master Indenture which shall not be inconsistent with this Master Indenture, provided such action shall not adversely affect the interests of the Holder of any Notes;
- (b) to grant to or confer upon the Master Trustee for the benefit of the Holders of the Notes any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Holders of the Notes and the Master Trustee, or either of them, to add to the covenants of the Company for the benefit of the Holders of the Notes or to surrender any right or power conferred hereunder upon the Company;
- (c) to assign and pledge under this Master Indenture additional revenues, properties or collateral;
- (d) to evidence the succession of another corporation to the agreements of the Master Trustee, or a successor thereof hereunder;
- (e) to evidence the succession of another Person to the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Company as permitted by this Master Indenture;

(f) to modify or supplement this Master Indenture in such manner as may be necessary or appropriate to qualify this Master Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including provisions whereby the Master Trustee accepts such powers, duties, conditions and restrictions hereunder and the Company undertakes such covenants, conditions or restrictions additional to those contained in this Master Indenture as would be necessary or appropriate so to qualify this Master Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Master Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

(g) to provide for the refunding or advance refunding of any Note, in whole or in part as permitted hereunder;

(h) to provide for the issuance of the Notes or any additional series of Notes as permitted hereunder;

(i) to permit a Note to be secured by new security which may or may not be extended to all Note Holders or to establish special funds or accounts under this Master Indenture;

(j) to allow for the issuance of any series of Notes in uncertificated form;

(k) to make any other change which does not materially adversely affect the Holders of any of the Notes and, in the opinion of each Related Bond Trustee, does not materially adversely affect the owners of the Related Bonds with respect to which it acts as trustee, including without limitation any modification, amendment or supplement to this Master Indenture or any indenture supplemental hereto or any amendment thereto in such a manner as to establish or maintain exemption of interest on any Related Bonds under a Related Bond Indenture from federal income taxation under applicable provisions of the Code;

(l) so long as no Event of Default has occurred and is continuing under this Master Indenture and so long as no event which with notice or the passage of time or both would become an Event of Default under this Master Indenture has occurred and is continuing, to make any other change herein or therein which, in the judgment of an Independent Management Consultant approved by each Bond Insurer, if any, a copy of whose report shall be filed with the Master Trustee:

(1) is in the best interest of the Company;

(2) does not materially adversely affect the Holder of any Note;

(3) provided that, with respect to each applicable series of Related Bonds, an Opinion of Counsel acceptable to the Master Trustee, and on which the Master Trustee may conclusively rely, to the effect that the amendment proposed to be adopted by such Supplemental Master Indenture will not adversely affect the exclusion from gross income for federal income tax purposes of the interest on such Related Bonds otherwise entitled to such exclusion; and

(4) provided that, no such amendment, directly or indirectly, shall (A) change the provisions of this clause (l), (B) make any modification of the type prohibited Section 802 hereof, or (C) make a modification intended to subordinate the right to payment of a Holder of any Note to the right of payment of any Holder of any other Note or any other Debt;

(m) to make any amendment to any provision of this Master Indenture or to any supplemental indenture which is only applicable to Notes issued thereafter or which will not apply so long as any Notes then Outstanding remains Outstanding;

(n) to release the Deed of Trust or, pursuant to Section 703(b) herein, portions of property contained therein from the Master Trust Estate upon receipt and deposit with the Master Trustee sufficient assets, cash, letters of credit or other guarantee and written confirmation from each Rating Service that such change will not result in a withdrawal or reduction in its credit rating assigned to any series of Notes or Related Bonds; and

(o) to modify, eliminate or add to the provisions of this Master Indenture if the Master Trustee shall have received (1) written confirmation from each Rating Service that such change will not result in a withdrawal or reduction of its credit rating assigned to any series of Notes or Related Bonds, as the case may be, and (2) a Board Resolution to the effect that, in the judgment of the Company, such change is necessary to permit the Company to affiliate or merge with one or more other charter schools on acceptable terms and such change and affirmation are in the best interests of the Holders of the Outstanding Notes.

Section 802. Supplemental Indentures With Consent of Holders of Notes.

(a) With the consent of each Bond Insurer and with the consent of the Holders of not less than a majority in principal amount of the Outstanding Notes, by Act of said Holders delivered to the Company and the Master Trustee, the Company, when authorized by a Board Resolution, and the Master Trustee may enter into or consent to an indenture or indentures supplemental hereto (subject to Section 803 hereof) for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Master Indenture or of modifying in any manner the rights of the Holders of the Notes under this Master Indenture; provided, however, that no such Supplemental Master Indenture shall, without the consent of the Holder of each Outstanding Note affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Notes or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Notes or the interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date); or

(2) reduce the percentage in principal amount of the Outstanding Notes, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of

this Master Indenture or certain defaults hereunder and their consequences) provided for in this Master Indenture; or

(3) modify any of the provisions of this Section or Section 613, except to increase any such percentage or to provide that certain other provisions of this Master Indenture cannot be modified or waived without the consent of the Holder of each Note affected thereby.

(b) It shall not be necessary for any Act of Holders of Notes under this Section to approve the particular form of any proposed Supplemental Master Indenture, but it shall be sufficient if such Act of Holders of Notes shall approve the substance thereof, as presented in written form to the Holders of the Notes by the Company.

Section 803. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any Supplemental Master Indenture permitted by this Article or the modifications thereby of the trusts created by this Master Indenture, the Master Trustee shall be entitled to receive, and (subject to Section 701) shall be fully protected in relying upon, an Opinion of Counsel stating that the execution of such Supplemental Master Indenture or consent is authorized or permitted by this Master Indenture. The Master Trustee may, but shall not (except to the extent required in the case of a Supplemental Master Indenture entered into under Section 801(d)) be obligated to, enter into any such Supplemental Master Indenture or consent which affects the Master Trustee's own rights, duties or immunities under this Master Indenture or otherwise.

Section 804. Effect of Supplemental Master Indentures. Upon the execution of any Supplemental Master Indenture under this Article, this Master Indenture shall, with respect to each series of Notes to which such Supplemental Master Indenture applies, be modified in accordance therewith, and such Supplemental Master Indenture shall form a part of this Master Indenture for all purposes, and every Holder of Notes thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

Section 805. Notes May Bear Notation of Changes. Notes authenticated and delivered after the execution of any Supplemental Master Indenture pursuant to this Article may bear a notation in form approved by the Master Trustee as to any matter provided for in such Supplemental Master Indenture. If the Company or the Master Trustee shall so determine, new Notes so modified as to conform, in the opinion of the Master Trustee and the Company, to any such Supplemental Master Indenture may be prepared and executed by the Company and authenticated and delivered by the Master Trustee in exchange for Notes then Outstanding.

ARTICLE IX

SATISFACTION AND DISCHARGE OF MASTER INDENTURE

Section 901. Satisfaction and Discharge of Master Indenture.

(a) If at any time the Company shall have paid or caused to be paid the principal of (and premium, if any) and interest and all other amounts due and owing on all the Notes

Outstanding hereunder, as and when the same shall have become due and payable, and if the Company shall also pay or provide for the payment of all other sums payable hereunder by the Company and shall have paid all of the Master Trustee's fees and expenses pursuant to Section 707 hereof, then this Master Indenture shall cease to be of further effect (except as to (i) rights of registration of transfer and exchange, (ii) substitution of mutilated, defaced, or apparently destroyed, lost or stolen Notes, (iii) rights of Holders to receive payments of principal thereof (and premium, if any) and interest thereon and remaining obligations of the Company to make mandatory sinking fund payments, (iv) the rights, remaining obligations, if any, and immunities of the Master Trustee hereunder and (v) the rights of the Holders as beneficiaries hereof with respect to the property so deposited with the Master Trustee payable to all or any of them) and the Master Trustee, on the Request accompanied by an Officer's Certificate and an Opinion of Counsel to the effect that the conditions precedent to the satisfaction and discharge of this Master Indenture have been fulfilled and at the cost and expense of the Company, shall execute proper instruments acknowledging satisfaction of and discharging this Master Indenture.

(b) Notwithstanding the satisfaction and discharge of this Master Indenture, the obligations of the Company to the Master Trustee under Section 707 and, if funds shall have been deposited with the Master Trustee pursuant to Section 902, the obligations of the Master Trustee under Section 903 and Section 403(f) shall survive.

Section 902. Notes Deemed Paid. Unless otherwise provided in the supplemental indenture establishing any such series of Notes, Notes of any series shall be deemed to have been paid if:

(a) in case said Notes are to be redeemed on any date prior to their Stated Maturity, the Company by Request shall have given to the Master Trustee in form satisfactory to it irrevocable instructions to give notice of redemption of such Notes on said redemption date;

(b) there shall have been deposited with the Master Trustee either money sufficient, or Defeasance Obligations the principal of and the interest on which will provide money sufficient without reinvestment (as established by an Officer's Certificate delivered to the Master Trustee accompanied by a report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based), to pay when due the principal of (and premium, if any) and interest due and to become due on said Notes on and prior to the Maturity thereof;

(c) in the event said Notes are not by their terms subject to redemption within the next 45 days, the Company by Request shall have given the Master Trustee in form satisfactory to it irrevocable instructions to give a notice to the Holders of such Notes that the deposit required by clause (b) of this Section 902 above has been made with the Master Trustee and that said Notes are deemed to have been paid in accordance with this Section and stating such Maturity date upon which moneys are to be available for the payment of the principal of (and premium, if any) and interest on said Notes.

Section 903. Application of Trust Money. The Defeasance Obligations and money deposited with the Master Trustee pursuant to Section 902 and principal or interest payments on any such Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Notes and this Master Indenture, to the

payment, either directly or through any Paying Agent as the Master Trustee may determine, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Master Trustee of an Officer's Certificate (accompanied by the report of an Independent Accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in subsection (b) of Section 902, any money received from principal or interest payments on Defeasance Obligations deposited with the Master Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its Stated Maturity.

This Master Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the Company and the Master Trustee have caused this Master Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

COSMOS FOUNDATION, INC.

By: _____
President, Board of Directors

AMEGY BANK NATIONAL ASSOCIATION,
as Master Trustee

By: _____
Name: Mary Jane Henson
Title: Vice President

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 35

dated as of June 1, 2024

between

HARMONY PUBLIC SCHOOLS

and

REGIONS BANK

as Master Trustee

Supplemental to:

Master Trust Indenture and Security Agreement
Dated as of May 1, 2007

In connection with the issuance of
Note

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Exhibit “A” - Form of Tax-Exempt Master Indenture Note and Assignment; Certificate of Authentication and Registration (Series 2024)

SUPPLEMENTAL MASTER TRUST INDENTURE NO. 35

THIS SUPPLEMENTAL MASTER TRUST INDENTURE NO. 35, dated as of June 1, 2024 (this “Supplemental Master Indenture”), is between **REGIONS BANK**, as master trustee (the “Master Trustee”), and **HARMONY PUBLIC SCHOOLS**, a non-profit corporation organized and existing under the laws of the State of Texas (the “Company”), amending and supplementing the hereinafter referenced Original Master Indenture.

RECITALS:

WHEREAS, the Company entered into a Master Trust Indenture and Security Agreement, dated as of May 1, 2007 (being referred to herein as the “Original Master Indenture”), with the Master Trustee, for the purpose of providing for the issuance of Notes thereunder to secure Debt of the Company (as such terms are defined in the Original Master Indenture); and

WHEREAS, the Company and the Master Trustee are authorized under Sections 201 and 801(i) of the Original Master Indenture, to amend or supplement the Original Master Indenture, subject to the terms and provisions contained therein, and to provide for the issuance of a Note or series of Notes; and

WHEREAS, the Company desires to enter into this Supplemental Master Indenture in order to provide for the issuance of a certain Note, as hereinafter described, to be secured under the Original Master Indenture, as previously amended and supplemented, and as amended and supplemented hereby (as so amended and supplemented, the “Master Indenture”); and

WHEREAS, the Company deems it desirable to issue (i) a Tax-Exempt Master Indenture Note (Harmony Public Schools) Series 2024 entitled to the security of the Master Indenture in the original principal amount of \$212,440,000 (the “Note”) and to deliver the Note to Arlington Higher Education Finance Corporation (the “Issuer”) in order to evidence and secure the obligations of the Company under the Loan Agreement (the “Loan Agreement”) between the Company and the Issuer, dated as of June 1, 2024, relating to the Issuer’s Education Revenue Bonds (Harmony Public Schools) Series 2024 (the “Bonds”) issued pursuant to a Trust Indenture and Security Agreement (the “Bond Indenture”), dated as of June 1, 2024, between the Issuer and Regions Bank, as trustee (in such capacity, the “Bond Trustee”); and

WHEREAS, all acts and things necessary to make the Note authorized by this Supplemental Master Indenture, when executed by the Company and authenticated and delivered by the Master Trustee as provided in the Original Master Indenture and this Supplemental Master Indenture, the valid, binding and legal obligation of the Company and to constitute these presents, together with the Original Master Indenture, a valid indenture and agreement according to its terms, have been done and performed, and the execution of this Supplemental Master Indenture and the issuance of the Note authorized by this Supplemental Master Indenture have in all respects been duly authorized.

NOW, THEREFORE, in order to declare the terms and conditions upon which the Note authorized hereby is authenticated, issued and delivered, and in consideration of the premises and the acquisition and acceptance of the Note by the holders thereof, and in consideration of the

mutual covenants, conditions and agreements which follow, the Company covenants and agrees with the Master Trustee as follows:

ARTICLE I

DEFINITIONS

Section 101. Definitions of Words and Terms. Words and terms used in this Supplemental Master Indenture and not otherwise defined herein shall, except as otherwise stated, have the meanings assigned to them in the Original Master Indenture.

Section 102. Designation of Participating Campuses. The Company hereby designates the following schools as “Participating Campuses” and the revenues and assets of these Participating Campuses shall, so long as any Debt is outstanding, be subject to all terms, covenants and restrictions contained in the Master Indenture and shall comprise all or part of the Trust Estate created therein:

[TO COME]

ARTICLE II

THE NOTE

Section 201. Authorization of Note.

(a) There is hereby created and authorized to be issued hereunder a Note, described as follows: “Tax-Exempt Master Indenture Note (Harmony Public Schools) Series 2024” in the aggregate original principal amount of \$212,440,000, dated June 1, 2024, issued by the Company and for the primary benefit of the Issuer. The Note shall initially be issued and registered in the name of the Issuer, and then endorsed by the Issuer to the order of and registered in the name of the Bond Trustee, or its successors or assigns, and shall be executed, authenticated and delivered in accordance with Article II of the Original Master Indenture.

Section 202. Form of Note. The Note shall each be issued as a single, fully-registered promissory note without coupons, in substantially the forms set forth in Exhibit A hereto.

Section 203. Payments on Note. The principal of the Note shall be payable in the amounts and on the dates, and each of the unpaid installments of principal shall bear interest from the date of such Note at the respective rates, and such Note shall have such other terms and provisions, as are set forth in or incorporated by reference into the Loan Agreement.

Section 204. Credits on Note.

(a) The Company shall receive a credit against amounts due on the Note on any payment date equal to the amounts paid as principal of (and premium, if any) or interest on, respectively, the Bonds on such payment date, including a credit against any mandatory sinking fund redemption payments.

(b) Notwithstanding the provisions of subsection (a) or (b) above or any other provision herein or in the Original Master Indenture, in the event that any payment on or with respect to the Bonds shall have been made by or on behalf of the Company and, by reason of bankruptcy or other act of insolvency, such payment shall be deemed to be a preferential payment, and the Bond Trustee shall be required by a court of competent jurisdiction to surrender such payment, any credit on, respectively, the Note which may have been given as a result of such payment shall be rescinded, and the amount owing on, respectively, the Note shall be calculated as if such payment shall not have been made.

Section 205. Interest on Overdue Installments. The Note shall bear interest on overdue installments of principal (premium, if any), and interest, to the extent permitted by law, at a rate equal to the applicable interest rate or rates borne by, respectively, the Bonds.

Section 206. Registration, Transfer and Exchange. The Note shall be transferred or exchanged pursuant to Section 205 of the Original Master Indenture.

Section 207. Related Deed of Trust. . The Forty-Seventh Supplement to Deed of Trust and Security Agreement (With Assignment of Rents and Leases) dated as of June 11, 2024 filed in the Official Public Records of Collin, El Paso, McLennan, Dallas, Bexar, Brazos, Denton, Fort Bend, Harris, Jefferson, Lubbock, Midland, Tarrant, Travis and Williamson Counties, Texas, as amended, restated, supplemented and/or otherwise modified, is made subject to the Trust Estate of the Master Indenture and secures all Notes under the Master Indenture, including the Note and is deemed a Deed of Trust and a Related Deed of Trust under the Master Indenture.

ARTICLE III

REDEMPTION OR REDUCTION OF NOTE; SATISFACTION AND RELEASE

Section 301. Redemption. The Note shall be subject to redemption prior to Stated Maturity to the extent and with respect to the corresponding redemption of the Bonds in accordance with the terms of the Indenture. Notice of redemption of the Bonds shall, without further notice or action by the Master Trustee or the Company, constitute notice of redemption of the corresponding amounts of principal due on the Note, and the same shall, thereby, become due and payable on the redemption date of the Bonds or at such earlier time as payment is required with respect thereto pursuant to the terms of the Indenture.

Section 302. Partial Redemption or Reduction. In the event of a partial redemption of the Note pursuant to Section 301 hereof, the amount of the principal and interest on such Note becoming due after such redemption shall, to the extent appropriate, be adjusted so that the installments of principal and interest thereafter due on the Note correspond to the payments of the principal of and interest on the Outstanding Bonds.

Section 303. Effect of Call for Prepayment or Redemption. On the date designated for prepayment or redemption by notice as herein provided, the Note or the portion thereof so called for prepayment or redemption shall become and be due and payable at the prepayment or redemption price provided for prepayments or redemption of such Note or portion thereof on such date. If on the date fixed for prepayment or redemption, moneys for payment of the prepayment

or redemption price and accrued and unpaid interest on the Note are held by the Master Trustee or the Bond Trustee, (i) interest on the Note or portion thereof so called for prepayment or redemption shall cease to accrue, (ii) such Note or portion thereof shall cease to be entitled to any benefit or security hereunder except the right to receive payment from the moneys held by the Master Trustee or the Bond Trustee and (iii) the amount of such Note or portion thereof so called for prepayment or redemption shall be deemed paid and no longer outstanding.

Section 304. Satisfaction and Release. The Company's payment obligations with respect to the Note shall be considered satisfied, and the Master Trustee shall release this Supplemental Master Indenture with respect thereto, when all amounts due and owing on the Bonds, respectively, have been paid or deemed paid under the Indenture.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 401. Representations and Warranties. The Company represents and warrants that (a) it is duly authorized under the laws of the State of Texas and all other applicable provisions of law to execute this Supplemental Master Indenture and to issue the Note, (b) all corporate action on the part of the Company required by its organizational documents and the Original Master Indenture to establish this Supplemental Master Indenture as the binding obligation of the Company has been duly and effectively taken, and (c) all such action so required for the authorization and issuance of the Note has been duly and effectively taken.

Section 402. Covenants under the Original Master Indenture and Related Bond Documents. The Company covenants and agrees that so long as any portion of the Note remains outstanding, it will deliver to the Bond Trustee all reports, opinions and other documents required by the Original Master Indenture to be submitted to the Master Trustee at the time said reports, opinions or other documents are required to be submitted to the Master Trustee, and that it will faithfully perform or cause to be performed at all times any and all covenants, agreements and undertakings required on the part of the Company contained in the Master Indenture and the Note, and the Company hereby confirms its covenants and agrees with its undertakings in the Master Indenture.

ARTICLE V

MISCELLANEOUS PROVISIONS

Section 501. Notices. Except as otherwise provided in the Original Master Indenture, it shall be sufficient service of any notice, request, complaint, demand or other paper required by the Original Master Indenture to be given to or filed with the parties if the same shall be delivered in person or duly mailed by certified, registered or first class mail addressed to the addresses provided in the Original Master Indenture. The Master Trustee will be deemed to have received notice upon receipt of such notice by the Responsible Officer of the Master Trustee.

Section 502. Ratification of Original Master Indenture. The Original Master Indenture, as supplemented by this Supplemental Master Indenture, is in all respects ratified and confirmed

and the Original Master Indenture as so supplemented shall be read, taken and construed as one and the same instrument. Except as herein otherwise expressly provided, all the provisions, definitions, terms and conditions of the Original Master Indenture, as supplemented by this Supplemental Master Indenture, shall be deemed to be incorporated in, and made a part of, this Supplemental Master Indenture.

Section 503. Limitation of Rights. Nothing in this Supplemental Master Indenture or in the Note, express or implied, shall give or be construed to give any Person other than the Company, the Master Trustee and the respective registered holders of the Note or their assigns, any legal or equitable right, remedy or claim under or in respect of this Supplemental Master Indenture, or under any covenant, condition and provision herein contained, all its covenants, conditions and provisions being for the sole benefit of the Company, the Master Trustee and of the respective holders of the Note.

Section 504. Provisions of the Original Master Indenture to Control. The provisions of Sections 701 through 713 of the Original Master Indenture shall control the terms under which the Master Trustee shall serve under this Supplemental Master Indenture.

Section 505. Binding Effect. All the covenants, stipulations, promises and agreements in this Supplemental Master Indenture by or on behalf of the Company or the Master Trustee shall inure to the benefit of and shall bind their respective successors and assigns, whether so expressed or not.

Section 506. Severability Clause. If any provision of this Supplemental Master Indenture shall be held or deemed to be, or shall in fact be, inoperative or unenforceable as applied to any particular case in any jurisdiction or jurisdictions, or in all jurisdictions or in all cases because of the conflicting of any provision with any constitution or statute or rule of public policy or for any other reasons, such circumstance shall not have the effect of rendering the provision or provisions in question inoperative or unenforceable in any other jurisdiction or in any other case or circumstance or of rendering any other provision or provisions herein contained invalid, inoperative or unenforceable to the extent that such other provisions are not themselves actually in conflict with such constitution, statute or rule of public policy.

Section 507. Execution in Counterparts. This Supplemental Master Indenture may be executed in any number of counterparts, each of which shall be an original; and all of which shall together constitute but one and the same instrument. Delivery of an executed counterpart of a signature page of this Supplemental Master Indenture by facsimile, emailed PDF, or any other electronic means that reproduces an image of the actual signature page shall be as effective as delivery of a manually executed counterpart of this Supplemental Master Indenture.

Section 508. Governing Law. This Supplemental Master Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the law of the State of Texas.

Section 509. Texas Education Code Section 12.128. Property purchased or leased by the Company with State Revenues is subject to Section 12.128, Texas Education Code.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Master Indenture to be duly executed by the persons thereunto duly authorized, as of the date and year first above written.

HARMONY PUBLIC SCHOOLS

By: _____
Chief Financial Officer

REGIONS BANK,
as Master Trustee

By: _____

EXHIBIT A

FORM OF TAX-EXEMPT MASTER INDENTURE NOTE

TAX-EXEMPT MASTER INDENTURE NOTE
(HARMONY PUBLIC SCHOOLS)
SERIES 2024

THIS NOTE HAS NOT BEEN REGISTERED UNDER
THE SECURITIES ACT OF 1933, AS AMENDED

Registered
No. MRA-1

UNITED STATES OF AMERICA
STATE OF TEXAS

Registered
\$212,440,000

Interest Rate: AS SET FORTH HEREIN

Maturity Date: February 15, 2054

Issue Date: June 11, 2024

Registered Holder: ARLINGTON HIGHER EDUCATION FINANCE CORPORATION

Principal Amount: TWO HUNDRED TWELVE MILLION FOUR HUNDRED FORTY
THOUSANDAND NO/100 DOLLARS

Harmony Public Schools a Texas non-profit corporation (the “Company”), for value received, hereby promises to pay to the Holder named above, or registered assigns, the Principal Amount set forth above. The Company also promises to pay interest hereon from the Issue Date set forth above, or from the Interest Payment Date (as defined in the Indenture) to which interest has been paid or duly provided for, and on such other dates as may be required by the Loan Agreement referenced below until the principal hereof is paid or made available for payment. Principal of (and premium, if any) and interest on this Note are payable at the times and in the amounts described in Article IV of the Loan Agreement referred to below. The Company also promises to pay to the Holder hereof the obligations of the Company described in Section 4.1 of the Loan Agreement, hereinafter defined, at the times and the amounts specified therein.

1. Authorization of Note. This Note represents the duly authorized Note of the Company, in the principal amount stated above, designated as “Tax-Exempt Master Indenture Note (Harmony Public Schools) Series 2024” (this Note, together with all other Notes issued and secured under the Master Indenture, referred to collectively as the “Notes”) issued under and pursuant to the Master Trust Indenture and Security Agreement dated as of May 1, 2007, between the Company, acting on its own behalf, and Regions Bank, as master trustee (the “Master Trustee”), as supplemented, including by the Supplemental Master Trust Indenture No. 35, dated as of June 1, 2024, between the Company, acting on its own behalf and the Master Trustee (collectively, being herein called the “Master Indenture”). This Note is issued for the purpose of securing the obligations of the Company under a Loan Agreement dated as of June 1, 2024 (the “Loan Agreement”), entered into between the Company and Arlington Higher Education Finance

Corporation (the “Issuer”) in connection with the issuance and sale of revenue bonds of the Issuer in the principal amount of \$212,440,000, designated Arlington Higher Education Finance Corporation Education Revenue Bonds (Harmony Public Schools) Series 2024 (the “Bonds”), issued under and pursuant to the Constitution and laws of the State of Texas, and a Trust Indenture and Security Agreement, dated as of June 1, 2024 (the “Indenture”), between the Issuer and Regions Bank, as trustee (the “Bond Trustee”).

It is provided in the Master Indenture that the Company has and may hereafter issue additional Notes from time to time, and if issued, such additional Notes will rank pari passu with this Note and all other Notes heretofore or hereafter issued under the Master Indenture, except as otherwise provided in the Supplemental Master Trust Indenture authorizing such Note and Master Indenture.

Copies of the Master Indenture, the Indenture and the Loan Agreement are on file at the Corporate Trust Office of the Master Trustee and reference is hereby made to the Master Indenture, the Indenture and the Loan Agreement for the provisions, among others, with respect to the nature and extent of the security for and the rights of the registered holders of this Note, the terms and conditions on which, and purposes for which, this Note is issued and the rights, duties and obligations of the Company and the Master Trustee under the Master Indenture, to all of which the Holder hereof, by acceptance of this Note assents. The Master Indenture may be modified, amended or supplemented only to the extent and under the circumstances permitted by, and subject to the terms and conditions of, the Master Indenture.

2. Payment. Interest on this Note which is payable, and is to be punctually paid or duly provided for, on each Interest Payment Date, will, as provided in the Master Indenture, be paid to the Person in whose name this Note is registered at the close of business on the regular Record Date for such interest, which shall be the Interest Payment Date. Any such interest not so punctually paid or duly provided for shall forthwith cease to be payable to the Holder on such regular Record Date, and shall be paid to the Person in whose name this Note is registered at the close of business on a special record date for the payment of such defaulted interest to be fixed by the Master Trustee, notice whereof shall be given to Note holders not less than 10 days prior to such special record date.

Interest on this Note shall be paid to the holder of this Note at its address as it appears on the registration books of the Master Trustee by wire transfer of immediately available funds or in such other manner as may be mutually acceptable to the Bond Trustee and the registered holder of this Note.

Principal and the redemption price of this Note shall be payable to the holder of this Note at the designated payment office of the Master Trustee located in Houston, Texas (the “Place of Payment”) upon the surrender for cancellation of this Note.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than legal moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment. All such payments shall be made in such

coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. Redemption. This Note is subject to redemption only in connection with the redemption of a related amount of Bonds as described in the Indenture.

4. Defeasance of Note. This Note is subject to defeasance as provided in the Master Indenture.

5. Limitations of Rights. The holder of this Note shall have no right to enforce the provisions of the Master Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any event of default under the Master Indenture, or to institute, appear in or defend any suit or other proceedings with respect thereto, except as provided in the Master Indenture.

6. Transfer of Note. This Note is transferable by the registered holder hereof in person or by duly authorized attorney at the designated payment office of the Master Trustee, but only to a successor Bond Trustee for the holders of the Bonds in the manner, subject to the limitations and upon payment of the charges provided in the Master Indenture, and upon surrender and cancellation of this Note. Upon such transfer a new registered Note or Notes without coupons of the same series and maturity and of authorized denomination or denominations for the same aggregate principal amount will be issued to the transferee in exchange therefor. The Master Trustee may deem and treat the registered holder hereof as the absolute holder hereof for the purpose of receiving payment of or on account of principal hereof and premium, if any, hereon and interest due hereon and for all other purposes and the Master Trustee shall not be affected by any notice to the contrary.

7. Certain Rights of Holders. If an Event of Default, as defined in the Master Indenture, shall occur, the principal of this Note and any additional notes may be declared due and payable in the manner and with the effect provided in the Master Indenture. To the extent permitted by law, the indebtedness of the Company under the Loan Agreement and this Note may be separately and independently accelerated with or without an acceleration of the Bonds.

The Master Indenture permits, with certain exceptions as therein provided, the amendment of the Master Indenture and the modification of the rights and obligations of the Company and the rights of the holders of the Notes under the Master Indenture at any time with the consent of the holders of not less than a majority in principal amount of the Notes at the time Outstanding, as defined in the Master Indenture. The Master Indenture also contains provisions permitting the holders of specified percentages in aggregate principal amount of the Notes at the time Outstanding, as defined in the Master Indenture, on behalf of the holders of all the Notes, to waive compliance by the Company or its affiliates with certain provisions of the Master Indenture and certain past defaults under the Master Indenture and their consequences. Any such consent or waiver by the holder of this Note shall be conclusive and binding upon such holder and upon all future holders of this Note and of any Note issued upon the transfer hereof or in exchange therefor or in lieu hereof whether or not notation of such consent or waiver is made upon this Note.

No reference herein to the Master Indenture and no provision of this Note or of the Master Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of this Note at the times, place, and rate, and in the coin or currency, herein prescribed from the sources herein described.

8. Usury. In no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with the loan exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate as defined in the Loan Agreement. If the applicable law is ever judicially interpreted so as to render usurious any amount contracted for, charged, reserved, received or taken in connection with the loan, or if the exercise of the option contained in the Master Indenture or otherwise to accelerate the maturity of the loan or if any prepayment of the loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Loan Agreement, the Loan Agreement provides that all excess amounts theretofore paid or received shall be credited on the principal balance of the loan (or, if the loan has been or would thereby be paid in full, refunded), and the provisions of the Loan Agreement shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder.

9. No Recourse. No recourse shall be had for the payment of the principal of or premium or interest on this Note or for any claim based thereon or upon any obligation, covenant or agreement in the Master Indenture contained, against any past, present or future officer, trustee, director, member, employee or agent of the Company, or any incorporator, officer, director, member, employee or agent of any successor corporation, as such, either directly or through any successor corporation, under any rule of law or equity, statute or constitution or by the enforcement of any assessment or penalty or otherwise and all such liability of any such incorporators, officers, directors, members, employees or agents, as such, is hereby expressly waived and released as a condition of and consideration for the execution of the Master Indenture and the issuance of this Note.

10. Authentication of Note. This Note shall not be entitled to any benefit under the Master Indenture, or be valid or become obligatory for any purpose, until this Note shall have been authenticated by execution by the Master Trustee of the Certificate of Authentication inscribed hereon.

11. Waiver of Presentment or Notice. The Company hereby waives presentment for payment, demand, protest, notice of protest, notice of dishonor and all defenses on the grounds of extension of time of payment for the payment hereof which may be given (other than in writing) by the Master Trustee to the Company.

IT IS CERTIFIED that all conditions, acts and things required to exist, happen and be performed under the Master Indenture precedent to and in the issuance of this Note, exist, have happened and have been performed, and that the issuance, authentication and delivery of this Note have been duly authorized by resolutions of the Company.

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed.

HARMONY PUBLIC SCHOOLS

By: _____
Chief Financial Officer

ASSIGNMENT

For value received, the undersigned hereby assigns to REGIONS BANK, as Bond Trustee (the "Bond Trustee") under a Trust Indenture and Security Agreement, dated as of June 1, 2024, between the Bond Trustee and the undersigned, the within Note and all its rights thereunder without recourse or warranty, except warranty of good title and warranty that the Issuer has not assigned this Note to a Person other than the Bond Trustee and that the principal amount remains unpaid under this Note.

ARLINGTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
President, Board of Directors

(Form of Certificate of Authentication to
appear on each Note)

CERTIFICATE OF AUTHENTICATION

This is one of the Notes referred to in the Master Indenture.

Date of Authentication:

REGIONS BANK, as Master Trustee

By: _____
Authorized Signature

APPENDIX G

SUBSTANTIALLY FINAL FORM OF THE BOND INDENTURE

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TRUST INDENTURE AND SECURITY AGREEMENT

between

ARLINGTON HIGHER EDUCATION FINANCE CORPORATION

and

REGIONS BANK,
as Trustee

relating to

\$212,440,000
ARLINGTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(HARMONY PUBLIC SCHOOLS)
SERIES 2024

Dated as of

June 1, 2024

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TRUST INDENTURE AND SECURITY AGREEMENT

THIS TRUST INDENTURE AND SECURITY AGREEMENT (this “Indenture”), dated as of June 1, 2024, is between **ARLINGTON HIGHER EDUCATION FINANCE CORPORATION**, a non-profit corporation created and existing under the Act (the “Issuer”), and **REGIONS BANK**, an Alabama state banking corporation with a corporate trust office in Houston, Texas, not in its individual capacity but solely as Trustee (the “Trustee”).

WITNESSETH:

WHEREAS, the City of Arlington, Texas (the “City”), a political subdivision of the State of Texas (the “State”), has, pursuant to Chapter 53 of the Texas Education Code, as amended (the “Act”), approved and created the Issuer as a nonstock, nonprofit corporation;

WHEREAS, the Issuer is a duly constituted authority and instrumentality of the City (within the meaning of those terms in the Regulations of the Department of the Treasury and the rulings of the Internal Revenue Service (the “IRS”) prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”));

WHEREAS, the Issuer, on behalf of the City, is empowered to issue its revenue bonds in order to enable an accredited or authorized charter school to finance or refinance the acquisition, construction, enlargement, extension, repair, renovation, or other improvements to an educational or housing facility or any facilities incidental, subordinate, or related thereto or appropriate in connection therewith, or for acquiring land to be used for those purposes, or to create operating and debt service reserves for and to pay issuance costs related to such bonds;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its revenue bonds pursuant to a Board Resolution of the Issuer authorizing the issuance of the Bonds and this Indenture, which will be designated “Arlington Higher Education Finance Corporation Education Revenue Bonds (Harmony Public Schools) Series 2024” (the “Bonds”), the proceeds of which will be loaned to Harmony Public Schools (the “Company”) to be used to (i) finance and refinance the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (ii) fund capitalized interest, and (iii) pay the costs of issuing the Bonds;

WHEREAS, the Issuer and the Company have entered into a Loan Agreement, dated as of even date herewith (the “Agreement”), providing for (i) a loan from the Issuer to the Company of the proceeds of the sale of the Bonds, and (ii) the repayment of such loan by the Company;

WHEREAS, contemporaneously with the execution and delivery of this Indenture, the parties to the Bond Documents (as defined herein) have executed and delivered the other Bond Documents for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act, and securing to the Bondholders the payment of the Bond Obligations (as defined herein);

WHEREAS, all things necessary to make the Bonds, when issued, executed and delivered by the Issuer and authenticated by the Trustee pursuant to this Indenture, the valid, legal and binding limited obligations of the Issuer, and to constitute this Indenture a valid pledge of certain income, revenues and assets derived from the proceeds of the Bonds and from the Agreement for the payment of the Bond Obligations have been performed, and the execution and delivery of this Indenture, and the creation, execution and issuance of the Bonds subject to the terms hereof, have in all respects been duly authorized; and

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

GRANTING CLAUSES

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that to secure the payment of the Bond Obligations and the performance of the covenants herein contained and to declare the terms and conditions on which the Outstanding Bonds are secured, and in consideration of the premises, of the purchase of the Bonds by the Bondholders thereof, and for other good and valuable consideration, the receipt and sufficiency of all of which are hereby acknowledged, the Issuer by these presents does grant, bargain, sell, alien, remise, release, convey, assign, transfer, mortgage, hypothecate, pledge, set over, and confirm to the Trustee, forever, all and singular the following described properties, and grants a security interest therein for the purposes herein expressed, to-wit:

GRANTING CLAUSE FIRST

All right, title, and interest of the Issuer in and to the Agreement, including all amounts payable thereunder, including but not limited to the Loan Payments, the Note, any and all security heretofore or hereafter granted or held for the payment thereof, and the present and continuing right to bring actions and proceedings under the Agreement or for the enforcement thereof and to do any and all things which the Issuer is or may become entitled to do thereunder, but excluding the amounts agreed to be paid by the Company pursuant to Sections 4.6, 5.1 and 5.6 and 7.6 of the Agreement (the “Issuer’s Unassigned Rights”);

GRANTING CLAUSE SECOND

All right, title, and interest of the Issuer in and to all money and investments held for the credit of the funds and accounts established by or under this Indenture (except the Rebate Fund) as hereinafter described; and

GRANTING CLAUSE THIRD

Any and all property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien and security interest hereof by the Issuer or by anyone on its behalf (and the Trustee is hereby authorized to receive the same at any time as additional security hereunder), which subjection to the lien and security interest hereof of

any such property as additional security may be made subject to any reservations, limitations, or conditions that shall be set forth in a written instrument executed by the Issuer or the Person so acting on its behalf or by the Trustee respecting the use and disposition of such property or the proceeds thereof;

TO HAVE AND TO HOLD all said property, rights, privileges, and franchises of every kind and description, real, personal or mixed, hereby and hereafter (by supplemental instrument or otherwise) granted, bargained, sold, aliened, remised, released, conveyed, assigned, transferred, mortgaged, hypothecated, pledged, set over, or confirmed as aforesaid, or intended, agreed, or covenanted so to be, together with all the appurtenances thereto appertaining (said properties, rights, privileges, and franchises together with any cash and securities hereafter deposited or required to be deposited with the Trustee being herein collectively referred to as the “Trust Estate”) unto the Trustee and its successors and assigns forever;

BUT IN TRUST, NEVERTHELESS, for the equal and proportionate benefit and security of the Bondholders from time to time of the Outstanding Bonds without any priority of any such Bonds over any other such Bonds except as herein otherwise expressly provided;

UPON CONDITION that, if the Issuer, or its successors or assigns shall well and truly pay, or cause to be paid, the principal of (and premium, if any) and interest on the Bonds according to the true intent and meaning thereof, or there shall be deposited with the Trustee such amounts in such form in order that no Bonds shall remain Outstanding as herein defined and provided, and shall pay or cause to be paid to the Trustee all sums of money due or to become due to it in accordance with the terms and provisions of the Bond Documents, then upon the full and final payment of all such sums and amounts secured hereby or upon such deposit, this Indenture and the rights, titles, liens, security interests, and assignments herein granted shall cease, determine, and be void and this grant shall be released by the Trustee in due form at the expense of the Issuer, except only as herein provided; otherwise this grant to be and shall remain in full force and effect;

AND IT IS HEREBY COVENANTED AND DECLARED that all Bonds are to be authenticated and delivered and the Trust Estate is to be held and applied by the Trustee, subject to the further covenants, conditions, and trusts hereinafter set forth, and the Issuer does hereby covenant and agree to and with the Trustee, for the equal and proportionate benefit of all Bondholders, except as herein otherwise expressly provided, as follows:

ARTICLE I

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

Section 101. Construction of Terms; Definitions.

(a) For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

(1) “Indenture” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

(3) The terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular. Terms used herein but defined only in the Agreement have the meanings assigned to them in the Agreement. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its successors and assigns.

(b) The following terms have the meanings assigned to them below whenever they are used in this Indenture except to the extent otherwise defined in Exhibits A or B hereto:

“Act” means Chapter 53 of the Texas Education Code, including particularly Sections 53.35(b) and 53.48 of such Chapter.

“Agreement” means the Loan Agreement, dated as of the date of this Indenture, between the Issuer and the Company relating to the loan of the proceeds of the Bonds.

“Authenticating Agent” means the Person designated pursuant to Section 812 hereof to perform the duties of such set forth in this Indenture, initially the Trustee.

“Authorized Denominations” means, with respect to the Bonds, \$5,000 and any integral multiple thereof.

“Authorized Officer” means the President of the Board of Directors of the Company, the Chief Executive Officer, the Chief Financial Officer, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company.

“Bankruptcy Code” means Title 11 of the United States Code, as amended from time to time.

“Board Resolution” of any specified Person means a copy of a resolution certified by the Person responsible for maintaining the records of the Governing Body of such Person to have been duly adopted by the Governing Body of such Person and to be in full force and effect on the date of such certification and delivered to the Trustee.

“Bond Counsel” means Hunton Andrews Kurth LLP or such other attorney or firm of attorneys nationally recognized as having expertise in the practice of tax-exempt municipal finance law as approved by the Company.

“Bond Documents” means this Indenture, the Agreement, the Note, the Bonds, the Master Indenture, the Supplemental Master Indenture, the Bond Purchase Agreement, the Deed of Trust, and all other agreements, documents and instruments ever delivered

pursuant to any of the foregoing and any and all future renewals and extensions or restatements of any of the foregoing.

“Bond Obligations” means all principal of (and premium, if any) and interest on the Bonds and any other amounts which may be owed by the Company to, or on behalf of, the Issuer or the Trustee under the Bond Documents.

“Bond Purchase Agreement” means the Bond Purchase Agreement among the Issuer, the Company, and the Underwriters relating to the Bonds.

“Bond Register” and “Bond Registrar” have the respective meanings specified in Section 204.

“Bond Year” has the meaning given to such term in the Agreement.

“Bondholder” means a Person in whose name a Bond is registered in the Bond Register; provided, however, that, so long as the Bonds are guaranteed by the Permanent School Fund, upon the occurrence and during the continuance of a default or Event of Default under the Bond Documents, TEA shall be deemed to be the sole holder of the Bonds for all purposes of exercising remedies and approving amendments.

“Bonds” means the Series 2024 Bonds and any bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

“Book-Entry-Only Form” or “Book-Entry-Only System” means, with respect to the Bonds, a form or system, as applicable, under which (a) the ownership of beneficial interests in the Bonds may be transferred only through a book-entry, and (b) physical bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Bondholder, with the physical bond certificates held in the custody of the Depository.

“Business Day” means any day which is not a Saturday, Sunday, legal holiday, or a day on which banking institutions in the City of New York, New York or in the cities where the Corporate Trust Office of the Trustee or its payment office are located or are authorized by law or executive order to close.

“Capitalized Interest Account” means the Capitalized Interest Account in the Debt Service Fund established pursuant to Section 403.

“City” means the City of Arlington, Texas.

“Closing Date” means the date on which the Bonds are first authenticated and delivered to the initial purchasers thereof against payment therefor.

“Commissioner” means the Commissioner of Education of the State of Texas.

“Company” means Harmony Public Schools, a Texas non-profit corporation, its permitted successors and assigns, and any resulting, surviving or transferee Person permitted hereunder.

“Comptroller” means the Texas Comptroller of Public Accounts, or any successor thereto.

“Computation Date” has the meaning given to such term in the Agreement.

“Consent,” “Order,” and “Request” of any specified Person mean, respectively, a written consent, order, or request signed in the name of such Person and delivered to the Trustee by (i) an authorized officer of the Issuer or (ii) an Authorized Representative of the Company or (iii) the Commissioner or designee, as the case may be.

“Corporate Trust Office” means the address or addresses of the Trustee designated from time to time pursuant to Section 105.

“Costs of Issuance” means the cost of financing, legal, printing and other costs attributable to the issuance of the Bonds within the meaning of Section 147(g) of the Code.

“Debt Service” means as of any particular date of computation, with respect to the Bonds and with respect to any period, the aggregate of the amounts to be paid or set aside by the Issuer from proceeds received by the Issuer pursuant to the Agreement as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on the Bonds; assuming in the case of Bonds required to be redeemed or prepaid as to principal prior to Maturity that the principal amounts thereof will be redeemed prior to Maturity in accordance with the mandatory redemption provisions applicable thereto.

“Debt Service Fund” means the special trust fund created pursuant to Section 403 of this Indenture.

“Deed of Trust” means, collectively, those certain Deeds of Trust and Security Agreements (with Assignment of Rents and Leases), dated as of June 1, 2007, May 1, 2008, August 1, 2008 from the Company to the Master Trustee, as supplemented to date, and as such Deed of Trust may be amended, supplemented or restated, and/or any security instrument executed in substitution therefore or in addition thereto, as such substitute or additional security instrument may be amended, supplemented or restated from time to time.

“Defeasance Obligations” means obligations now or hereafter authorized in Section 1207.062(b), Texas Government Code.

“Depository” means any securities depository that is 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, as amended, operating and maintaining, with its participants or otherwise, a Book-

Entry-Only System to record ownership of beneficial interests in the Bonds, and to effect transfers of the Bonds, in Book-Entry-Only Form. The initial Depository for the Bonds shall be DTC.

“DTC” means The Depository Trust Company, New York, New York, the initial securities depository of the Book Entry-Only System described in Section 211 hereof. DTC is a limited purpose trust company organized under the laws of the State of New York, 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, as amended.

“Eligible Securities” means, to the extent permitted by law (as determined by the Company but not the Trustee), obligations or securities now or hereafter authorized as investments under the Public Funds Investment Act, Chapter 2256, Texas Government Code, maturing or redeemable at the option of the Company, or marketable, prior to the maturities thereof, at such time or times as to enable disbursements to be made from the Debt Service Fund, the Project Fund and the Rebate Fund in accordance with the terms hereof.

“Event of Default” is defined in Article VII of this Indenture.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Favorable Opinion of Bond Counsel” means an unqualified opinion of Bond Counsel delivered to and in form and substance satisfactory to the Issuer and the Trustee to the effect that such action does not violate the laws of the State (including the Act), the Code and this Indenture and will not adversely affect the exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

“Governing Body” of any specified Person means the board of directors or board of trustees of such Person or any duly authorized committee of that board, or if there be no board of trustees or board of directors, then the person or body which pursuant to law or the organizational documents of such Person is vested with powers similar to those vested in a board of trustees or a board of directors.

“Guarantee” means the PSF Certificate issued by TEA pursuant to Article 7 Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, that guarantees the scheduled payment of principal of and interest on the Bonds when due.

“Guaranteed Bonds” means Bonds whose scheduled payments of principal and interest as such become due are guaranteed pursuant to the Guarantee.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material

indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein provided that any Independent Person's opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Company Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Initial Bonds” means the initial Series 2024 Bond authorized in Section 210 herein.

“Interest Payment Date” means each August 15 and February, commencing August 15, 2024.

“Interest Rates” means the interest rates as set forth in Section 202(a) and Section 202(b) of this Indenture for the Bonds.

“Issuer” means Arlington Higher Education Finance Corporation, a non-stock, non-profit corporation organized under the Act.

“Loan” means the loan made by the Issuer to the Company pursuant to the Agreement.

“Management Consultant” means a firm of Independent professional management consultants, including the Company's financial advisor, or an Independent school management organization, knowledgeable in the operation of public or private schools and having a favorable reputation for skill and experience in the field of public or private school management consultation.

“Master Indenture” means that certain Master Trust Indenture and Security Agreement, dated as of May 1, 2007, between the Company and the Master Trustee, as heretofore and hereafter amended or supplemented from time to time in accordance with its terms.

“Master Trustee” means Regions Bank, an Alabama state banking corporation with a corporate trust office in Houston, Texas, serving as master trustee pursuant to the Master Indenture or any successor thereto pursuant to the provisions of the Master Indenture.

“Maturity” when used with respect to any Bond means the date on which the principal of such Bond becomes due and payable as therein or herein provided, whether at the Stated Maturity thereof or by call for redemption or otherwise.

“Officer's Certificate” of any specified Person means a certificate signed by an officer of the Governing Body or an Authorized Representative or any other Person designated to execute an Officer's Certificate as evidenced by a certificate of any such Person delivered to the Trustee.

“Outstanding” when used with respect to any Bonds means, as of the date of determination, all Bonds theretofore authenticated and delivered under this Indenture, except:

(i) Bonds theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(ii) Bonds for whose payment or redemption money (or Defeasance Obligations to the extent permitted by Section 1002 of this Indenture) in the necessary amount has been theretofore deposited with the Trustee or any paying agent for such Bonds in trust for the Bondholders pursuant to this Indenture; provided, that, if such Bonds are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or irrevocable provision therefor satisfactory to the Trustee has been made;

(iii) Bonds upon transfer of or in exchange for or in lieu of which other Bonds have been authenticated and delivered pursuant to this Indenture; and

(iv) Bonds alleged to have been destroyed, lost, or stolen which have been paid as provided in Section 205.

provided, however, that in determining whether the holders of the requisite principal amount of Outstanding Bonds have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Bonds owned of record or beneficially by the Company or any other obligor upon the Bonds or the Note or such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds that the Responsible Officer actually knows to be so owned shall be so disregarded. Bonds so owned that have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee’s right so to act with respect to such Bonds and that the pledgee is not the Company or any other obligor upon the Bonds or the Note or such other obligor.

“Paying Agent” means initially the Trustee, and any other Person authorized by the Issuer to pay the principal of (and premium, if any) or interest on any Bonds on behalf of the Issuer.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, or government or any agency or political subdivision thereof.

“Place of Payment” for the Bonds means a city or any political subdivision thereof designated as such in the Bonds.

“Proceeds Fund” means the special fund created pursuant to Section 402 of this Indenture.

“Project” means the Project described in Exhibit A to the Agreement.

“Project Fund” means the special trust fund created in Section 404 of this Indenture.

“Rating Service” means each nationally recognized securities rating service which at the time has a credit rating assigned to the Bonds.

“Rebate Fund” means the special trust fund created in Section 405 of this Indenture.

“Record Date” means the close of business for the Trustee on the first day of the calendar month in which any Interest Payment Date occurs regardless of whether such day is a Business Day.

“Regulations” means the applicable proposed, temporary or final Income Tax Regulations promulgated under the Code or, to the extent applicable to the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.

“Requisition Certificate” means any Requisition Certificate in substantially the form attached as Exhibit B to this Indenture.

“Responsible Officer” when used with respect to the Trustee means the officer in the Corporate Trust Office of the Trustee having direct responsibility for administration of this Indenture.

“Note” means the promissory note in the form attached to the Supplemental Master Indenture as Exhibit A, which is secured by the Master Indenture, executed by the Company and dated the Closing Date in the principal amount of the Bonds..

“Bonds” means Arlington Higher Education Finance Corporation Education Revenue Bonds (Harmony Public Schools) Series 2024 and any bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

“Special Record Date” has the meaning set forth in Section 206 hereof.

“State” means the State of Texas.

“Stated Maturity” when used with respect to any Bond or any installment of interest thereon means the date specified in such Bond as the fixed date on which the principal of such Bond or such installment of interest is due and payable.

“Supplemental Master Indenture” means the Supplemental Master Indenture No. 35 dated as of June 1, 2024, between the Company and Master Trustee.

“TEA” means the Texas Education Agency, or any successor thereto.

“TEA Default” means (a) TEA has failed to make any payment under the Guarantee when due and owing in accordance with the Guarantee’s terms and as provided by law; or (b) any state or federal agency or instrumentality shall order the suspension of payments on the Guarantee

“Trust Estate” is defined in the Granting Clauses of this Indenture.

“Trustee” means Regions Bank, an Alabama state banking corporation with a corporate trust office in Houston, Texas, serving as Trustee pursuant to this Indenture or any successor thereto pursuant to the provisions of this Indenture.

“Underwriters” means Robert W. Baird & Co., RBC Capital Markets, and PNC Capital Markets.

Section 102. Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 103. Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Indenture shall include a statement that the Person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by or covered by an opinion of any specified Person, it is not necessary that all such matters be certified by or covered by the opinion of only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of any officer of a Person may be based, insofar as it relates to legal matters, upon a certificate or opinion of or representations by counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, in so far as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of a specified Person stating that the information with respect to such factual matters is in the possession of such Person, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

Section 104. Acts of Bondholders.

(a) Any request, demand, authorization, direction, notice, consent, waiver or other action provided by this Indenture to be given or taken by Bondholders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Bondholders in person or by their agent or agents duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee, and, where it is hereby expressly required, to the Issuer. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the “Act” of the Bondholders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 801) conclusive in favor of the Trustee and the Issuer, if made in the manner provided in this Section.

(b) The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by the certificate of any notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by an officer of a corporation or a member of a partnership on behalf of such corporation or partnership, such certificate or affidavit shall also constitute sufficient proof of such signer’s authority. The fact and date of the execution of any such instrument or writing, or the authority of the person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

(c) The ownership of Bonds shall be proved by the Bond Register.

(d) Any request, demand, authorization, direction, notice, consent, waiver or other Act by any holder of a Bond shall bind every subsequent holder of that Bond and of any other Bond issued upon the transfer thereof or in exchange therefor or in lieu thereof, in respect of anything done or suffered to be done by the Trustee or the Issuer in reliance thereon, whether or not notation of such action is made upon such Bond.

Section 105. Notice Addresses. Any request, demand, authorization, direction, notice, consent, waiver or Act of Bondholders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with and actually received by a Responsible Officer of the Trustee at its Corporate Trust Office located at 3773 Richmond Avenue, Suite 1100, Houston, Texas 77046, Attention: Corporate Trust, or at any other address subsequently furnished in writing to the Bondholders and the other parties to the Bond Documents by the Trustee;

(2) the Issuer by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Issuer addressed to it at 4381 W. Green Oaks Blvd., Suite 200,

Arlington, TX 76016, Attn: Phillip Wambsganss, or at any other address subsequently furnished in writing to the Trustee and the Company by the Issuer;

(3) the Company by any Bondholder or by any specified Person shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to the Company addressed to it at 9321 W. Sam Houston Parkway South, Houston, Texas 77099, Attn: Chief Financial Officer, or at any other address subsequently furnished in writing to the Trustee and the Issuer by the Company;

(4) the Rating Service shall be sufficient for every purpose hereunder if in writing and mailed, first-class postage prepaid, to (i) Moody's Investors Services, 600 North Pearl Street, Suite 2165, Dallas, Texas 75201, (ii) S&P Global Ratings, 130 E. Randolph Street, Suite 3600, Chicago, Illinois 60601 or at such other address subsequently furnished in writing to the Trustee by such Rating Service.

(5) the Texas Education Agency shall be sufficient for every purpose hereunder if in writing and delivered mailed to 1701 N. Congress Avenue, Austin, Texas 78701, Attention: Commissioner of Education, Re: Guarantee No. 2024-01-Harmony Public Schools-1 or email at commissioner@tea.texas.gov. In each case in which notice or other communication refers to an Event of Default or a claim on the Permanent School Fund Guarantee, then a copy of such notice or other communication shall also be sent to the attention of the General Counsel at the same address and at tealegal@tea.texas.gov and psfbgp@tea.texas.gov and shall be marked to indicate "URGENT MATERIAL ENCLOSED." All notices, waivers, consents and other information required to be provided to TEA shall be provided directly to the Commissioner or designee thereof.

Section 106. Notices to Bondholders; Waiver. Where this Indenture provides for notice to Bondholders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Bondholder affected by such event, at his address as it appears on the Bond Register, not later than the latest date, and not earlier than the earliest date, prescribed for the delivery of such notice. In any case where notice to Bondholders is given as provided herein, neither the failure to send such notice, nor any default in any notice so sent to any particular Bondholder shall affect the sufficiency of such notice with respect to other Bondholders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Bondholders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 107. Successors and Assigns. All covenants and agreements in this Indenture by the Issuer and the Trustee shall bind their respective successors and assigns, whether so expressed or not.

Section 108. Severability Clause. In case any provision in this Indenture or in the Bonds or any application thereof shall be invalid, illegal or unenforceable, the validity, legality and

enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby.

Section 109. Benefits of Indenture. Nothing in this Indenture or in the Bonds, express or implied, shall give to any Person, other than the parties hereto, their successors hereunder, any separate trustee or co-trustee appointed hereunder, the Company, TEA and the Bondholders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

Section 110. Governing Law. This Indenture shall be governed, in all respects including validity, interpretation and effect by, and shall be enforceable in accordance with, the laws of the State.

Section 111. Directors, Officers, Employees, and Agents Exempt from Personal Liability. No recourse under or upon any obligation, covenant, or agreement contained in this Indenture, or in any Bond, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present, or future director, officer, or employee, as such, of the Issuer or the Trustee, or of any successor corporation, either directly or through the Issuer or the Trustee, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment, judgment, or penalty, or otherwise; it being expressly understood that this Indenture and the Bonds are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers, or employees, as such, of the Issuer, the Trustee, or any other successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants, or agreements contained in this Indenture or the Bonds or implied therefrom, and that any and all such personal liability either at common law or equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer, or employee, as such, are hereby expressly waived and released as a condition of, and in consideration for, the execution of this Indenture and the issuance of the Bonds.

ARTICLE II

AUTHORIZATION AND TERMS OF BONDS; ISSUANCE AND FORM OF BONDS

Section 201. Authorization and Form of Bonds.

(a) The Bonds shall be designated shall be designated “Arlington Higher Education Finance Corporation Education Revenue Bonds (Harmony Public Schools) Series 2024.” The aggregate principal amount of the Bonds is \$212,440,000. The Bonds shall be numbered separately from RA-1 upwards. The Bonds shall be issued only in fully registered form in Authorized Denominations.

(b) The Bonds and the Guarantee Endorsement of the Commissioner, respectively, shall be substantially in the form set forth in Exhibit A attached hereto, with such appropriate variations, omissions, and insertions as are permitted or required by this Indenture and may have endorsed thereon such legends or text as may be necessary or appropriate to conform to any applicable rules and regulations of any governmental authority or any usage or requirement of law

with respect thereto. The Bonds may be typewritten, printed, lithographed, engraved or produced in similar manner. If any Bond is printed, any portion of the text of the Bond may be printed on the back of the Bond with an appropriate reference placed on the front of the Bond.

Section 202. Terms of Bonds.

(a) The Bonds shall be dated as of June 1, 2024, shall mature on February 15 in the years and in the amounts set forth below, and shall bear interest at the following rates from the later of (i) the date of delivery of the Bonds or (ii) the most recent Interest Payment Date to which interest has been paid or provided for:

<u>Maturity Date</u>	<u>Principal Amount (\$)</u>	<u>Interest Rate</u>
2026	\$1,000,000	5.000%
2027	2,000,000	5.000%
2028	4,040,000	5.000%
2029	4,235,000	5.000%
2030	4,450,000	5.000%
2031	4,675,000	5.000%
2032	4,910,000	5.000%
2033	5,155,000	5.000%
2034	5,410,000	5.000%
2035	5,680,000	5.000%
2036	5,965,000	5.000%
2037	6,265,000	5.000%
2038	6,575,000	5.000%
2039	6,905,000	5.000%

2044 ^(a)	39,270,000	4.000%
2049 ^(a)	47,780,000	4.000%
2054 ^(a)	58,125,000	4.000%

(a) Indicates a Term Bond.

(b) The Bonds shall be subject to optional and mandatory redemption prior to maturity in the manner provided in the forms of Bond set forth in Exhibits A, attached hereto.

(c) Interest on the Bonds shall be paid on each Interest Payment Date until the principal thereof shall have been paid or provided for. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

(d) Amounts due with respect to the Bonds shall be payable in lawful money of the United States. Payment of principal, premium, if any, and interest on the Bonds shall be paid by check mailed to the registered holder thereof at his or her address as it appears on the Bond Register on the Record Date. Upon written request of a registered Bondholder of at least \$1,000,000 in principal amount of Bonds or all of any series of the Bonds, all payments of principal, premium, if any, and interest on the Bonds shall be paid by wire transfer (at the risk and expense of such registered Bondholder) in immediately available funds to an account in the United States designated by such registered Bondholder upon fifteen (15) days prior written notice before a Record Date to the Trustee. CUSIP number identification with appropriate dollar amounts for each CUSIP number must accompany all payments of principal, premium, if any, and interest, whether by check or by wire transfer. Principal of, premium, if any, and interest on the Bonds that

are in Book-Entry-Only Form will be paid in immediately available funds to DTC or its nominee, as the case may be, as Bondholder.

Section 203. Execution, Authentication and Delivery. The Bonds shall be executed on behalf of the Issuer by its President or its Vice President and attested to by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Bonds may be manual or facsimile.

Bonds bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Bonds or did not hold such offices at the date of such Bonds.

The Initial Bonds issued hereunder shall be registered by the Comptroller or by one of the Comptroller's deputies.

At any time and from time to time after the execution and delivery of this Indenture, the Issuer may deliver Bonds executed by the Issuer to the Authenticating Agent; the Authenticating Agent shall authenticate such Bonds; and the Bond Registrar shall register and deliver such Bonds as in this Indenture provided and not otherwise.

Prior to the initial delivery by the Trustee (in its capacity as Bond Registrar) of the Bonds, there shall be delivered to the Trustee:

- (a) a Board Resolution of the Issuer authorizing the issuance, execution and delivery of the Bonds;
- (b) a Company Order to authenticate and deliver the Bonds to the original purchasers upon payment to the Trustee for deposit or payment in accordance with the provisions of this Indenture of the sum specified in such Company Order;
- (c) the Note, duly executed by the Company on behalf of itself and duly authenticated by the Master Trustee, payable to the Trustee or properly endorsed or assigned to the Trustee;
- (d) executed counterparts of each of the Bond Documents;
- (e) an Opinion of Counsel to each party to this Indenture, the Loan Agreement, the Supplemental Master Indenture and the Deed of Trust to the effect that each such document has been duly authorized, executed and delivered by that party and that each such document constitutes a legal, valid, binding and enforceable obligation of that party subject to customary exceptions;
- (f) the Opinion of Counsel specified in Section 202(c) of the Master Indenture;
- (g) an opinion of Bond Counsel subject to the exceptions and qualifications set forth therein to the effect that (i) this Indenture has been duly authorized, executed and

delivered by the Issuer and constitutes a valid and binding obligation of the Issuer enforceable in accordance with its terms, and that all conditions precedent provided in this Indenture relating to the authentication and delivery of the Bonds have occurred, (ii) the Bonds have been duly authorized, executed, issued and delivered by the Issuer, are the legal and valid limited obligations of the Issuer, and are entitled to the benefits and security of this Indenture, (iii) the Bonds and the offering or sale of the Bonds are not required to be registered under the Securities Act of 1933, and this Indenture is exempt from qualification as an indenture pursuant to the Trust Indenture Act of 1939, and (iv) interest on the Bonds is excludable from gross income of the holders of the Bonds for federal income tax purposes; and

(h) the Initial Bonds, together with the approval of the Bonds by the Attorney General of Texas as evidenced by his approving opinion related thereto and initial registration of the Bonds by the Comptroller.

Section 204. Registration, Transfer and Exchange. The Trustee is hereby appointed as Bond Registrar (the “Bond Registrar”) for the purpose of registering Bonds and transfers of Bonds as herein provided. The Issuer shall cause to be kept at a corporate trust office or the principal payment office of the Bond Registrar or Bond Registrars for the Bonds, a register or registers (sometimes herein referred to as the “Bond Register”) in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the registration of Bonds and of transfers of Bonds. The Bond Registrar shall keep the Bond Register with respect to the Bonds, at its principal payment office in Houston, Texas.

Upon surrender for transfer of any Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Authenticating Agent shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate.

At the option of the Bondholder, Bonds may be exchanged for Bonds of any Authorized Denomination, of a like aggregate principal amount, series, Stated Maturity and interest rate, upon the surrender of the Bonds to be exchanged at such office or agency. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute, and the Bond Registrar shall authenticate and deliver, the Bonds that the Bondholder making the exchange is entitled to receive.

All Bonds issued upon any transfer or exchange of Bonds shall be the valid obligations of the Issuer, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Bonds surrendered upon such transfer or exchange.

Every Bond presented or surrendered for transfer or exchange shall (if so required by the Issuer or the Bond Registrar) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Issuer and the Bond Registrar duly executed by the holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any transfer or exchange of Bonds, but the Issuer and the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental

charge that may be imposed in connection with any transfer or exchange of Bonds, other than exchanges expressly provided in this Indenture to be made without expense or without charge to Bondholders.

The Issuer and the Bond Registrar shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business fifteen (15) days before the day a notice of redemption of Bonds selected for redemption under Section 303 is sent and ending at the close of business on the day such notice is sent or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

Section 205. Mutilated, Destroyed, Lost and Stolen Bonds. If (a) any mutilated Bond is surrendered to the Bond Registrar, or the Bond Registrar receives evidence to its satisfaction of the destruction, loss or theft of any Bond, and (b) there is delivered to the Bond Registrar such security or indemnity as may be required by it to save each of the Issuer and the Bond Registrar harmless, then, in the absence of notice to the Issuer or the Bond Registrar that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and upon its request the Bond Registrar shall authenticate and deliver in exchange for or in lieu of any such mutilated, destroyed, lost or stolen Bond, a new Bond of like tenor, series, interest rate and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may (and upon Company Order shall), instead of issuing a new Bond, pay such Bond.

Upon the issuance of any new Bond under this Section, the Issuer and the Bond Registrar may require the payment by the Bondholder of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Bond Registrar) connected therewith.

Every new Bond issued pursuant to this Section in lieu of any destroyed, lost or stolen Bond shall constitute an original additional contractual obligation of the Issuer, whether or not the destroyed, lost or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits and security of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Bonds.

Section 206. Payment of Interest on Bonds; Interest Rights Preserved. Interest on any Bond that is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Bond is registered at the close of business on the Record Date for such interest.

Any interest on any Bond that is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the holder thereof on the relevant Record Date by virtue of having been such

Bondholder; and such Defaulted Interest shall be paid by the Issuer (but only from the sources provided herein), to the Persons in whose names the Bonds are registered at the close of business on a special record date (“Special Record Date”) for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Trustee, as agent of the Issuer, shall determine the amount of Defaulted Interest proposed to be paid on each Bond and the date of the proposed payment, and at the same time the Issuer shall deposit (but only from the sources provided herein) with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of Persons entitled to such Defaulted Interest. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than fifteen (15) nor less than ten (10) days prior to the date of the proposed payment and not less than ten (10) days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Issuer and the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the date and amount of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be sent, to each Bondholder at his address as it appears in the Bond Register, not less than ten (10) days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been sent as aforesaid, such Defaulted Interest shall be paid to the Persons in whose names the Bonds are registered on such Special Record Date.

Subject to the foregoing provisions of this Section, each Bond delivered under this Indenture upon transfer of or in exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, that were carried by such other Bonds.

Section 207. Persons Deemed Owners. The Issuer, the Trustee, the Authenticating Agent, the Bond Registrar, TEA and any of their respective agents may treat the Person in whose name any Bond is registered as the owner of such Bond for the purpose of receiving payment of principal of (and premium, if any), and (subject to Section 206) interest on, such Bond and for all other purposes whatsoever whether or not such Bond be overdue, and except as otherwise provided in this Indenture, none of the Issuer, the Trustee, or any agent of the Issuer or the Trustee shall be affected by notice to the contrary.

Section 208. Cancellation. All Bonds surrendered for payment, redemption, transfer or exchange shall, if delivered to any Person other than the Bond Registrar be delivered to the Bond Registrar and, if not already canceled, shall be promptly canceled by it. The Issuer or the Company may at any time deliver to the Bond Registrar for cancellation any Bonds previously authenticated and delivered hereunder that the Issuer or the Company may have acquired in any lawful manner whatsoever, and all Bonds so delivered shall be promptly canceled by the Bond Registrar. No Bonds shall be authenticated in lieu of or in exchange for any Bonds canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Bonds held by the Bond Registrar shall be maintained or disposed of according to the retention policies of the Bond Registrar in effect from time to time.

Section 209. Limited Liability of Issuer. NONE OF THE CITY, THE STATE, A STATE AGENCY, OR ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF

THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY, THE STATE, OR ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. HOWEVER, THE BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATIONS OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

All obligations of the Issuer hereunder are limited, and are payable solely from and to the extent of money provided by or for the account of the Company, and it is a condition of each undertaking of the Issuer contained herein that, all such undertakings shall be performed at the expense of the Company. The Issuer shall not be required to advance its own funds in connection with the performance of any duty under this Indenture.

Section 210. Initial Bonds. Pending the preparation of definitive Bonds, the Issuer will execute and upon Company Order, the Bond Registrar shall deliver the Initial Bonds, which may be printed, lithographed, typewritten, mimeographed or otherwise produced, substantially of the tenor of the definitive Bonds in lieu of which it is issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Initial Bonds may determine, as evidenced by their execution of such Initial Bonds.

Upon the issuance of the Initial Bonds, the Issuer will cause definitive Bonds to be prepared without unreasonable delay. After the preparation of definitive Bonds, the Initial Bonds shall be exchangeable for definitive Bonds upon surrender of the Initial Bonds at the office of the Trustee in a Place of Payment, without charge to the Bondholder. Upon surrender for cancellation of the Initial Bonds, the Issuer shall execute and the Bond Registrar shall authenticate and deliver in exchange therefor a like principal amount of definitive Bonds of Authorized Denominations. Until so exchanged, the Initial Bonds shall in all respects be entitled to the same benefits under this Indenture as definitive Bonds so long as it shall have attached to it an executed registration certificate of the Comptroller in the form set forth in Exhibit A.

Section 211. Book-Entry-Only System.

(a) The Bonds may and initially shall be registered under a Book-Entry-Only System maintained by a Depository. Notwithstanding any inconsistent provisions in this Indenture to the contrary, the provisions of this Section 211 shall govern at any time the Bonds are issued and Outstanding in Book-Entry-Only Form.

(b) Under the Book-Entry-Only System, the Bonds shall be issued in the form of a separate, single, fully registered and immobilized bond certificate representing the aggregate principal amount of the Bonds. Except as provided herein, the ownership of such Bonds shall be registered in the Bond Register in the name of Cede & Co., as nominee of The Depository Trust Company, which will serve as initial Depository for the Bonds. Ownership of beneficial interests

in the Bonds shall be shown by book-entry on the system maintained and operated by the Depository and its participants and indirect participants (such participants and indirect participants being collectively referred to as the “Participants”), and transfers of ownership of beneficial interests shall be made only by the Depository and its Participants by book-entry, and the Issuer, the Company and the Trustee shall have no responsibility therefor. The Depository will be required to maintain records of the positions of Participants in the Bonds, and the Participants and persons acting through Participants will be required to maintain records of the purchasers of beneficial interests in the Bonds (the “Beneficial Owners”). Except as provided in subsection (i) of this Section 211, the Bonds shall not be transferable or exchangeable, except for transfer to another Depository or to another nominee of a Depository.

(c) With respect to Bonds registered in the Bond Register in the name of the Depository or its nominee, the Issuer, the Company, the Bond Registrar and the Trustee shall have no responsibility or obligation to any Participant or to any Beneficial Owner for whom a Participant acquires an interest in the Bonds. NONE OF THE ISSUER, THE COMPANY, THE BOND REGISTRAR OR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS WITH RESPECT TO (i) THE ACCURACY OF ANY RECORDS MAINTAINED BY THE DEPOSITORY OR ANY PARTICIPANT; (ii) THE PAYMENT BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY AMOUNT DUE TO ANY BENEFICIAL OWNER IN RESPECT OF THE PRINCIPAL AMOUNT OF, OR INTEREST, AND PREMIUM, IF ANY, ON OR REDEMPTION PRICE OF THE BONDS; (iii) THE DELIVERY BY THE DEPOSITORY OR ANY PARTICIPANT OF ANY NOTICE TO ANY BENEFICIAL OWNER THAT IS REQUIRED OR PERMITTED TO BE GIVEN TO HOLDERS UNDER THE TERMS OF THIS INDENTURE; (iv) THE SELECTION OF THE BENEFICIAL OWNERS TO RECEIVE PAYMENT IN THE EVENT OF ANY PARTIAL REDEMPTION OF THE BONDS; OR (v) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY THE DEPOSITORY AS OWNER OF THE BONDS. NONE OF THE ISSUER, THE COMPANY, THE BOND REGISTRAR OR THE TRUSTEE HAS ANY DIRECT OBLIGATION OR RESPONSIBILITY TO PARTICIPANTS OR BENEFICIAL OWNERS.

(d) So long as the Bonds or any portions thereof are registered in the name of a Depository or any nominee thereof, all payments of principal of (premium, if any) or interest on the Bonds or redemption price of such Bonds shall be made only to or upon the order of such Depository on the dates and at the times provided for such payment under this Indenture and at the address indicated for such Depository in the Bond Register kept by the Bond Registrar by transfer of immediately available funds; provided that the Trustee has received sufficient funds from the sources described in this Indenture and the Agreement to make such payment. Each such payment to the Depository or its nominee shall be valid and effective to fully satisfy and discharge all liability of the Issuer or the Trustee with respect to the principal of (premium, if any) or interest on the Bonds and redemption price with respect to the Bonds so registered to the extent of the sum or sums so paid. In the event of the redemption of less than all of the Bonds Outstanding of any Stated Maturity, the Trustee shall not require surrender by the Depository or its nominee of the Bonds so purchased or redeemed, and the Depository may retain such Bonds. In the event of partial redemption of the Bonds, the Depository shall make an appropriate notation on the Bonds as to the amount of such partial redemption; provided that the Depository shall deliver to the

Trustee, upon request, a written confirmation of such partial redemption and thereafter the records maintained by the Trustee shall be conclusive as to the amount of the Bonds of such Stated Maturity which have been redeemed. The Issuer, the Company and the Trustee shall not be liable for the failure of the Depository to properly indicate on the Bonds the payment of such principal or redemption price.

(e) All transfers of beneficial ownership interests in the Bonds when issued in Book-Entry-Only Form shall be effected by procedures promulgated by the Depository with its Participants for recording and transferring the ownership of beneficial interest in each of such Bonds.

(f) The Issuer, the Company, the Bond Registrar, and the Trustee and any of their respective agents may treat the Depository (or its nominee) as the sole and exclusive Bondholder of the Bonds registered in its name for the purposes of payment of the principal of (premium, if any) or interest on the Bonds or redemption price with respect to the Bonds, selecting the Bonds or portions thereof to be redeemed, giving any notice permitted or required to be given to Bondholders under this Indenture, registering the transfer of Bonds, obtaining any consent or other action to be taken by Bondholders and for all other purposes whatsoever; and the Issuer, the Company, the Bond Registrar and the Trustee shall not be affected by any notice to the contrary.

(g) So long as the Bonds are registered in the name of the Depository or any nominee thereof, all notices required or permitted to be given to the holders of such Bonds under this Indenture shall be given to the Depository. In connection with any notice or other communication to be provided to Bondholders pursuant to this Indenture by the Issuer, the Company or the Trustee with respect to any consent or other action to be taken by Bondholders, the Depository shall consider the date of receipt of notice requesting such consent or other action as the record date for such consent or other action, provided that the Issuer or the Trustee may establish a special record date for such consent or other action. The Issuer or the Trustee shall give the Depository notice of such special record date not less than fifteen (15) calendar days in advance of such special record date to the extent possible.

(h) Any successor Trustee, in its written acceptance of its duties under this Indenture, shall agree to take any actions necessary from time to time to comply with the requirements of such Depository.

(i) The Depository may determine to discontinue providing its services with respect to the Bonds at any time by giving reasonable written notice to the Trustee and the Issuer and discharging its responsibilities with respect thereto under applicable law. Under such circumstance (if there is not a successor Depository), Bond certificates will be delivered as described elsewhere in Article II of this Indenture. Upon receipt of such notice from the Depository, the Trustee shall provide a copy of the notice to the Company. The Company, in its sole discretion, and without the consent of any other Person, may terminate the services of the Depository with respect to the Bonds if the Company determines that: (i) the Depository is unable to discharge its responsibilities with respect to the Bonds; or (ii) a continuation of the requirement that all of the Bonds be registered in the Bond Register in the name of the nominee of the Depository is not in the best interest of the Beneficial Owners. In the event that no substitute Depository is found by the

Company or restricted registration is no longer in effect, Bond certificates will be delivered as described in Article II of this Indenture. Upon the termination of the services of the Depository with respect to the Bonds pursuant to this Section 211(i), after which no successor Depository willing to undertake the functions of the Depository hereunder can be found that, in the opinion of the Company, is willing and able to undertake such functions upon reasonable and customary terms, the Bonds shall no longer be restricted to being registered in the Bond Register in the name of the nominee of the Depository, but may be registered in the name or names and in such maturities and principal amounts as the Depository shall designate in writing to the Bond Registrar in accordance with the provisions elsewhere in Article II of this Indenture, but without any liability on the part of the Issuer or the Bond Registrar for the accuracy of such designation. Upon the termination of the services of the Depository with respect to the Bonds for any reason and the appointment of a successor Depository, all references in this Indenture to the Depository shall refer to such successor Depository. Whenever the Depository requests the Issuer, the Company and the Trustee to do so, the Issuer, the Company and the Trustee shall cooperate with the Depository in taking appropriate action after reasonable notice to arrange for another Depository to maintain custody of certificates evidencing the Bonds.

(j) So long as any Bonds are registered in the name of the nominee of the Depository, a legend prescribed by the Depository to that effect may be printed on such Bond certificate.

ARTICLE III

REDEMPTION OF BONDS

Section 301. Redemption. The Bonds shall be subject to redemption as set forth in the form of Bond in Exhibit A hereto.

Section 302. Election to Redeem; Notice to Trustee. The election of the Company to redeem any Bonds shall be evidenced by a Board Resolution delivered to the Issuer. In case of any redemption at the election of the Company, the Company shall, at least thirty-five (35) days prior to the redemption date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee in writing of such redemption date and of the principal amount of Bonds of each Stated Maturity to be redeemed.

Section 303. Selection by Trustee of Bonds to be Redeemed. If less than all of the Bonds of a particular Stated Maturity are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that if the Bonds are registered in the Book-Entry-Only System, the method of redemption shall be in accordance with the procedures of the Depository, and portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination. Absent direction of the Company, the Trustee may select the Bonds to be redeemed by lot or other customary method.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal of such Bond that has been or is to be redeemed.

Section 304. Notice of Redemption.

(a) Not less than thirty (30) days prior to any redemption date, but not more than sixty (60) days prior to any redemption date, the Trustee shall cause notice of the call for any redemption identifying the Bonds or portions thereof to be redeemed to be given in the name of the Issuer, to the holders of each Bond to be redeemed at the address shown on the Bond Register on the date such notices are sent. Any notice sent as provided in this Section shall be conclusively presumed to have been duly given, irrespective of whether received.

(b) Each notice of redemption shall state at a minimum, the complete official name of the issue, including series designation, CUSIP number, amounts called of each Stated Maturity (for partial calls), date of the notice, the date of issue, interest rate, maturity date of the Bonds called for redemption, the redemption date, the redemption price, the place or places of redemption, and appropriate address or addresses with name of contact person and telephone number. Unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice of redemption, such notice shall state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If sufficient moneys are not timely received by the Trustee, such notice shall be of no force and effect, the Issuer shall not redeem such Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

(c) If any of the Bonds are redeemed pursuant to an advance refunding, notice of such advance refunding and redemption shall be given in the same manner as above provided, and within the same time period with respect to the actual redemption date.

Section 305. Deposit of Redemption Price. Subject to any condition to such redemption, on or prior to any redemption date, the Company shall deposit with the Trustee or with a Paying Agent an amount of money sufficient to pay the redemption price, premium, if any, and interest accrued thereon to the date fixed for redemption of all the Bonds which are to be redeemed on such date.

Section 306. Bonds Payable on Redemption Date. Notice of redemption having been given as aforesaid, and the deposit described in Section 305 having been made, and all conditions to such redemption having been fulfilled, the Bonds so to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified and from and after such date such Bonds shall cease to bear interest. If, however, funds available to pay the redemption price have not been so deposited on the redemption date, the redemption will be cancelled. Upon surrender of any such Bond for redemption in accordance with said notice, such Bond shall be paid by the Issuer at the redemption price. Installments of interest whose Stated Maturity is on or prior to the redemption date shall be payable to the holders of such Bonds registered as such on the relevant Record Dates according to their terms.

If any Bond called for redemption shall not be so paid upon surrender thereof for redemption, the principal shall, until paid, bear interest from the redemption date at the rate borne by the Bond.

Section 307. Bonds Redeemed in Part. Any Bond which is to be redeemed only in part shall be surrendered at a Place of Payment (with, if the Issuer or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Issuer and the Trustee duly executed by, the holder of such Bond or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee shall authenticate and deliver to the holder of such Bond without service charge, a new Bond or Bonds of the same interest rate and Stated Maturity and of any Authorized Denomination as requested by such Bondholder in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Bond so surrendered.

ARTICLE IV

FUNDS AND INVESTMENTS

Section 401. Establishment of Funds; Source of Payment of the Bonds.

(a) The Issuer hereby establishes with the Trustee the Proceeds Fund, the Debt Service Fund, the Project Fund and the Rebate Fund (collectively, the “Funds”). The Issuer reserves the right to establish additional trust funds, accounts or subaccounts from time to time.

(b) The Bonds and all payments by the Issuer hereunder are not and shall never become general obligations of the Issuer, but are special and limited obligations payable solely out of the Trust Estate and other payments made by the Company under the Agreement. Loan Payments made pursuant to the Agreement by the Company are to be made directly to the Trustee for the account of the Issuer and shall be deposited pursuant to the provisions of Section 4.1 of the Agreement. No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any officer, director, agent, or employee of the Issuer in his or her individual capacity and neither the members of the Board of Directors of the Issuer nor any official executing or authenticating the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability, by reason of the issuance or authentication thereof.

Section 402. Proceeds Fund. There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Harmony Public Schools Education Revenue Bonds Series 2024 Proceeds Fund” (herein referred to as the “Proceeds Fund”) and, within such Proceeds Fund, a “Series 2024 Bond Proceeds Account.” The proceeds of the sale of the Bonds shall be deposited into the applicable account of the Proceeds Fund and immediately transferred by the Trustee to the Debt Service Fund and Project Fund, all in the amounts and as specified in the Company Order to authenticate and deliver the Bonds.

Section 403. Debt Service Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Harmony Public Schools Education Revenue Bonds Series 2024 Debt Service Fund” (herein referred to as the “Debt Service Fund”) and, within such Debt Service Fund, a “Bonds Account.” The money deposited to the Debt Service Fund, together with all investments thereof and investment income therefrom, shall be held in trust and applied solely as provided in this Section and Section 707. The Trustee shall create a Capitalized Interest Account within the Debt Service Fund. On the Closing Date, the Trustee shall deposit into the Capitalized

Interest Account any amounts as specified in the Company Order to authenticate and deliver the Bonds, for the purpose of paying a portion of the interest coming due on the Bonds through October 31, 2025.

(b) The Trustee shall deposit to the credit of the Debt Service Fund immediately upon receipt (1) amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Note and (2) any other amounts delivered to the Trustee specifically for deposit thereto.

(c) On each Interest Payment Date, the Trustee shall withdraw money (i) first from the Capitalized Interest Account and (ii) second from the Debt Service Fund in an amount sufficient to pay the Bondholders principal and interest on the Bonds.

(d) The Trustee shall notify the Company, Master Trustee and the Commissioner by 12:00 noon (Central Time) ten (10) Business Days prior to any Interest Payment Date if funds within the Debt Service Fund are or will be insufficient to pay debt service on the Bonds on the Interest Payment Date.

Section 404. Project Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated its “Harmony Public Schools Education Revenue Bonds Series 2024 Project Fund” (herein referred to as the “Project Fund”). The money deposited in the Project Fund, including all money therein and all investments thereof, shall be held in trust and applied solely as provided in this Section. The Project Fund shall contain a Reimbursement Account, a Project Account, an Insurance Proceeds Account and a Costs of Issuance Account. The Trustee shall have the authority to create subaccounts within the Project Account of the Project Fund as is necessary and convenient for the administration of such Account. The Trustee may transfer funds between subaccounts in the Project Account as needed to fund all or any portion of the Project.

(b) The Trustee shall deposit to the credit of the Project Fund or any account or subaccount therein all amounts paid to the Trustee by the Issuer or the Company specifically for deposit to the credit of the Project Fund and the proceeds of the Bonds to the extent specified by a Company Order.

(c) On the Closing Date the Trustee shall disburse amounts in the Project Fund or any account or subaccount therein following receipt of and in accordance with a Requisition Certificate in substantially the form of Exhibit B to this Indenture. After the Closing Date, the Trustee shall disburse amounts in the Project Fund to pay or reimburse the Company for all other Project Costs no later than three (3) Business Days following receipt of and in accordance with a Requisition Certificate. Prior to the initial disbursement for Projects Costs constituting the construction of new campuses, the Company shall submit to the Trustee evidence that the operation of such campus is permitted under existing zoning regulations, or, alternatively, that the Company has secured such special use permits as may otherwise be required by applicable law to conduct such operations.

(d) Any moneys remaining in the Costs of Issuance Account ninety (90) days after the Closing Date and not needed to pay unpaid Costs of Issuance shall be deposited in the Project

Account of the Project Fund. Upon final disbursement and/or transfer, the Trustee shall close the Costs of Issuance Account.

(e) On the earlier of the end of the fifth Bond Year or receipt of the Completion Certificate required by Section 3.4 of the Agreement, the Trustee shall transfer any amount then on deposit in the Project Fund to the Debt Service Fund unless the Trustee has received from the Company a Requisition Certificate for all or any portion of such amounts for payment of incurred but unpaid Project Costs. To the extent the amounts are transferred to the Debt Service Fund, such amounts may be used to (i) pay principal or interest on the Bonds, subject to the limitations described in Section 1.148-6(d)(3) of the Regulations or (ii) redeem Bonds in Authorized Denominations, to the maximum degree permissible, and at the earliest dates at which the Bonds may be redeemed under this Indenture; provided, however, if the Bonds may not be redeemed, the Bonds may be defeased in accordance with Section 1.141-12 of the Regulations.

(f) In furtherance and not in limitation of this Section, all payments made from the Insurance Proceeds Account, the Reimbursement Account, the Project Account or the Costs of Issuance Account pursuant to a written requisition from the Company in the form required hereunder shall be presumed to be made properly and the Trustee shall not be required to see the application of any payments made from the Insurance Proceeds Account, the Reimbursement Account, the Project Account or the Costs of Issuance Account or to inquire into the purposes for which withdrawals are being made from such Accounts.

Section 405. Rebate Fund.

(a) There is hereby created by the Issuer and established with the Trustee the special fund of the Issuer designated as its “Harmony Public Schools Education Revenue Bonds Series 2024 Rebate Fund” (herein referred to as the “Rebate Fund”). The money deposited to the Rebate Fund, together with all investments thereof and investment income therefrom shall be held in trust and applied solely as provided in this Section 405.

(b) The Trustee shall deposit or transfer to the credit of the Rebate Fund each amount delivered to the Trustee by the Company for deposit thereto and each amount directed by the Company to be transferred thereto.

(c) (i) Within five (5) days after each receipt or transfer of funds to the Rebate Fund in accordance with Section 5.3(n)(i)(B) of the Agreement (and in any event within sixty (60) days after each Computation Date), the Trustee shall withdraw from the Rebate Fund and pay to the United States of America the balance of the Rebate Fund.

(ii) Within five (5) days after receipt from the Company of any amount pursuant to Section 5.3(n)(i)(B) of the Agreement, the Trustee shall withdraw such amount from the Rebate Fund and pay such amount to the United States of America.

(iii) All payments to the United States of America pursuant to this Section shall be made by the Trustee for the account and in the name of the Issuer and shall be paid by draft posted by registered United States Mail (return receipt requested), addressed to the appropriate IRS address accompanied by the relevant IRS Form 8038-T (or to such other

applicable successor information return specified by the IRS) described in Section 5.3(n)(i)(B) or Section 5.3(n)(i)(C) of the Agreement, as the case may be.

(d) The Trustee shall preserve copies of all statements and forms received from the Company pursuant to Section 5.3(n) of the Agreement and all records maintained by it of transactions in the Rebate Fund and shall deliver such materials to the Company and, if requested, shall deliver copies thereof to the Issuer within sixty (60) days following the retirement of all of the Bonds.

(e) The Trustee may conclusively rely on the instructions of the Company with regard to any actions to be taken by it pursuant to this Section and shall have no liability for any consequences of any failure of the Company to supply accurate or sufficient instructions.

If at any time during the term of this Indenture the Issuer, the Trustee, or the Company desires to take any action which would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel.

Section 406. Investment of Funds.

(a) Pending disbursement of the amounts on deposit in any Fund, the Trustee shall promptly invest and reinvest such amounts in the particular Eligible Securities specified in any Company Order; provided that, if no such Company Order is delivered to the Trustee, the Trustee shall invest and reinvest such amount in Regions Trust Cash Sweep. All such investments shall be credited to the fund, account or subaccount from which the money used to acquire such investments shall have come. Notwithstanding the foregoing, all such investments shall be limited to funds that are authorized by Section 53.42 of the Texas Education Code. The Trustee shall not be obligated to verify that an investment specified in any Company Order is being made in Eligible Securities.

(b) All income and profits on investments in the Debt Service Fund, the Project Fund and the Rebate Fund shall be credited to those respective Funds. All losses on investments shall be charged against the fund and account to which such investments are credited. The Trustee may make any investment through its own trust department. As amounts invested are needed for disbursement from any fund or account, the Trustee shall cause a sufficient amount of the investments credited to that fund or account to be redeemed or sold and converted into cash to the credit of that fund or account. The Trustee shall rely on the written instructions of the Company in investing money in any fund or account, and shall not be accountable for any depreciation in the value of the investments made in accordance with the provisions of this Article IV or for any losses incurred upon any authorized disposition thereof.

(c) The Company by its execution of the Agreement covenants to restrict the investment of money in the Funds in such manner and to such extent, if any, as may be necessary so that the Bonds will not constitute arbitrage bonds under Section 148 of the Code and the Regulations.

(d) The Issuer and the Company (by their execution of the Agreement) acknowledge that to the extent that regulations of the Comptroller of the Currency or other applicable regulatory agency grant the Issuer or the Company the right to receive brokerage confirmation of security transactions as they occur, the Issuer and the Company waive receipt of such confirmations. The Trustee shall furnish to the Company a periodic statement, made at least yearly, that includes details of all investment transactions made by the Trustee.

Section 407. Trustee and Issuer Relieved From Responsibility. The Trustee and the Issuer shall be fully protected in relying upon any Company Order relating to investments and disbursements from any Fund, and shall not be liable for any losses or for interest on the Bonds becoming includable in gross income for federal income tax purposes as a result of complying with any such Company Order, and shall not be required to ascertain any facts with respect to any such Company Order.

ARTICLE V

COVENANTS OF THE ISSUER

Section 501. Payment of Debt Service; Limited Obligations. The Issuer will duly and punctually pay the principal of (and premium, if any) and interest on the Bonds in accordance with the terms of the Bonds and this Indenture; provided, however, that the Bonds and the other obligations of the Issuer provided for herein shall be limited obligations of the Issuer and shall be payable by the Issuer solely out of the Trust Estate and the revenues derived therefrom or in connection with the Bond Documents. The Bonds and the other expense reimbursement obligations of the Issuer provided for herein shall never be payable out of any other funds of the Issuer except the Trust Estate and such revenues.

If the specified date for any such payment shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

Section 502. Money for Bond Payments to be Held in Trust; Appointment of Paying Agents. The Issuer shall appoint a Paying Agent in each Place of Payment for the Bonds. Each such Paying Agent appointed by the Issuer shall (i) a national banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250,000,000 of assets, (ii) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1,000,000,000 of assets, or (iii) a corporation otherwise approved by TEA in writing in its sole and exclusive discretion. The Issuer will, prior to each due date of the principal of (and premium, if any) or interest on any Bonds, deposit or cause to be deposited (but only from the sources provided herein) with a Paying Agent a sum sufficient to pay the principal (and premium, if any) or interest so becoming due, such sum to be held in trust for the benefit of the holders of such Bonds. Each Paying Agent for the Bonds shall provide the CUSIP number for the Bond with each payment of interest on and the principal or the redemption price of any Bond, specifying the amount paid in respect of each CUSIP number. The Paying Agents shall make payment of interest

or the redemption price of any Bond, upon written request of a registered Bondholder of at least \$1,000,000 in principal amount of Bonds, by wire transfer (at the risk and expense of such registered Bondholder) in immediately available funds to an account in the United States designated by such registered Bondholder upon fifteen (15) days written notice to the Trustee prior to the Record Date.

The Issuer hereby appoints the Trustee as the initial Paying Agent for the Bonds. The Trustee hereby accepts such appointment by executing this Indenture in such capacity on the signature page hereto.

The Issuer will cause each Paying Agent other than the Trustee to execute and deliver to the Trustee and the Company an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will

(1) hold all sums held by it for the payment of principal of (and premium, if any) or interest on Bonds in trust for the benefit of the Persons entitled thereto until such sums shall be paid to such Persons or otherwise disposed of as herein provided;

(2) give the Trustee notice of any default by the Issuer (or any other obligor upon the Bonds) in the making of any such payment of principal (and premium, if any) or interest; and

(3) at any time during the continuance of any such default, upon the written request of the Trustee, forthwith pay to the Trustee all sums so held in trust by such Paying Agent.

The Issuer may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, by Company Order, direct any Paying Agent to pay to the Trustee all sums held in trust by such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Subject to applicable escheat laws of the State, any money deposited in trust with the Trustee or any Paying Agent in trust for the payment of the principal of (and premium, if any) or interest on any Bond and remaining unclaimed for the later of (i) the first anniversary of the Stated Maturity of the Bond or the installment of interest for the payment of which such money is held or (ii) two years after such principal (and premium, if any) or interest has become due and payable shall be paid to the Company on Company Request (which Request shall include the Company's representation that it is entitled to such funds under applicable escheatment laws and its agreement to comply with such laws) and the holder of such Bond shall thereafter, to the extent of any legal right or claim, be deemed to be an unsecured general creditor, and shall look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Issuer, shall thereupon cease; provided, however, notwithstanding the foregoing, the Trustee shall be entitled to deliver any such funds to any escheatment authority in accordance with the Trustee's customary procedures. The Trustee shall hold any such funds in

trust uninvested (without liability for interest accrued from the date deposited) for the benefit of Bondholders entitled thereto.

Any bank or trust company with or into which any Paying Agent may be merged or consolidated, or to which the assets and business of such Paying Agent may be sold, shall be deemed the successor of such Paying Agent for the purposes of this Indenture, with prior written notice of such name change being provided to TEA. TEA shall also receive prior written notice of the resignation or removal of the Paying Agent. If the position of Paying Agent shall become vacant for any reason, the Issuer shall, within thirty (30) days thereafter, appoint such bank or trust company as shall be specified by the Company and acceptable to TEA and the Trustee and located in the same city as such Paying Agent to fill such vacancy; provided, however, that if the Issuer shall fail to appoint a successor Paying Agent within said period, the Trustee shall make such appointment. No removal, resignation or termination of the Paying Agent shall take effect until a successor, acceptable to TEA, shall be appointed. Notice of the designation of a successor Paying Agent shall be sent by the Trustee by first-class mail to TEA and each Bondholder.

Section 503. Instruments of Further Assurance. The Issuer covenants that to the extent of its power to do so, it will do, execute, acknowledge and deliver or cause to be done, executed, acknowledged and delivered, such indentures supplemental hereto and such further acts, instruments and transfers as the Trustee may reasonably require for the better assigning, pledging and confirming unto the Trustee of the Trust Estate assigned and the revenues pledged hereunder all at the expense of the Company. The Issuer has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder that ranks on a parity with or prior to the lien granted hereunder. The Issuer has not described such collateral in a UCC financing statement that will remain effective on the Closing Date. The Issuer will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral described hereunder that ranks prior to or on parity with the lien granted hereunder, or file any financing statement describing any such pledge, assignment, lien or security interest, except as expressly permitted by the Bond Documents. The security interest granted hereunder is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Issuer on a simple contract.

Section 504. Maintenance of Rights. The Issuer will use its best efforts to perform and observe all obligations to be performed by it under the Bond Documents. The Issuer will maintain the validity and effectiveness of the Bond Documents and, except as permitted hereby, take no action, and not knowingly omit to take any reasonable action, the taking or omission of which might release any party from its liabilities or obligations under the Bond Documents, or result in the surrender, termination, amendment, or modification of, or impair the validity of, any Bond Document. The Issuer agrees that the Trustee, subject to the conditions thereof, may enforce for and on behalf of the Bondholders all of the covenants and agreements of the parties to the Bond Documents (other than the Trustee) as set forth in the Bond Documents, whether or not the Issuer is in default hereunder. The Trustee shall either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, on an annual basis, the filing of continuation statements required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and

priority of the security interests granted hereby and by the Bond Documents. The Trustee is hereby authorized to make such filings. Notwithstanding the foregoing, the Trustee shall not be responsible for the sufficiency of or the proper recording or indexing of any financing or continuation statements.

Section 505. Corporate Existence. Subject to Article VI hereof, the Issuer will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and rights (charter and statutory); provided, however, that the Issuer shall not be required to preserve any right if its Governing Body shall determine that the preservation thereof is no longer desirable in the conduct of the affairs of the Issuer and that the loss thereof is not disadvantageous in any material respect to the Bondholders.

Section 506. Limitations on Liens, Debt and Disposition of Assets. Except as permitted or contemplated in this Indenture, the Issuer covenants that it will not: (i) create any mortgage, lien, encumbrance, pledge, charge or other exception to title (other than those created by this Indenture) upon or against any of the properties or assets constituting the Trust Estate, or any revenues derived therefrom or any other funds held by the Trustee for the benefit of the Bondholders superior to or ranking on parity with the lien created by this Indenture; (ii) sell, lease, transfer, convey or otherwise dispose of all or any part of the Trust Estate or its interest therein except subject to the interests of the Trustee created by this Indenture; (iii) create, incur or assume any debt secured by the Trust Estate or the Issuer's interest therein or the revenues pledged herein; or (iv) knowingly take any other action that will impair the lien of this Indenture on the Trust Estate.

Section 507. Tax Covenants.

(a) The Issuer will not knowingly take any action, or omit to take any action, which action or omission, will adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds, and in the event of such action or omission will promptly, upon receiving knowledge thereof, take all lawful actions, based on advice of counsel and at the expense of the Company, as may rescind or otherwise negate such action or omission.

(b) The Issuer will not knowingly use or direct the use of any portion of the proceeds of the Bonds, including any investment income earned on such proceeds, directly or indirectly, to make or finance loans to Persons who are not Exempt Persons. For purposes of the preceding sentence, a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, constitutes a loan to a person who is not an Exempt Person.

(c) The Issuer agrees that until the final Maturity of the Bonds, it will not knowingly use or direct the use of any money on deposit in any fund or account maintained in connection with the Bonds, whether or not such money was derived from the proceeds of the sale of the Bonds or from any other source, in a manner that would cause the Bonds to be "arbitrage bonds," within the meaning of Section 148 of the Code. In the event the Company notifies the Issuer that it is necessary to restrict or limit the yield on the investment of moneys held by the Trustee pursuant to this Indenture, or to use such moneys in any certain manner to avoid the Bonds being considered arbitrage bonds, the Issuer at the direction of the Company shall instruct the Trustee to take such

action as is necessary to restrict or limit the yield on such investment or to use such moneys in accordance with such written direction.

(d) The Issuer will not knowingly take any action which would result in all or any portion of the Bonds being treated as “federally guaranteed” within the meaning of Section 149(b)(2) of the Code.

(e) The Issuer shall file, or cause to be filed, all information returns required to be filed with respect to the Bonds pursuant to Section 149(e) of the Code.

(f) For purposes of this Section 507, the Issuer’s compliance shall be based solely on acts or omissions by the Issuer and no acts or omissions of, or directed by, the Company, the Trustee or any other Persons shall be attributed to the Issuer.

All officers, employees and agents of the Issuer are authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the Issuer as of the date of delivery of the Bonds. In complying with the foregoing covenants, the Issuer may rely from time to time upon a Favorable Opinion of Bond Counsel.

Section 508. Change in Law. To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Issuer or the Trustee which are set forth in this Indenture or which are necessary for interest on any issue of the Bonds to be excludable from gross income for federal income tax purposes, the Trustee and the Issuer will comply with such modifications, as described in an Opinion of Counsel delivered to the Issuer and the Trustee.

ARTICLE VI

CONSOLIDATION, MERGER, CONVEYANCE OR TRANSFER

Section 601. Consolidation, Merger, Conveyance, or Transfer Only on Certain Terms. The Issuer shall not consolidate with or merge into any other corporation or convey or transfer the Trust Estate substantially as an entirety to any Person, unless:

(a) such consolidation, merger, conveyance, or transfer shall be on such terms as shall fully preserve the lien and security hereof and the rights and powers of the Trustee and the Bondholders hereunder;

(b) the corporation formed by such consolidation or into which the Issuer is merged or the Person which acquires by conveyance or transfer the Trust Estate substantially as an entirety shall be organized and existing under the laws of the United States of America or any state or the District of Columbia and shall execute and deliver to the Trustee an indenture supplemental hereto in form satisfactory to the Trustee, meeting the requirements of Section 602 and containing:

(1) an assumption by such surviving or successor corporation or such transferee of the due and punctual payment of the principal of (and premium, if any) and interest on all the Bonds and the performance and observance of every

covenant and condition of this Indenture to be performed or observed by the Issuer, subject, however, to the same limitations and conditions as are herein or in the Bonds provided, and

(2) a grant, conveyance and transfer complying with Section 602;

(c) immediately after giving effect to such transaction, no Event of Default hereunder (nor any event which, with the giving of notice or the elapse of time or both, would become an Event of Default as a result of such transaction) shall have occurred and be continuing;

(d) the Trustee and TEA shall have received a Favorable Opinion of Bond Counsel; and

(e) the Issuer, at the expense of the Company, shall have delivered to the Trustee and TEA an Officer's Certificate and an Opinion of Counsel, each of which shall state that such consolidation, merger, conveyance, or transfer and such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

Section 602. Successor Issuer Substituted. Upon any consolidation or merger or any conveyance or transfer of the Trust Estate substantially as an entirety in accordance with Section 601, the successor corporation formed by such consolidation or into which the Issuer is merged or the Person to which such conveyance or transfer is made shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under this Indenture with the same effect as if such successor had been named as the Issuer herein. If the supplemental indenture required by Section 601 shall contain a grant, conveyance and transfer, in terms sufficient to include and subject to the lien of this Indenture all and singular the properties described in the granting clauses hereof, whereupon such successor may cause to be executed, in its own name or in the name of the Issuer prior to such succession, and delivered to the Trustee for authentication, any Bonds issuable hereunder; and upon request of such successor, and subject to all the terms of this Indenture, the Trustee shall authenticate and deliver any Bonds which shall have been previously executed and delivered by the Issuer to the Trustee for authentication, and any Bonds which such successor shall thereafter, in accordance with this Indenture, cause to be executed and delivered to the Trustee for such purpose. Such changes in phraseology and form (but not in substance) may be made in such Bonds as may be appropriate in view of such consolidation, merger, conveyance, or transfer.

ARTICLE VII

REMEDIES OF THE TRUSTEE AND HOLDERS OF BONDS IN EVENT OF DEFAULT

Section 701. Events of Default. "Event of Default," whenever used herein means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of (i) the principal of (and premium, if any) any Bond at its Maturity or (ii) an installment of interest on any Bond at the Stated Maturity for such installment; or

(2) default in the performance, or breach, of any covenant or agreement on the part of the Issuer contained in this Indenture (other than a covenant or agreement whose performance or observance is elsewhere in this Section specifically dealt with) and continuance of such default or breach for a period of thirty (30) days after there has been given, by registered or certified mail, to the Issuer, TEA and the Company by the Trustee, or to the Issuer, the TEA, the Company and the Trustee by the holders of at least 25% in principal amount of Bonds then Outstanding, a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a “Notice of Default” hereunder; provided that if such default can be cured by the Issuer but cannot be cured within the 30-day curative period described above, it shall not constitute an Event of Default if corrective action is instituted by the Issuer within such 30-day period and diligently pursued until the default is corrected, provided, however, if such default or breach shall last longer than ninety (90) days, it shall constitute an Event of Default hereunder; or

(3) a decree or order by a court having jurisdiction in the premises shall have been entered adjudging the Company bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or arrangement of the Company under the Bankruptcy Code or any other similar applicable federal or state law, and such decree or order shall have continued undischarged and unstayed for a period of ninety (90) days; or a decree or order of a court having jurisdiction in the premises for the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of the Company or of the Company’s property, or for the winding up or liquidation of the Company’s affairs, shall have been entered, and such decree or order shall have remained in force undischarged and unstayed for a period of ninety (90) days; or

(4) the Company shall institute proceedings to be adjudicated a voluntary bankruptcy, or shall consent to the institution of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under the Bankruptcy Code or any other similar applicable federal or state law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or trustee or assignee in bankruptcy or insolvency of it or of its property, or shall make assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company in furtherance of any of the aforesaid purposes; or

(5) the maturity of any Note issued under the Master Indenture shall be accelerated unless such acceleration has been rescinded and annulled pursuant to the Master Indenture; or

(6) an event of default occurs under any agreement pursuant to which any bonds, loans, certificates, installment or lease payments or similar obligations of the Company that are payable or secured on a parity or subordinate basis to the Bonds has been incurred or issued and that permits the holder of such obligation or trustee to accelerate the obligation or otherwise exercise rights or remedies that affect the Trust Estate or materially impairs the ability of the Company to timely pay principal and interest on the Bonds; or

(7) an “Event of Default” has occurred under any of the Bond Documents as the term “Event of Default” is therein defined.

If any portion of a Loan Payment shall not be paid at the time therein specified, the Trustee shall reasonably promptly give telephonic or facsimile notice to the Master Trustee and any Person that may execute an Officer’s Certificate on behalf of the Company of such failure and shall reasonably promptly thereafter confirm such notice by facsimile or letter to the other parties to the Bond Documents and TEA unless such amount is immediately thereafter paid.

Section 702. No Acceleration. The Bonds are not subject to acceleration.

Section 703. Collection of Indebtedness. The Issuer covenants that if

(1) default is made in the payment of any installment of interest on any Bond when such interest becomes due and payable, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Bond when such principal becomes due and payable,

the Issuer will, upon demand of the Trustee, pay (but solely from the Trust Estate and the revenues pledged by this Indenture to such payment) to the Trustee, for the benefit of the Bondholders, the whole amount then due and payable on such Bonds for principal (and premium, if any) and interest, with interest upon the overdue principal (and premium, if any); and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If the Issuer fails to pay any of the foregoing amounts forthwith upon demand, the Trustee, in its own name and as trustee of an express trust, may, with the consent of TEA and shall, upon direction of TEA, institute a judicial proceeding for the collection of the sums so due and unpaid, and may prosecute such proceeding to judgment or final decree, and may enforce the same against the Issuer or any other obligor upon the Bonds and collect the moneys adjudged or decreed to be payable in the manner provided by law out of the property constituting a part of the Trust Estate of the Issuer or any other obligor upon the Bonds, wherever situated.

Section 704. Suits for Enforcement by Trustee. If an Event of Default occurs and is continuing, the Trustee may, with the consent of TEA and shall, upon the direction of TEA, proceed to protect and enforce its rights and the rights of the Bondholders by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights,

whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

Section 705. Trustee May File Proofs of Claim. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to the Issuer, the Company or any other obligor upon the Bonds or property of the Issuer, of the Company or of such other obligor or their creditors, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or otherwise and irrespective of whether the Trustee shall have made any demand on the Issuer, the Company or such other Obligor for the payment of overdue principal or interest) shall, with the consent of TEA, be entitled and empowered, by intervention in such proceeding or otherwise

(1) to file and prove a claim for the whole amount of principal (and premium, if any) and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Bondholders allowed in such judicial proceeding, and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by each Bondholder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under this Indenture.

Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Bondholder any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Bondholder thereof, or to authorize the Trustee to vote in respect of the claim of any Bondholder in any such proceeding.

Section 706. Trustee May Enforce Claims Without Possession of Bonds. All rights of action and claims under this Indenture or the Bonds may be prosecuted and enforced by the Trustee without the possession of any of the Bonds or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Bondholders and TEA in respect of which such judgment has been recovered to the extent of the obligations then owing to such Persons.

Section 707. Application of Money Collected.

(a) Any money collected by the Trustee pursuant to this Article and any other sums then held by the Trustee as part of the Trust Estate shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal (or premium, if any) or interest, upon presentation of the Bonds and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

(1) First: To the payment of all amounts due the Trustee under this Indenture;

(2) Second: To the payment of the amounts then due and unpaid upon the Bonds, for interest, in respect of which or for the benefit of which such money has been collected; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for interest;

(3) Third: To the payment of the amounts then due and unpaid upon the Bonds, for principal (and premium, if any), in respect of which or for the benefit of which such money has been collected; ratably without preference or priority of any kind, according to the amounts due and payable on such Bonds for principal (and premium, if any);

(4) Fourth: To the Debt Service Fund, any remaining amounts of money so collected.

(b) If the Master Trustee has accelerated the Note, the portion of the master trust estate allocable to the Bonds under Section 405(c)(2) of the Master Indenture shall be applied to purchase Defeasance Obligations for deposit with the Trustee to defease all or a portion of the Bonds in inverse order of maturity through the earlier of their Maturity or first Optional Redemption date as set forth in the forms of Bond attached hereto as Exhibit A.

Section 708. Limitation on Suits. Subject to Section 713(a) hereof, no Bondholder shall have the right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless:

(a) such Bondholder has previously given written notice to the Trustee of a continuing Event of Default;

(b) the holders of not less than 25 percent in principal amount of the Outstanding Bonds or TEA shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(c) the Bondholders have provided to the satisfaction of the Trustee indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(d) the Trustee for sixty (60) days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(e) no direction inconsistent with such written request of Bondholders has been given to the Trustee during such 60-day period by TEA;

it being understood and intended that no one or more holders of the Bonds shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other holders of the Bonds, or to obtain or to seek to obtain priority or preference over any other holders of the Bonds, to take any action that would affect the validity of the lien of this Indenture on the Trust Estate, or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all the Bondholders and TEA to the extent of the amounts then owing to such Persons.

Section 709. Unconditional Right of Bondholders to Receive Principal, Premium and Interest. Notwithstanding any other provision in this Indenture, any Bondholder shall have the right which is absolute and unconditional to receive payment of the principal of (and premium, if any) and interest on such Bond, but solely from the sources provided in this Indenture, on the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on the redemption date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Bondholder.

Section 710. Restoration of Rights and Remedies. If the Trustee, TEA or any Bondholder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee, TEA, or such Bondholder, then and in every such case the Issuer, the Trustee, TEA, the Company, and the Bondholders shall, subject to any determination in such proceeding, be restored severally and respectively to their former positions hereunder, and thereafter all rights and remedies of the Trustee, TEA and the Bondholders shall continue as though no such proceeding had been instituted.

Section 711. Rights and Remedies Cumulative. No right or remedy herein conferred upon or reserved to the Trustee, TEA or the Bondholders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

Section 712. Delay or Omission Not Waiver. No delay or omission of the Trustee, TEA, or any Bondholder to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Indenture or by law to the Trustee, TEA or the Bondholders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee, TEA or the Bondholders, as the case may be.

Section 713. Control by TEA and Bondholders. (a) Anything to the contrary in this Indenture notwithstanding, subject to Section 1101(f) of this Indenture, so long as the Bonds are guaranteed by the Permanent School Fund, upon the occurrence and during the continuance of a default or an event of default under any Bond Document that is not remedied or cured pursuant to

the corrective actions required or permitted under the Bond Documents, TEA shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders or the Trustee or Paying Agent for the benefit of the holders of the Bonds under any Bond Document.

(b) Subject to subsection (a) above, the holders of a majority in principal amount of the Outstanding Bonds, with the consent of TEA, shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or exercising any trust or power conferred on the Trustee, provided that:

(i) such direction shall not be in conflict with any rule of law or with this Indenture,

(ii) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction; and

(iii) the Trustee shall have been provided with an indemnity satisfactory to it.

Section 714. Waiver of Past Defaults. The holders of not less than a majority in principal amount of the Outstanding Bonds, with the prior written consent of TEA, or TEA may waive any past default hereunder and its consequences, except:

(a) a default in the payment of the principal of (or premium, if any) or interest on any Bond, or

(b) a default in respect of a covenant or provision hereof which under Article IX cannot be modified or amended without the consent of the holder of each Outstanding Bond affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

Section 715. Undertaking for Costs. All parties to this Indenture agree, and each Bondholder by his acceptance thereof shall be deemed to have agreed, that any court may in its discretion require, in any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken or omitted by it as Trustee, the filing by any party litigant in such suit of an undertaking to pay the costs of such suit, and that such court may in its discretion assess reasonable costs, including reasonable attorneys' fees, against any party litigant in such suit, having due regard to the merits and good faith of the claims or defenses made by such party litigant; but the provisions of this Section shall not apply to any suit instituted by the Trustee, to any suit instituted by any Bondholder, or group of Bondholders, holding in the aggregate more than 10% in principal amount of the Outstanding Bonds, or to any suit instituted by any Bondholder for the enforcement of the payment of the principal of (or premium, if any) or interest on any Bond on or after the respective Stated Maturities expressed in such Bond (or, in the case of redemption, on or after the redemption date).

Section 716. Waiver of Stay or Extension Laws. The Issuer covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Issuer (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants (to the extent it may lawfully do so) that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

Section 717. No Recourse Against Others. No recourse under or upon any obligation, covenant or agreement contained in this Indenture or any indenture supplemental hereto, or in the Agreement, or in any Bond or the Note, or for any claim based thereon or otherwise in respect thereof, shall be had against any incorporator, or against any past, present or future director, officer or employee, as such, of the Issuer, the Company or the City or of any successor corporation, either directly or through the Issuer, the Company or the City, whether by virtue of any constitution or statute or rule of law, or by the enforcement of any assessment or penalty or otherwise; it being expressly understood that this Indenture, the Agreement, the Bonds and the Note are solely corporate obligations, and that no such personal liability whatever shall attach to, or is or shall be incurred by, the incorporators, directors, officers or employees, as such, of the Issuer, the Company or the City or any successor corporation, or any of them, because of the creation of indebtedness hereby authorized, or under or by reason of the obligations, covenants or agreements contained in this Indenture, in the Agreement or in any of the Bonds or the Note or implied therefrom; and that any and all such personal liability, either at common law or in equity or by constitution or statute, of, and any and all such rights and claims against, every such incorporator, director, officer or employee, as such, are hereby expressly waived and released as a condition of, and as a consideration for, the execution of this Indenture and the issue of such Bonds or the Note.

Section 718. Expenses Payable under Indenture. All expenses incurred in carrying out this Indenture shall be payable solely from funds derived by the Issuer from the Company. Anything in this Indenture to the contrary notwithstanding, the performance by the Issuer of all duties and obligations imposed upon it hereby, the exercise by it of all powers granted to it hereunder, the carrying out of all covenants, agreements and promises made by it hereunder, and liability of the Issuer for all warranties and other covenants herein shall be limited solely to the Trust Estate; and the Issuer shall not be required to effectuate any of its duties, obligations, powers or covenants except from, and to the extent of, such moneys, revenues, proceeds, and payments.

Section 719. Termination of Default. Once an Event of Default has been cured in accordance with the provisions of this Indenture, such Event of Default will be deemed to no longer exist and the Trustee shall notify the Company in writing that such Event of Default has been cured and all corrective actions under this Indenture shall immediately cease unless or until another Event of Default shall occur.

ARTICLE VIII

CONCERNING THE TRUSTEE

Section 801. Duties and Liabilities of Trustee.

(a) The Trustee accepts and agrees to execute the specific trusts imposed upon it by this Indenture, but only upon the terms and conditions set forth herein, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In case any Event of Default (of which the Responsible Officer has actual knowledge or is deemed to have actual knowledge under Section 803(h) hereof) has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonably prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) No provision of this Indenture shall be construed to relieve the Trustee from liability for its own negligent action, its own negligent failure to act, or its own willful misconduct, except, that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section or Section 803;

(2) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(3) the Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction given to the Trustee at the direction of the holders of not less than a majority in aggregate principal amount of Bonds then Outstanding or TEA relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee, under this Indenture; and

(4) no provision of this Indenture shall require the Trustee to expend or risk its funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers.

(d) Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section and Sections 803 and 813.

(e) In no event shall the Trustee be responsible or liable for special, interest, punitive or consequential loss or damage of any kind whatsoever (including, but not limited to, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

Section 802. Notice of Defaults. Within sixty (60) days after the occurrence of any default hereunder of which the Trustee has actual knowledge, the Trustee shall send to TEA and all Bondholders, notice of such default, unless such default shall have been cured or waived or unless corrective action to cure such default has been instituted and is being pursued such that such default does not constitute an Event of Default; provided, however, that except in the case of a default in the payment of the principal of (or premium, if any) or interest on any Bonds or in the payment of any sinking or purchase fund installment, the Trustee shall be protected in withholding such notice from the Bondholders if and so long as the board of directors, the executive committee or a trust committee of directors and/or Responsible Officers of the Trustee in good faith determine that the withholding of such notice is in the interest of the Bondholders; provided, further, that in the case of any default of the character specified in Section 701(2) hereof no such notice to Bondholders shall be given until at least thirty (30) days after the occurrence thereof. For the purpose of this Section, the term “default” means any event which is, or after notice or lapse of time or both would become, an Event of Default.

The Trustee shall mail, first-class postage prepaid, to each Rating Service then rating the Bonds notice of any of the following events, whenever:

(a) the Trustee, pursuant to this Indenture, has resigned or been removed and a successor Trustee has been appointed, such notice to be mailed within ten Business Days after the appointment of such successor Trustee;

(b) an amendment or supplement to the Bond Documents executed or consented to by the Trustee or of which the Trustee has received written notice is to be entered into, such notice and a copy of such amendment or supplement to such Rating Service to be mailed at least ten Business Days prior to the effective date of such amendment or supplement and within three Business Days after the receipt of such written notice by the Trustee;

(c) the Trustee receives a Company Request pursuant to Section 302 which directs the Trustee to redeem all the Outstanding Bonds, such notice to be mailed within ten Business Days after the receipt of such Company Request (and to specify the redemption date requested thereby);
or

(d) all Bonds shall be deemed to have been paid or defeased as provided in Article X hereof.

Section 803. Certain Rights of Trustee.

(a) The Trustee may conclusively rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties and shall not be required to verify the accuracy of any information or calculations required to be included therein or attached thereto;

(b) Any request or direction of any Person mentioned herein shall be sufficiently evidenced by a Request of such Person; and any resolution of the Governing Body of any Person may be evidenced to the Trustee by a Board Resolution of such Person;

(c) Whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officer's Certificate;

(d) The Trustee may consult with counsel selected with due care and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(e) The Trustee shall be under no obligation to exercise any of the discretionary rights or powers vested in it by this Indenture at the request or direction of any of the Bondholders or TEA pursuant to the provisions of this Indenture, unless such Bondholders or TEA shall have provided to the Trustee reasonable security or indemnity satisfactory to it against the costs, expenses and liabilities which might be incurred by it in connection with such request or direction and for the payment of the Trustee's fees in connection therewith;

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, approval, bond, debenture or other paper or document but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Issuer or the Company, personally or by agent or attorney and to take copies of such memoranda from and in regard thereto as may reasonably be desired; provided that, the Trustee shall have no obligation to perform any of the duties of the Issuer under this Indenture or of the Company under any of the Bond Documents;

(g) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys, but the Trustee shall not be held liable for any negligence or misconduct of any such agent or attorney appointed with due care. The Trustee may act upon the opinion or advice of an attorney or agent selected by it in the exercise of reasonable care and upon the opinion or advice of an attorney or agent retained by the Company. The Trustee shall not be responsible for any loss or damage resulting from any action or inaction based on its good faith reliance upon such opinion or advice. The Trustee may in all cases pay reasonable compensation to an attorney or agent retained or employed by it in connection herewith;

(h) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder unless the Responsible Officer shall be specifically notified of such default in writing by the Issuer, TEA, or the Company or by a Bondholder, and in the absence of such notice the Trustee may conclusively assume that no default exists; provided, however, that the Trustee shall be required to take and be deemed to have notice of its failure to receive the moneys necessary to make payments when due of Debt Service;

(i) The Trustee shall not be liable for any error of judgment made in good faith by its officers, unless it shall be proved that the Trustee was negligent in ascertaining the pertinent facts;

(j) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with any direction of the Bondholders of the applicable percentage of the holders of Outstanding Bonds permitted to be given by them under this Indenture;

(k) The Trustee may seek the approval of the Bondholders or TEA by any means it deems appropriate and not inconsistent with the terms of this Indenture or the Master Indenture in connection with the giving of any consent or taking of any action;

(l) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty to take such action;

(m) The Trustee shall not be required to give any bond or surety in respect of the execution of the trusts and powers established by this Indenture;

(n) The Trustee shall not be responsible for monitoring the existence of or determining whether any lien or encumbrance or other charge including without limitation any Permitted Encumbrance (as defined in any Deed of Trust) exists against the Project or the Trust Estate;

(o) The Trustee shall not be bound to ascertain or inquire as to the performance or observance of any covenants, conditions or agreements on the part of the Issuer herein except as may be expressly provided for herein or therein. The Trustee may require of the Issuer full information and advice as to the performance of the aforesaid covenants, conditions and agreements; and

(p) The Trustee's rights to immunities and protection from liability hereunder will survive its resignation or removal and final payment or defeasance of the Bonds.

Notwithstanding the aforesaid, the Trustee shall be required to pay the Bondholders at the times required under this Indenture so long as moneys are available therefor.

Section 804. Not Responsible For Recitals or Issuance of Bonds. The recitals contained herein and in the Bonds (other than the certificate of authentication on such Bonds) shall be taken as the statements of the Issuer and the Trustee assumes no responsibility for their correctness. The Trustee makes no representations as to the value or condition of the Trust Estate or any part thereof, or as to the title of the Issuer thereto or as to the adequacy, sufficiency or perfection of the security afforded thereby or hereby; as to the validity or genuineness of any securities at any time pledged and deposited with the Trustee hereunder; as to the validity or sufficiency of this Indenture, the other Bond Documents, or of the Bonds; or as to the correctness or sufficiency of any statement made in connection with the offer or sale of the Bonds. The Trustee shall not be accountable for the use or application by the Issuer or the Company of any of the Bonds or of the proceeds of such Bonds.

Section 805. Trustee May Own Bonds. The Trustee or any other agent appointed hereunder, in its individual or any other capacity, may become the owner or pledgee of Bonds and may otherwise deal with the Issuer with the same rights it would have if it were not Trustee or such other agent.

Section 806. Moneys to Be Held in Trust. All moneys received by the Trustee shall, until used or applied as herein provided (including payment of moneys to the Company under Section 1001), be held in trust for the purposes for which they were received, but need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any moneys received by it hereunder other than such interest as it expressly agrees in writing with the Issuer or the Company to pay.

Section 807. Compensation and Expenses of Trustee and Paying Agent. The Issuer agrees, but solely from the Trust Estate and the revenues pledged by this Indenture to such payment,

(1) to pay to the Trustee, Bond Registrar, Authenticating Agent, and Paying Agent from time to time, when due, reasonable compensation for all services rendered by them hereunder, including extraordinary services during the existence of a default, which shall not be limited by any law limiting the compensation of the trustee of an express trust; and

(2) except as otherwise expressly provided herein, to reimburse the Trustee and the Paying Agent in a timely manner upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee or such Paying Agent in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel and securities or transaction charges to the extent not waived by the Trustee as a result of its receipt of compensation with respect to such securities or transactions) except any such expense, disbursement or advance determined by a court of competent jurisdiction to have been the result of the negligence or bad faith of such Person.

Nothing in this Section 807 shall affect or otherwise diminish the obligations of the Company to pay compensation and indemnification to the Trustee in accordance with the Agreement as security for the performance of the obligations of the Issuer under this Section and the obligations of the Company under Sections 4.6(b) and 5.1(h) of the Agreement. As such security for the performance of the obligations of the Issuer under this Section the Trustee shall have a lien prior to the Bonds upon all property and funds held or collected by the Trustee as such.

When the Trustee incurs expenses or renders services in connection with any bankruptcy or insolvency proceeding, such expenses (including the fees and expenses of its counsel) and the compensation for such services are intended to constitute expenses of administration under any bankruptcy law or law relating to creditors' rights generally.

Section 808. Corporate Trustee Required; Eligibility. There shall at all times be a Trustee hereunder authorized which shall be (i) a national banking association that is supervised by the

Office of the Comptroller of the Currency and has at least \$250,000,000 of assets, (ii) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1,000,000,000 of assets, or (iii) a corporation otherwise approved by TEA in writing in its sole and exclusive discretion, authorized to exercise corporate trust powers. If such corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section, the assets of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

Section 809. Resignation and Removal; Appointment of Successor.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 810.

(b) The Trustee may resign at any time by giving sixty (60) days written notice thereof to the Issuer and the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by an act of the holders of a majority in principal amount of the Outstanding Bonds, in each case delivered to the Trustee and the Issuer.

(d) If at any time:

(1) the Trustee shall cease to be eligible under Section 808 and shall fail to resign after written request by the Issuer or by any such Bondholder, or

(2) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (i) the Issuer, by an Issuer Request, or the Company, by Company Request, may remove the Trustee and (ii) if neither the Issuer nor the Company has acted within sixty (60) days subject to Section 714, any Bondholder who has been a bona fide holder of a Bond for at least six (6) months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer, by an Issuer Request, or the Company, by Company Request, shall promptly appoint a successor Trustee. If, within 3 months after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee shall be appointed by Act of the holders of a majority in principal amount of the

Outstanding Bonds delivered to the Issuer and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment, become the successor Trustee and supersede the successor Trustee appointed by the Issuer or the Company. If no successor Trustee shall have been so appointed by the Issuer, the Company or the Bondholders and accepted appointment in the manner hereinafter provided, any Bondholder who has been a bona fide Bondholder for at least 6 months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) So long as no default or Event of Default has occurred and is continuing hereunder, the Company at any time may remove the Trustee and appoint a substitute Trustee and notify the Issuer promptly of such an occurrence.

(g) The Company shall give, or cause to be given, notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to the Bondholders at their addresses as shown in the Bond Register. Each notice shall include the name and address of the applicable corporate trust office or payment office of the successor Trustee.

Section 810. Acceptance of Appointment by Successor. Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Issuer and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on request of the Issuer or the successor Trustee, such retiring Trustee shall execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee, and shall duly assign, transfer and deliver to the successor Trustee, any and all property and money held by such retiring Trustee hereunder. Upon request of any such successor Trustee, the Issuer shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

Section 811. Merger or Consolidation. Any corporation into which the Trustee may be merged or with which it may be consolidated, or any corporation resulting from any merger or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or substantially all of the municipal corporate trust business of the Trustee, shall be the successor Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, to the extent operative, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Bonds shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger or consolidation to such authenticating Trustee may adopt such authentication and deliver the Bonds so authenticated with the same effect as if such successor Trustee had itself authenticated such Bonds.

Section 812. Authenticating Agent. There may (and whenever the Trustee shall not maintain an office or agent in each Place of Payment there shall) be an Authenticating Agent appointed by the Trustee with power to act on its behalf and subject to its direction in the

authentication and delivery of the Bonds in connection with delivery of Bonds pursuant to Section 203 and transfers and exchanges under Sections 204, 205 and 307, as fully to all intents and purposes as though the Authenticating Agent had been expressly authorized by those Sections to authenticate and deliver the Bonds. For all purposes of this Indenture, the authentication and delivery of the Bonds by the Authenticating Agent pursuant to this Section shall be deemed to be the authentication and delivery of the Bonds “by the Trustee”.

The Trustee is hereby appointed as Authenticating Agent with respect to the Bonds.

Each Authenticating Agent shall at all times be a bank or trust company having an office or agent in a Place of Payment, and shall at all times be (i) a national banking association that is supervised by the Office of the Comptroller of the Currency and has at least \$250,000,000 of assets, (ii) a state-chartered commercial bank that is a member of the Federal Reserve System and has at least \$1,000,000,000 of assets, or (iii) a corporation otherwise approved by TEA in writing in its sole and exclusive discretion. If such corporation publishes reports of condition at least annually pursuant to law or the requirements of such authority, then for the purposes of this Section the assets of such corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published.

Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation, or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of the Authenticating Agent hereunder, if such successor corporation is otherwise eligible under this Section, without the execution or filing of any further act on the part of the parties hereto or the Authenticating Agent or such successor corporation.

Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee, the Issuer and the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent and to the Issuer and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Trustee shall promptly appoint a successor Authenticating Agent and shall give written notice of such appointment to the Issuer and the Company.

The Trustee shall be entitled to be reimbursed for any reasonable compensation paid by the Trustee to the Authenticating Agent for its service subject to Sections 803 and 807. The provisions of Sections 207, 803, 804, and 805 of this Indenture shall be applicable to any Authenticating Agent.

Section 813. Trustee Liability for Agents. Notwithstanding anything contained herein to the contrary, the Trustee shall not be liable for any failure of the Paying Agent, the Bond Registrar or the Authenticating Agent to perform in accordance with this Indenture any duty required or authorized herein to be performed by such Person or for any other acts or omissions of such Person.

Section 814. Facsimile and Electronic Transmissions. The Trustee agrees to accept and act upon instructions or directions pursuant to this Indenture sent by unsecured e-mail, facsimile

transmission or other similar unsecured electronic methods, provided, however, that: (a) subsequent to such transmission of written instructions and/or directions the Trustee shall forthwith receive the originally executed instructions and/or directions in a timely manner, (b) such originally executed instructions and/or directions shall be signed by a person as may be designated and authorized to sign for the party signing such instructions and/or directions, and (c) the Trustee shall have received an incumbency certificate listing such designated persons and containing specimen signatures of such designated persons, which such incumbency certificate shall be amended and replaced whenever a person is to be added or deleted from the listing. If the Issuer or the Company elects to give the Trustee e-mail or facsimile instructions (or instructions by a similar electronic method) and the Trustee in its discretion elects to act upon such instructions, the Trustee's understanding of such instructions shall be deemed controlling. The Trustee shall not be liable for any losses, costs or expenses arising directly or indirectly from the Trustee's reliance upon and compliance with such instructions notwithstanding such instructions conflict or are inconsistent with a subsequent written instruction. The Issuer and the Company agree to assume all risks arising out of the use of such electronic methods to submit instructions and directions to the Trustee, including without limitation the risk of the Trustee acting on unauthorized instructions, and the risk of interception and misuse by third parties.

ARTICLE IX

SUPPLEMENTS AND AMENDMENTS

Section 901. Supplemental Indentures and Amendatory Agreements Without Consent of Bondholders. Without the consent of the Bondholders, the Issuer, when authorized by a Board Resolution, and the Trustee at any time upon receipt of Company Consent, may enter into or consent to one or more indentures supplemental hereto, subject to Section 903 hereof, or amendments to the Agreement for any of the following purposes:

- (1) to evidence the succession of another Person to the Issuer or the Company, or successive successions, and the assumption by the successor Person of the covenants, agreements and obligations of the Issuer as permitted by this Indenture or the Company as permitted by the Agreement;
- (2) to add to the covenants of the Issuer or the Company for the benefit of the Bondholders, or to surrender any right or power herein or therein conferred upon the Issuer or the Company;
- (3) to cure any ambiguity or to correct or supplement any provision herein or therein which may be inconsistent with any other provision herein or therein, or to make any other provisions with respect to matters or questions arising under this Indenture or the Agreement which shall not be inconsistent with this Indenture, provided such action shall not adversely affect the interests of the Bondholders;
- (4) to modify or supplement this Indenture in such manner as may be necessary to qualify this Indenture under the Trust Indenture Act of 1939 as then amended, or under any similar federal or state statute or regulation, including

provisions whereby the Trustee accepts such powers, duties, conditions and restrictions hereunder and the Issuer or the Company undertakes such covenants, conditions or restrictions additional to those contained in this Indenture as would be necessary or appropriate so to qualify this Indenture; provided, however, that nothing herein contained shall be deemed to authorize inclusion in this Indenture or in any indenture supplemental hereto, provisions referred to in Section 316(a)(2) of the said Trust Indenture Act or any corresponding provision provided for in any similar statute hereafter in effect;

(5) in connection with any other change herein or therein which, in the reasonable judgment of a Management Consultant, a copy of whose report shall be filed with the Trustee, (a) is in the best interest of the Company and (b) does not materially adversely affect any Bondholder; provided that no such change shall be made if within thirty (30) days of its receipt of such Management Consultant's report, the Trustee shall have obtained a report from another Management Consultant indicating that in its opinion either clause (a) or clause (b) of this subsection (5) is not satisfied; provided further, that the Trustee shall be under no duty to retain another such Management Consultant; or

(6) to modify or supplement this Indenture in such manner as may be necessary or appropriate to cause the rating assigned to the Bonds by each Rating Service to maintain an investment grade rating on the Bonds from each Rating Service.

Section 902. Supplemental Indentures and Amendatory Agreements With Consent of Bondholders. With the consent of TEA and the holders of not less than a majority in principal amount of the Outstanding Bonds affected by such supplemental indenture, by Act of such Bondholders delivered to the Issuer, the Company, the Trustee and the Rating Service, the Issuer, when authorized by a Board Resolution, and the Trustee may, upon receipt of a Company Consent, enter into or consent to an indenture or indentures supplemental hereto (subject to Section 903 hereof), amendments to the Agreement for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or the Agreement or of modifying in any manner the rights of the Bondholders under this Indenture or the Agreement; provided, however, that no such supplemental indenture or amendment shall, without the consent of each Bondholder affected thereby:

(1) change the Stated Maturity of the principal of, or any installment of interest on, any Bonds or any date for mandatory redemption thereof, or reduce the principal amount thereof or the interest thereon or any premium payable upon the redemption thereof, or change the coin or currency in which, any Bonds or the interest thereon is payable, or impair or subordinate the lien of this Indenture on the Trust Estate or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the redemption date), or

(2) reduce the percentage in principal amount of the Outstanding Bonds, the consent of whose holders is required for any such supplemental indenture, or the consent of whose holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section or Section 713, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of each Bondholder affected thereby.

It shall not be necessary for any act of Bondholders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such act of Bondholders shall approve the substance thereof.

Section 903. Execution of Supplemental Indentures. In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture and in consenting to any amendment to the Agreement or to any indenture supplemental to this Indenture, the Trustee shall be entitled to receive, and (subject to Section 801) shall be fully protected in relying upon, a Favorable Opinion of Bond Counsel and an Opinion of Counsel stating that the execution of such supplemental indenture or consent is authorized or permitted by this Indenture. The Trustee may, but shall not (except to the extent required in the case of a supplemental indenture entered into under Section 901(4)) be obligated to, enter into any such supplemental indenture or consent which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise. The Trustee shall not execute any supplemental indenture without the Consent of the Company.

Section 904. Effect of Supplemental Indentures. Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes, and every Bondholder thereafter or theretofore authenticated and delivered hereunder shall be bound thereby.

Section 905. Bonds May Bear Notation of Changes. Bonds authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Issuer or the Trustee shall so determine, new Bonds so modified as to conform, in the opinion of the Trustee and the Issuer, to any such supplemental indenture may be prepared and executed by the Issuer and authenticated and delivered by the Trustee in exchange for Bonds then Outstanding.

ARTICLE X

SATISFACTION AND DISCHARGE OF INDENTURE; UNCLAIMED MONEYS

Section 1001. Satisfaction and Discharge of Indenture. Whenever the following conditions shall exist, namely:

(a) all Bonds theretofore authenticated and delivered have been cancelled by the Trustee or delivered to the Trustee for cancellation, excluding, however:

(1) Bonds alleged to have been destroyed, lost, or stolen which have been replaced or paid as provided in Section 205, except for any such Bond which, prior to the satisfaction and discharge of this Indenture, has been presented to the Trustee with a claim of ownership and enforceability by the holder thereof and where enforceability has not been determined adversely against such Bondholder by a court of competent jurisdiction,

(2) Bonds, other than those referred to in paragraph (1) above, for the payment or redemption of which the Issuer or the Company has deposited or caused to be deposited with the Trustee at the Maturity thereof in trust for such purpose funds (which shall be immediately available for payment) in an amount sufficient to pay and discharge the entire indebtedness on such Bonds for principal (and premium, if any) and interest to such Maturity, and

(3) Bonds deemed no longer Outstanding as a result of the deposit or escrow of money or Defeasance Obligations or both as described in Section 1002;

(b) the Issuer or the Company has paid or caused to be paid all other sums payable by the Issuer or the Company, if any, hereunder and under the Agreement (in addition to amounts due and payable by the Company pursuant to Section 4.1(a) or (b) of the Agreement and the terms of the Note); and

(c) there has been delivered to the Trustee an Opinion of Counsel stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with;

then, upon Company Request, this Indenture and the lien, rights, and interests created hereby shall cease, determine, and become null and void (except as to any surviving rights of transfer, exchange, or tender of Bonds herein or therein provided for) and the Trustee and each co-trustee and separate trustee, if any, then acting as such hereunder shall, at the expense of the Company, execute and deliver a termination statement and such instruments of satisfaction and discharge as may be necessary (in form and substance satisfactory to Company) and pay, assign, transfer, and deliver to the Company or upon Company Order all cash, securities, and other property then held by it hereunder as a part of the Trust Estate.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Issuer and the Company to the Trustee under Section 807 shall survive unless otherwise agreed by the Trustee in writing.

Section 1002. Payment of Bonds.

(a) Bonds shall be deemed to have been paid for purposes of this Indenture if (a) there has been deposited with the Trustee in trust in a segregated account either (i) moneys in an amount, or (ii) Defeasance Obligations, the principal of and interest on which will, when due, without further investment or reinvestment of either the principal amount thereof or the interest earnings thereon (as established by a report of an Independent certified public accountant setting forth the calculations upon which such report is based), provide moneys in an amount, which, together with any moneys deposited with or held by the Trustee at the same time and available for such purpose pursuant to this Indenture, will be sufficient to pay when due and payable the principal of, premium, if any, and interest due and payable and to become due and payable on and prior to the respective redemption dates or Maturity dates of such Bonds, or (iii) a combination of (i) and (ii), and (b) in case any of such Bonds are to be redeemed on any date prior to their Stated Maturity, the Company (1) has given to the Trustee irrevocable written instructions instructing the Trustee to effect the redemption of such Bonds on such date and to give notice of such redemption to Bondholders prior to said date as provided in Exhibit A to this Indenture, or (2) in the event such Bonds are not to be redeemed within the sixty (60) days next succeeding the date of such deposit with the Trustee, the Company has given irrevocable written instructions to the Trustee to give notice to the Bondholders advising that the deposit required by clause (i) of this paragraph has been made with the Trustee and that the Bonds are deemed to have been paid in accordance with this Article and stating such Maturity or redemption date or dates upon which money is to be available for the payment of the principal of, premium, if any, and interest on such Bonds. The Trustee shall not be required to accept any deposit of Defeasance Obligations pursuant to clause (ii) or (iii) during the continuance of an Event of Default. For purposes of this Section, Defeasance Obligations issued or held in the name of the Trustee in book-entry form on the books of the Department of Treasury of the United States of America shall be deemed to be deposited with the Trustee.

Any Defeasance Obligations deposited with the Trustee pursuant to this Section shall mature on such dates as shall be required for the aforesaid purpose. Such Defeasance Obligations shall not contain provisions permitting the redemption thereof at the option of the issuer thereof. If the Bonds are defeased as provided for herein, the Guarantee of the Bonds shall automatically be removed in its entirety.

(b) Any release under this Section shall be without prejudice to the right of the Trustee to be paid reasonable compensation for all services rendered by it under this Indenture and all its reasonable expenses, charges and other disbursements and those of its attorneys, agents and employees, incurred on and about the administration of trusts created by this Indenture and the performance of its powers and duties under this Indenture.

Section 1003. Application of Trust Money. The Defeasance Obligations and money deposited with the Trustee pursuant to Section 1002 and principal or interest payments on any such

Defeasance Obligations shall be held in trust, shall not be sold or reinvested, and shall be applied by it, in accordance with the provisions of the Bonds and this Indenture, to the payment, either directly or through any Paying Agent, to the Persons entitled thereto, of the principal (and premium, if any) and interest for whose payment such money or Defeasance Obligations were deposited; provided that, upon delivery to the Trustee of an Officer's Certificate (accompanied by the report of an Independent certified public accountant setting forth the calculations upon which such Officer's Certificate is based) establishing that the money and Defeasance Obligations on deposit following the taking of the proposed action will be sufficient for the purposes described in Section 1002(a), any money received from principal or interest payments on Defeasance Obligations deposited with the Trustee or the proceeds of any sale of such Defeasance Obligations, if not then needed for such purpose, shall, upon Company Request be reinvested in other Defeasance Obligations or disposed of as requested by the Company. For purposes of any calculation required by this Article, any Defeasance Obligation which is subject to redemption at the option of its issuer, the redemption date for which has not been irrevocably established as of the date of such calculation, shall be assumed to cease to bear interest at the earliest date on which such obligation may be redeemed at the option of the issuer thereof and the principal of such obligation shall be assumed to be received at its stated maturity.

Section 1004. Payments Made Under the Guarantee. In the event that principal and/or interest due on the Bonds shall be paid by TEA pursuant to the Guarantee, the Bonds shall remain outstanding for all purposes, not be defeased or otherwise satisfied and not be considered paid by the Issuer or Company, the assignment and pledge of the Trust Estate and all covenants, agreements and other obligations of the Issuer to the Bondholders shall continue to exist and shall run to the benefit of TEA, and TEA shall be subrogated to the rights of such Bondholders.

ARTICLE XI

PERMANENT SCHOOL FUND GUARANTEE

Section 1101. General Provisions Relating to TEA.

(a) The parties hereto expressly recognize that TEA is a third party beneficiary to this Indenture and may enforce any right, remedy, or claim conferred, given or granted hereunder.

(b) Any provision under any Bond Document which requires the consent of the Bondholders shall also require TEA's prior written consent and any provision of the Master Indenture that requires the consent of the Trustee as holder of the Note shall also require TEA's consent.

(c) No default or event of default may be waived without TEA's written consent.

(d) Any amendment, supplement, modification to, or waiver of, any of the Bond Documents that requires the consent of Bondholders or adversely affects the rights or interests of TEA shall be subject to the prior written consent of TEA.

(e) The rights granted to TEA under the Bond Documents to request, consent to or direct any action are rights granted to TEA in consideration of its issuance of the Guarantee. Any

exercise by TEA of such rights is merely an exercise of the TEA's contractual rights and shall not be construed or deemed to be taken for the benefit, or on behalf, of the Bondholders and such action does not evidence any position of TEA, affirmative or negative, as to whether the consent of the Bondholders or any other person is required in addition to the consent of TEA.

Section 1102. Control by TEA Upon Default.

(a) Notwithstanding any inconsistent provisions in the Bond Documents to the contrary, upon the occurrence and during the continuance of an Event of Default that is not remedied or cured pursuant to the corrective actions required or permitted under Indenture or the Agreement, TEA shall be entitled to control and direct the enforcement of all rights and remedies granted to the Bondholders. No Event of Default may be waived without TEA's written consent

(b) Upon the occurrence and during the continuance of an Event of Default, TEA shall be deemed the sole Bondholder for all purposes, including, without limitations, for purposes of exercising remedies and approving amendments.

(c) Scheduled, but not yet due and owing, principal and interest payments on Guaranteed Bonds shall not be accelerated and do not become due by virtue of the Company's or the Issuer's default.

(d) No grace period is permitted for payment defaults on the Guaranteed Bonds.

(e) In the event of a TEA Default, notwithstanding anything in this Indenture to the contrary, (i) if at any time prior to or following a TEA Default, TEA has made payment under the Guarantee, to the extent of such payment TEA shall be treated like any other Bondholder for all purposes, including giving of consents, and (ii) if TEA has not made any payment under the Guarantee, TEA shall have no further consent rights until the particular TEA Default is no longer continuing or TEA makes a payment under the Guarantee, in which event, the foregoing clause (i) shall control.

Section 1103. Payment Procedure Under the Guarantee. (a) In the event that on the tenth (10th) Business Day (or such shorter period as may be agreed to in writing by TEA) prior to any payment date on the Bonds, the Paying Agent or Trustee has not received sufficient moneys to pay all principal of and interest on the Bonds due on such payment date, the Paying Agent or Trustee shall immediately notify the Commissioner on the same business day by telephone or electronic mail, of the amount of the deficiency.

(b) If any deficiency is made up in whole or in part prior to or on the payment date, the Paying Agent or Trustee shall so notify the Commissioner.

(c) In addition, if the Paying Agent or Trustee has notice that any Bondholder has been required to disgorge payments of principal of or interest on the Bonds pursuant to a final, non-appealable order by a court of competent jurisdiction that such payment constitutes an avoidable preference to such holder within the meaning of any applicable bankruptcy law, then the Paying Agent or Trustee shall notify TEA or its designee of such fact by telephone or electronic mail, or

by overnight or other delivery service as to which a delivery receipt is signed by a person authorized to accept delivery on behalf of TEA.

(d) The Trustee shall irrevocably be designated, appointed, directed and authorized to act as attorney-in-fact for holders of the Bonds as follows:

(1) Deficiency in Interest. If there is a deficiency in amounts required to pay interest on the Bonds, the Trustee shall (i) execute and deliver to TEA, in form satisfactory to TEA, an instrument appointing TEA as agent and attorney-in-fact for such holders of the Bonds in any legal proceeding related to the payment and assignment to TEA of the claims for interest on the Bonds, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Guarantee payment from TEA with respect to the claims for interest so assigned, (iii) segregate all such payments in a separate account (the "TEA Guarantee Payment Account") to only be used to make scheduled payments of principal of and interest on the Bonds, and (iv) disburse the same to such respective holders; and

(2) Deficiency in Principal. If there is a deficiency in amounts required to pay principal of the Bonds, the Trustee shall (i) execute and deliver to TEA, in form satisfactory to TEA, an instrument appointing TEA as agent and attorney-in-fact for such holder of the Bonds in any legal proceeding related to the payment of such principal and an assignment to TEA of the Bonds surrendered to TEA, (ii) receive as designee of the respective holders (and not as Paying Agent) in accordance with the tenor of the Guarantee payment therefore from TEA, (iii) segregate all such payments in the TEA Guarantee Payment Account to only be used to make scheduled payments of principal of and interest on the Bonds, and (iv) disburse the same to such respective holders. The Trustee shall designate any portion of payment of principal on Bonds paid by the Comptroller on behalf of TEA, whether by virtue of mandatory sinking fund redemption, maturity or other advancement of maturity, on its books as a reduction in the principal amount of Bonds registered to the then current holder, whether DTC or its nominee or otherwise; provided that the Trustee's failure to so designate any payment shall have no effect on the amount of principal or interest payable by the Issuer on any Bonds or the subrogation or assignment rights of TEA.

(e) Payments with respect to claims for interest on and principal of the Bonds disbursed by the Paying Agent or Trustee from proceeds of the Guarantee shall not be considered to discharge the obligation of the Issuer with respect to such Bonds, and TEA shall become the holder of such unpaid Bonds and claims for the interest in accordance with the tenor of the assignment made to it under the provisions of the preceding paragraphs or otherwise. The Bond Documents shall not be discharged or terminated unless all amounts due or to become due to TEA have been paid in full or duly provided for.

(f) Irrespective of whether any such assignment is executed and delivered, the Issuer, Company and the Paying Agent and Trustee agree for the benefit of TEA that: (i) to the extent that

the Comptroller makes payment on behalf of TEA on account of principal of or interest on the Bonds, TEA will be subrogated to the rights of such holders to receive the amount of such principal and interest from the Issuer or Company, with interest thereon, as provided and solely from the sources stated in the Bond Documents and the Bonds or as provided by law; and (ii) they will accordingly pay to TEA the amount of such principal and interest, with interest thereon as provided in the transaction documents and the Bonds, but only from the sources and in the manner provided therein for the payment of principal and interest on the Bonds to holders or as provided by law, and will otherwise treat TEA as the holder of such rights to the amount of such principal and interest.

(g) The TEA shall be entitled to pay principal or interest on the Bonds that shall become due for payment but shall be unpaid by reason of nonpayment only upon TEA's receipt of the requisite notice specified in this section.

Section 1104. Insolvency. The Trustee and each Holder of the Guaranteed Bonds appoint TEA as their agent and attorney-in-fact with respect to the Guaranteed Bonds and agree that TEA may at any time during the continuation of any proceeding by or against the Company under the United States Bankruptcy Code or any other applicable bankruptcy, insolvency, receivership, rehabilitation or similar law (an "Insolvency Proceeding") direct all matters relating to such Insolvency Proceeding, including without limitation, (a) all matters relating to any claim or enforcement proceeding in connection with an Insolvency Proceeding (a "Claim"), (b) the direction of any appeal of any order relating to any Claim, (c) the posting of any surety, supersedeas or performance bond pending any such appeal, and (d) the right to vote to accept or reject any plan of adjustment. In addition, the Trustee and each Holder of the Guaranteed Bonds delegate and assign to TEA, to the fullest extent permitted by law, the rights of the Trustee and each holder of the Guaranteed Bonds with respect to the Guaranteed Bonds in the conduct of any Insolvency Proceeding, including, without limitation, all rights of any party to an adversary proceeding or action with respect to any court order issued in connection with any such Insolvency Proceeding.

Section 1105. Non-Impairment of Rights. No contract shall be entered into or any action taken by which the rights of TEA or security for or source of payment of the Guaranteed Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of TEA.

Section 1106. Conflicting Provisions. So long as the Guarantee is effective, the Guarantee shall be in addition to and, to the extent possible, reconciled with other provisions in the Bond Documents; provided, however, that, if there has been any draw upon the Guarantee, then the Guarantee provisions, including those set forth in Article XI of this Indenture and Section 4.6(c) and Article VI of the Agreement, shall supersede any conflicting or inconsistent provisions in the Bond Documents.

ARTICLE XII

MISCELLANEOUS

Section 1201. Execution in Counterparts. This Indenture may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument. Delivery of an executed counterpart of this Indenture by facsimile or electronic transmission shall be equally as effective as delivery of an original executed counterpart of this Indenture.

Section 1202. Final Agreement. This written Indenture represents the final agreement between the parties and may not be contradicted by evidence of prior, contemporaneous, or subsequent oral agreements of the parties. There are no unwritten oral agreements between the parties.

IN WITNESS WHEREOF, the Issuer and the Trustee have caused this Indenture to be signed on their behalf by their duly authorized representatives as of the date first written above.

ARLINGTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
President, Board of Directors

REGIONS BANK, as Trustee

By: _____
Name: _____
Title: _____

ACCEPTED AND AGREED TO BY:

REGIONS BANK,
as Paying Agent and Bond Registrar

By: _____
Name: _____
Title: _____

EXHIBIT A
FORM OF BONDS

EXCEPT AS MAY OTHERWISE BE PROVIDED HEREIN, THIS BOND OR ANY PORTION HEREOF MAY BE TRANSFERRED ONLY IN MINIMUM DENOMINATIONS OF \$5,000 OR ANY INTEGRAL MULTIPLE THEREOF (“AUTHORIZED DENOMINATIONS”).

1. Form of Definitive Bonds.

NO. R-____ REGISTERED
\$212,440,000

UNITED STATES OF AMERICA
STATE OF TEXAS
ARLINGTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BOND (HARMONY PUBLIC SCHOOLS)
SERIES 2024

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Issue Date</u>	<u>CUSIP NO.</u>
%	February 15, 20__	June 11, 2024	0418062__

ARLINGTON HIGHER EDUCATION FINANCE CORPORATION (the “Issuer”), a nonstock, nonprofit higher education finance corporation organized and existing pursuant to the laws of the State of Texas (the “State”), including Chapter 53, Texas Education Code, and particularly Sections 53.35(b) and 53.48 thereof (the “Act”), hereby promises to pay to the order of CEDE & CO., or registered assigns, at the principal payment office of Regions Bank, in Houston, Texas (the “Place of Payment”), the aggregate principal amount of TWO HUNDRED AND TWELVE MILLION FOUR HUNDRED AND FORTY THOUSAND 00/100 DOLLARS (\$212,440,000) on the Maturity Date set forth above (or earlier as hereinafter provided) and to pay interest thereon, calculated on the basis of a 360-day year of twelve 30-day months at the per annum rate set forth above, from the date of delivery or the most recent Interest Payment Date to which interest has been paid or provided for; provided that such principal and interest are payable solely from the sources and in the manner hereinafter described, and solely as authorized and provided in the Act. The date of this Bond is June 1, 2024.

THE OWNER HEREOF shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation or from any source whatsoever except the payments and amounts described in the Indenture, the Note, the Agreement (all as defined herein), and this Bond. The Bonds are special and limited obligations payable solely as provided herein. NONE OF THE CITY OF ARLINGTON, TEXAS, THE STATE NOR A STATE AGENCY, ANY POLITICAL CORPORATION, SUBDIVISION, OR AGENCY OF THE STATE SHALL BE OBLIGATED TO PAY THE BONDS OR THE INTEREST THEREON AND NEITHER

THE FAITH AND CREDIT NOR THE TAXING POWER OF THE CITY OF ARLINGTON, TEXAS, THE STATE, ANY STATE AGENCY, POLITICAL CORPORATION OR POLITICAL SUBDIVISION OF THE STATE IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF, PREMIUM, IF ANY, OR INTEREST ON THE BONDS. HOWEVER, THE BONDS WILL BE GUARANTEED BY THE CORPUS OF THE PERMANENT SCHOOL FUND OF THE STATE OF TEXAS PURSUANT TO THE BOND GUARANTEE PROGRAM ADMINISTERED BY THE TEXAS EDUCATION AGENCY. SUCH GUARANTEE IS SUBJECT TO THE RULES AND REGULATIONS OF THE TEXAS EDUCATION AGENCY AND SHALL BE REMOVED IN ITS ENTIRETY UPON DEFEASANCE OF THE BONDS. THE ISSUER HAS NO TAXING POWER.

THE PRINCIPAL of, premium, if any, and interest on this Bond are payable in lawful money of the United States of America. Amounts due on this Bond shall be paid by check drawn upon by Regions Bank (in its capacity as the “Trustee,” “Paying Agent” and “Bond Registrar” for this series of Bonds) and mailed to the holder hereof at its address as it appears on the bond registration books of the Issuer, kept by the Bond Registrar (the “Bond Register”) at the close of business for the Trustee on the first day of the calendar month in which such payment date occurs regardless of whether such day is a business day (the “Record Date”). Upon written request of a registered owner of at least \$1,000,000 in principal amount of Bonds or all of the Bonds, all payments of principal, premium and interest on the Bonds shall be paid by wire transfer at the risk and expense of such registered owner in immediately available funds to an account in the United States designated by such registered owner upon fifteen (15) days prior written notice before a Record Date to the Trustee. Principal of, premium, if any, and interest on this Bond that is in Book-Entry-Only Form shall be paid in immediately available funds to DTC or its nominee, as the case may be, as the Bondholder.

THE INTEREST on this Bond shall be paid on each August 15 and February 15, commencing August 15, 2024, until the principal thereof shall have been paid or provided for.

THIS BOND is one of a series of bonds (the “Bonds”) authorized and issued in the aggregate principal amount of \$212,440,000 for the purpose of (i) financing and refinancing the cost of certain educational facilities (as that term is defined in the Act) for Harmony Public Schools (the “Company”), (ii) funding capitalized interest, and (iii) paying the costs of issuance of the Bonds, under and pursuant to authority conferred by the Act, a resolution adopted by the Governing Body of the Issuer, and a Trust Indenture and Security Agreement, dated as of June 1, 2024 (the “Indenture”), by and between the Issuer and the Trustee. The proceeds of the sale of the Bonds will be loaned to the Company pursuant to a Loan Agreement, dated as of June 1, 2024 (the “Agreement”), between the Issuer and the Company, and the Company’s obligations under the Agreement are further evidenced by the Company’s execution and issuance of a promissory note (the “Note”), dated as of the date of delivery of the Bonds, in an amount equal to the aggregate principal amount of the Bonds. The Note is a “Note” as defined in and is entitled to the security of a Master Trust Indenture and Security Agreement, dated as of May 1, 2007 (the “Master Indenture”), as supplemented through Supplemental Master Indenture No. 35 dated as of June 1, 2024, between the Company on behalf of itself and Regions Bank, Master Trustee.

THE TRANSFER of this Bond may be registered by the owner hereof in person or by his attorney or legal representative at the corporate trust office or principal payment office of the Bond Registrar as set forth in the Indenture, but only in the manner and subject to the limitations and conditions provided in the Indenture and upon surrender and cancellation of this Bond and execution of the Assignment hereon. Upon any such surrender for transfer of the Bond at the office or agency of the Trustee in a Place of Payment, the Issuer shall execute, the Trustee shall authenticate, and the Bond Registrar shall register and deliver, in the name of the designated transferee, one or more new Bonds of any Authorized Denomination, of a like aggregate principal amount, maturity and interest rate. The Issuer and the Bond Registrar shall not be required (1) to issue, transfer or exchange any Bonds during a period beginning at the opening of business fifteen (15) days before the day of mailing a notice of redemption of the Bonds selected for redemption under the Indenture and ending the close of business on the day of such mailing or (2) to transfer or exchange any Bond selected for redemption in whole or in part.

Subject to the limitations set forth in the Master Indenture, the Company may from time to time issue additional Note authorized by and entitled to the security of the Master Indenture for the purposes set forth in the Master Indenture (“Master Note”), which shall rank equally and on a parity with the Note and all other Master Note except as set forth in any supplemental master indenture authorizing issuance of any Master Note.

PURSUANT TO THE INDENTURE, this Bond is not subject to acceleration.

Mandatory Redemption. The Bonds are subject to mandatory redemption in part prior to maturity with funds from the Debt Service Fund, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption, without premium, on February 15 in each of the years, and in the principal amounts, respectively, as set forth in the following schedule:

\$39,270,000 Bonds Maturing February 15, 2044

Mandatory Redemption Date (February 15)	Principal Amount to be Mandatorily Redeemed
2040	\$7,250,000
2041	\$7,540,000
2042	\$7,840,000
2043	\$8,160,000
2044	\$8,480,000

*Final Maturity

\$47,780,000 Bonds Maturing February 15, 2049

<u>Mandatory Redemption Date (February 15)</u>	<u>Principal Amount to be Mandatorily Redeemed</u>
2045	\$8,825,000
2046	\$9,175,000
2047	\$9,540,000
2048	\$9,925,000
2049	\$10,315,000

*Final Maturity

\$58,125,000 Bonds Maturing February 15, 2054

<u>Mandatory Redemption Date (February 15)</u>	<u>Principal Amount to be Mandatorily Redeemed</u>
2050	\$10,730,000
2051	\$11,160,000
2052	\$11,610,000
2053	\$12,070,000
2054	\$12,555,000

*Final Maturity

The principal amount of the Bonds required to be redeemed pursuant to the operation of such mandatory redemptions shall be reduced by the principal amount of any Bonds of the same series and maturity date which, at least sixty (60) days prior to the mandatory sinking fund redemption date (a) shall have been purchased and delivered to the Trustee for cancellation, (b) shall have been purchased and canceled by the Trustee with funds furnished for such purpose, in each case at a purchase price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof or (c) shall have been redeemed pursuant to the optional redemption provision described below.

Optional Redemption. The Bonds maturing on or after February 15, 2033 are subject to optional redemption, prior to scheduled maturity, in whole or in part, on February 15, 2032, or on any date thereafter, at the option of the Company, at a price of par plus interest accrued thereon to the redemption date, upon written notice of the exercise of the option to redeem Bonds delivered to the Trustee by the Company not later than the 35th day prior to the date of redemption.

Mandatory Redemption Upon Determination of Taxability. The Bonds shall be redeemed in whole prior to maturity on a date selected by the Company which is not more than one hundred twenty (120) days following receipt by the Trustee of written notice of the occurrence of a Determination of Taxability (as hereinafter defined) at a redemption price equal to 100% of the

principal amount thereof plus accrued interest to the redemption date; provided that such redemption of the Bonds will not be payable from the Permanent School Fund.

As used herein “Determination of Taxability” means a determination that the interest income on any of the Bonds does not qualify as interest excluded from gross income of the recipient thereof for the purpose of federal income taxation (“exempt interest”) under Section 103 of the Code (in the case of a private activity bond, for a reason other than that a registered owner is or a former registered owner was a substantial user within the meaning of Section 147 of the Code), which determination shall be deemed to have been made upon the first to occur of any of the following: (a) the date on which the Trustee is notified that an opinion of counsel is unable to be delivered to the effect that the interest on the Bonds qualifies as such exempt interest; or (b) the date on which the Trustee is notified by or on behalf of the Issuer that a change in law or regulation has become effective or that the Internal Revenue Service has issued any public or private ruling, technical advice memorandum or any other written communication or that there has occurred a ruling or decision of a court of competent jurisdiction with or to the effect that the interest income on any of the Bonds does not qualify as such exempt interest; or (c) the date on which the Company shall receive notice from the Trustee in writing that the Trustee has been notified by the Internal Revenue Service, or has been advised by the Issuer, the Company or any owner or former owner of a Bond that the Internal Revenue Service has issued a final determination (after the Issuer has exhausted all administrative appeal remedies and has determined not to pursue any remedies in a court of competent jurisdiction) which asserts that the interest on any of the Bonds does not qualify as such exempt interest.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary redemption, at the option of the Issuer upon a Company Request, at a redemption price of par plus interest accrued thereon to the redemption date, without premium, on any date, in the event the Project is damaged, destroyed or condemned or threatened to be condemned, (i) in whole, if, in accordance with the terms of the Agreement, the Project is not reconstructed, repaired or replaced upon the change or destruction thereof, from insurance or condemnation proceeds transferred from the Project Fund to the Debt Service Fund which, together with an amount required to be paid by the Company pursuant to the Agreement, will be sufficient to pay the Bonds in full, or (ii) in part, after reconstruction, repair or replacement of the Project in accordance with the terms of the Agreement, from excess insurance or condemnation proceeds transferred from the Project Fund to the Debt Service Fund for such purpose.

IF LESS THAN ALL of the Bonds are called for redemption, the particular Bonds or portions thereof to be redeemed shall be redeemed by the Trustee in accordance with the written direction of the Company; provided, however, that portions of Bonds shall be redeemed in Authorized Denominations and that no redemption shall result in a Bond being held in less than an Authorized Denomination.

IN CASE PART, but not all, of this Bond shall be selected for redemption, the owner hereof or his attorney or legal representative shall present and surrender this Bond to the Trustee for payment of the redemption price, and the Issuer shall cause to be executed, authenticated and delivered to or upon the order of such owner or his attorney or legal representative, without charge

therefor, in exchange for the unredeemed portion of the principal amount of this Bond so surrendered, a Bond of the same maturity and bearing interest at the same rate.

AT LEAST thirty (30) days prior to the date fixed for any redemption of the Bonds but not more than sixty (60) days prior to any redemption date, the Trustee shall cause a written notice of such redemption to be sent to each Bondholder to be redeemed, at the address appearing on the Bond Register on the date such notice is sent by the Trustee. Any notice mailed as provided herein shall be conclusively presumed to have been given, irrespective of whether received. By the date fixed for any such redemption, due provision shall be made with the Trustee and the Paying Agent for the payment of the appropriate redemption price, premium, if any, and interest accrued hereon. If such written notice of redemption is made, due provision for payment of the redemption price is made and all conditions to the redemption have been fulfilled, all as provided above and in the Indenture, the Bonds which are to be redeemed shall become due and payable at the redemption price and from and after such date shall cease to bear interest. If any Bond shall not be paid upon the surrender thereof for redemption, the principal shall, until paid, bear interest at the rate borne by this Bond.

IF THE DATE for any such payment on this Bond shall be a Saturday, a Sunday or a legal holiday or the equivalent for banking institutions generally (other than a moratorium) at the place where payment thereof is to be made, then such payment may be made on the next succeeding day which is not one of the foregoing days without additional interest and with the same force and effect as if made on the specified date for such payment.

IT IS HEREBY CERTIFIED AND COVENANTED that this Bond has been duly and validly authorized, issued, and delivered; that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, exist, and been done in accordance with law; that this Bond is a special limited revenue obligation of the Issuer, and that the principal of, premium, if any, and interest on this Bond are payable from and secured by a lien on and pledge of Trust Estate with the payments designated as Loan Payments (the "Loan Payments") to be paid, or caused to be paid, to the Trustee, pursuant to the Agreement, as evidenced by the Note issued by the Company to the Issuer pursuant to the Supplemental Indenture and the Agreement, as evidenced by an assignment by the Issuer to the Trustee of the Note to evidence the Company's obligations to make Loan Payments under the Agreement to the Trustee. The Company is unconditionally obligated (subject only to the provisions of the Agreement relating to merger, consolidation, and transfer of assets) to the Issuer and the Trustee to pay, or cause to be paid, without set off, recoupment, or counterclaim, to the Trustee each Loan Payment for deposit into the Debt Service Fund created for the benefit of the owners of the Bonds by the Indenture, in aggregate amounts sufficient to pay and redeem, and provide for the payment and redemption of, the principal of, premium, if any, and interest on the Bonds, when due, and to make certain other deposits as required by the Indenture, subject to and as required by the provisions of the Agreement, the Note, and the Indenture.

THE BONDS are secured by the Indenture whereunder the Trustee is custodian of the Debt Service Fund and is obligated to enforce the rights of the owners of the Bonds and to perform other duties in the manner and under the conditions stated in the Indenture. In case an "Event of Default," as defined in the Indenture, shall occur, the principal of the Bonds then Outstanding may

be declared to be due and payable immediately upon the conditions and in the manner provided in the Indenture. The Trustee shall, upon written request of the owners of at least a majority in principal amount of the Bonds then Outstanding, waive, as permitted by the Indenture, any Event of Default and its consequences except a default in the payment of the principal of (or premium, if any) or interest on any Bond or a default in respect of a covenant or provision of the Indenture which under the Indenture cannot be modified or amended without the consent of the holder of each Outstanding Bond affected. The holder of this Bond shall have no right to institute any action, suit, or proceeding at law or in equity to enforce the Indenture except as provided in the Indenture; provided that nothing in the Indenture shall affect or impair the rights of the owner hereof to enforce the payment of the principal of, premium, if any, and interest on this Bond from the source and in the manner herein expressed. Reference is hereby made to the Indenture for additional provisions with respect to the nature and extent of the security for the Bonds; the rights, duties, and obligations of the Company, the Issuer, the Trustee, and the Bondholders; the terms upon which the Bonds are issued and secured; and the modification of any of the foregoing.

THE ISSUER has reserved the right to amend the Indenture, as provided therein; and, under some (but not all) circumstances, amendments thereto must be approved by the owners of at least a majority in aggregate principal amount of the Outstanding Bonds.

[To appear on Initial Bond only]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of registration hereon shall have been manually executed by the Comptroller of Public Accounts of the State of Texas (or his duly authorized deputy), as provided by the Indenture.

[To appear on each exchange or replacement Bond]

This Bond shall not be valid or obligatory for any purpose or be entitled to any benefit under the Indenture until the certificate of authentication hereon shall have been executed by the Trustee.

IN WITNESS WHEREOF, Arlington Higher Education Finance Corporation has caused this Bond to be executed with the manual or facsimile signatures of its duly authorized officers, all as of the date first set forth above.

ARLINGTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
President, Board of Directors

ATTEST:

By: _____
Secretary, Board of Directors

2. Form of Trustee's Certificate of Authentication.

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds issued under the provisions of the within mentioned Indenture which originally was approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas.

Regions Bank, as Trustee

By: _____
Authorized Signature

Date of authentication:

3. Form of Assignment.

ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto _____

Please insert Social Security or Taxpayer Identification number of Transferee _____

(Please print or typewrite name and address, including zip code of Transferee)

the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints _____,

attorney, to register the transfer of the within Bonds on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed: _____

NOTICE: Signature(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company that is a medallion guarantor. The assignor's signature to this assignment must correspond with the name as it appears upon the face of the within Bond in every particular, without alteration or any change whatever.

NOTICE: The signature to this assignment must correspond with the name as it appears upon the face of this Bond in every particular, without alteration or enlargement or any change whatsoever.

4. Initial Bond – Bonds.

The Initial Bond shall be in the form set forth in "Form of Bond" above except for the following alterations:

(a) immediately under the name of the Bond, the headings "INTEREST RATE" and "MATURITY DATE" shall both be completed with the words "As Shown Below" and the word "CUSIP" deleted;

(b) in the first paragraph of the Bond, the words "on the Maturity Date set forth above (or earlier as hereinafter provided)" and "at the per annum rate set forth above" shall be deleted and the following shall be inserted after "has been paid or provided for" "with such principal to be paid in installments on August 15 in each of the years and in the principal amounts identified in the following schedule and with such installments bearing interest at the per annum rates set forth in the following schedule:"

[Schedule to be inserted from Section 202]

(c) The Initial Bond shall be numbered IA-1 and shall be payable to Robert W. Baird & Co.

5. Form of Comptroller's Registration Certificate to appear on Initial Bond only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF COMPTROLLER

§

REGISTER NO. _____

STATE OF TEXAS

§

§

I HEREBY CERTIFY that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal this _____.

Comptroller of Public Accounts
of the State of Texas

(COMPTROLLER'S SEAL)

6. Form of Guarantee Endorsement.

PSF CERTIFICATE

Under the authority granted by Article 7, Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, the payment, when due, of the principal of and interest on the issuance by Arlington Higher Education Finance Corporation of its Education Revenue Bonds (Harmony Public Schools), Series 2024 dated June 1, 2024, in the principal amount of \$212,440,000 is guaranteed by the corpus of the Permanent School Fund of the State of Texas pursuant to the bond guarantee program administered by the Texas Education Agency. This guarantee shall be removed in its entirety upon defeasance of such bonds.

Reference is hereby made to the continuing disclosure agreement of the Texas Education Agency, set forth in Section I of the Agency's Investment Procedure Manual and the Agency's commitment letter for the guarantee. Such disclosure agreement has been made with respect to the bond guarantee program, in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, for the benefit of the holders and beneficial owners of the bonds.

In witness thereof I have caused my signature to be placed in facsimile on this bond.

Mike Morath
Commissioner of Education

EXHIBIT B
FORM OF REQUISITION CERTIFICATE

Date _____

Requisition No. _____

Regions Bank
3773 Richmond Avenue, Suite 1100
Houston, Texas 77046
Attention: Corporate Trust

REQUISITION CERTIFICATE

Ladies and Gentlemen:

This certificate is provided pursuant Section 404 of the Trust Indenture and Security Agreement, dated as of June 1, 2024 (the “Indenture”) by and between Arlington Higher Education Finance Corporation (the “Issuer”) and Regions Bank (the “Trustee”) for requesting payment of a certain amount as provided herein.

On behalf of Harmony Public Schools (the “Company”), the undersigned hereby certifies as follows:

(i) There has been expended, or is being expended concurrently with the delivery of this certificate, on account of [Project Costs, as defined in the Agreement] [Costs of Issuance, as defined in the Agreement] an amount at least equal to the amount requisitioned below for disbursement;

(ii) No Event of Default under the Indenture has occurred and is continuing;

(iii) No other Request in respect of the expenditures set forth in clause (i) above is being or has previously been delivered to the Trustee;

[(iv) The portion of the amount of the proceeds of the Bonds requested that will be used to pay Costs of Issuance plus all previous amounts requested for Costs of Issuance does not exceed 2 percent of the proceeds of the Bonds deposited into the Proceeds Fund;]

[(v) The portion of the amount representing Proceeds of the Bonds requested to pay Project Costs which are Qualifying Costs (as such term is defined in Section 5.3 of the Agreement) plus all previous amounts requested for Project Costs which are Qualifying Costs is not less than 95 percent of the Net Proceeds of the Bonds deposited into the Project Fund requested to date; and]

[You are hereby directed to pay the amount of \$_____ from the Project Account of the Project Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$ _____ from the Reimbursement Account of the Project Fund in the amounts and to the parties as set forth in the attached schedule.]

[You are hereby directed to pay the amount of \$ _____ from the Costs of Issuance Account of the Project Fund in the amounts and to the parties as set forth in the attached schedule. Such amount, in addition to amounts previously paid from the Costs of Issuance Account of the Project Fund pursuant to the terms of this Indenture does not exceed \$ _____.]

[You are hereby directed to pay the amount of \$ _____ from the Insurance Proceeds Account of the Project Fund in the amounts and to the parties as set forth in the attached schedule.]

HARMONY PUBLIC SCHOOLS

By: _____
Authorized Representative

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APPENDIX H

SUBSTANTIALLY FINAL FORM OF THE LOAN AGREEMENT

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LOAN AGREEMENT

between

ARLINGTON HIGHER EDUCATION FINANCE CORPORATION

and

HARMONY PUBLIC SCHOOLS

relating to

\$212,440,000

ARLINGTON HIGHER EDUCATION FINANCE CORPORATION
EDUCATION REVENUE BONDS
(HARMONY PUBLIC SCHOOLS)
SERIES 2024

dated as of

June 1, 2024

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Exhibit A -	Description of Project
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LOAN AGREEMENT

THIS LOAN AGREEMENT (this “Agreement”), dated as of June 1, 2024, is between **ARLINGTON HIGHER EDUCATION FINANCE CORPORATION**, a non-profit, corporation created and existing under the Act (the “Issuer”), and **HARMONY PUBLIC SCHOOLS**, a Texas non-profit corporation (the “Company”).

WITNESSETH:

WHEREAS, the City of Arlington, Texas (the “City”), a political subdivision of the State of Texas (the “State”), has, Chapter 53 and Chapter 53A of the Texas Education Code (the “Act”), and specifically Section 53.35(b) and Section 53.48 thereof, approved and created the Issuer as a nonstock, nonprofit corporation;

WHEREAS, the Issuer is a constituted authority and instrumentality (within the meaning of those terms in the Regulations of the Department of the Treasury and the rulings of the Internal Revenue Service (the “IRS”) prescribed and promulgated pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the “Code”));

WHEREAS, the Issuer, on behalf of the City, is empowered to issue its revenue bonds in order to enable an accredited or authorized charter school to finance or refinance the acquisition, construction, enlargement, extension, repair, renovation, or other improvements to an educational or housing facility or any facilities incidental, subordinate, or related thereto or appropriate in connection therewith, or for acquiring land to be used for those purposes, or to create operating and debt service reserves for and to pay issuance costs related to such bonds;

WHEREAS, in furtherance of the purposes of the Act, the Issuer proposes to issue its \$212,440,000 Arlington Higher Education Finance Corporation Education Revenue Bonds (Harmony Public Schools) Series 2024 (the “Bonds”), the proceeds of which will be loaned to the Company to be used to (i) finance and refinance the costs of acquiring, constructing, equipping and renovating certain “educational facilities” (as that term is defined in the Act) and facilities incidental, subordinate or related thereto or appropriate in connection therewith, (ii) fund capitalized interest and (iii) pay the costs of issuing the Bonds;

WHEREAS, contemporaneously with the execution and delivery of this Agreement, the Issuer has entered into the Trust Indenture and Security Agreement (the “Indenture”) dated as of June 1, 2024, between the Issuer and Regions Bank, as trustee (in such capacity, the “Trustee”) for the purposes of effecting the issuance of the Bonds, furthering the public purposes of the Act and securing to the Bondholders the payment of the Bonds;

WHEREAS, the Company is a party to that certain Master Trust Indenture and Security Agreement dated May 1, 2007 (the “Master Indenture”), between the Company, on behalf of itself and Regions Bank, as Master Trustee (the “Master Trustee”), as supplemented by and through the Supplemental Master Trust Indenture No. 35 dated as of June 1, 2024 (the “Supplemental Master Indenture”), which secures payment of certain Debt (as defined in the Master Indenture) of the Company including the Note (as hereinafter defined) which evidences the Loan made hereby (the “Loan”) by the Issuer to the Company of the proceeds of the Bonds;

WHEREAS, the Issuer shall issue the Bonds in order to loan the proceeds thereof to the Company and the Company agrees to repay the Loan on the terms set forth herein;

WHEREAS, pursuant to the provisions of this Agreement, the Company is executing and delivering to the Issuer the Note to evidence the loan of the proceeds of the Bonds, to the Company and the obligation of the Company under this Agreement to repay the same, and the Note are “Master Note” under the Master Indenture;

WHEREAS, pursuant to the provisions of this Agreement, the Issuer is collaterally assigning to the Trustee all of the Issuer’s right, title and interest in the Note and the Loan Payments (as hereinafter defined) to be made by the Company pursuant to this Agreement; and

NOW THEREFORE, in consideration of the premises and other good and valuable consideration and the mutual benefits, covenants and agreements set forth below, the parties agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.1 Construction of Terms; Definitions.

(a) For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires:

(1) “Agreement” means this instrument as originally executed or as it may from time to time be supplemented or amended by one or more agreements supplemental hereto entered into pursuant to the applicable provisions hereof.

(2) All references in this instrument to designated “Articles”, “Sections” and other subdivisions are to the designated Articles, Sections and other subdivisions of this instrument as originally executed. The words “herein”, “hereof” and “hereunder” and other words of similar import refer to this Agreement as a whole and not to any particular Article, Section or other subdivision.

(3) The terms defined in this Article have the meanings assigned to them in this Article, and include the plural as well as the singular. The terms used herein but defined in the Indenture and not defined herein have the meanings assigned to them in the Indenture and the Master Indenture. Reference to any Bond Document means that Bond Document as amended or supplemented from time to time. Reference to any party to a Bond Document means that party and its permitted successors and assigns.

(4) All accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting principles.

(b) The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Additions” means any and all real or personal property or any interest therein wherever located or used (i) which is desirable in the business of the Company; (ii) the cost of construction, acquisition or development of which is properly chargeable to the property accounts of the Company, in accordance with generally accepted accounting principles; and (iii) which is deemed for federal income tax purposes to be owned by the Company.

“Affiliate” of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, “control” when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the power to appoint and remove its directors, the ownership of voting securities, by contract, or otherwise; and the terms “controlling” and “controlled” have meanings correlative to the foregoing.

“Authorized Officer” means the President of the Board of Directors of the Company, the Chief Executive Officer, the Chief Financial Officer, or any other person duly appointed by the Governing Body of the Company to act on behalf of the Company.

“Bond Counsel” means Hunton Andrews Kurth LLP or such other attorney or firm of attorneys nationally recognized as having expertise in the practice of tax-exempt municipal finance law as approved by the Company.

“Bond Documents” means this Agreement, the Indenture, the Note, the Bonds, the Master Indenture, the Supplemental Master Indenture, the Bond Purchase Agreement, the Deed of Trust, and all other agreements, documents and instruments ever delivered pursuant to any of the foregoing and any and all future renewals and extensions or restatements of any of the foregoing.

“Bond Year” has the meaning set forth in Section 5.3 hereof.

“Bonds” means Arlington Higher Education Finance Corporation Education Revenue Bonds (Harmony Public Schools) Series 2024 and any bonds issued upon transfer thereof or in exchange therefor or in lieu thereof.

“Capital Expenditures” means, as of the date of determination thereof, the aggregate of the costs paid (otherwise than by incurring or acquiring Property subject to purchase money obligations) prior to such date by the Company in connection with the construction, acquisition or development of the Project or Additions, as the case may be, and properly chargeable to the property accounts of the owner thereof in accordance with generally accepted accounting principles and so charged, including, without limitation, payments made for labor, salaries, overhead, materials, interest, taxes, engineering, accounting, legal expenses, superintendence, insurance, casualty liabilities, rentals, start-up expenses, financing charges and expenses and all other items (other than operating or maintenance expenses) in connection with such construction, acquisition or development and so properly chargeable and, in the case of Capital Expenditures for Additions consisting of an acquired facility, including the cost of any franchises, rights or property, other than Additions, acquired as a part of such going business for which no separate or distinct consideration shall have been paid or apportioned.

“Claims” means all claims, investigations, lawsuits, causes of action and other legal actions and proceedings of whatever nature brought against (whether by way of direct action, counter claim, cross action or impleader) or otherwise involving any Indemnified Party, even if groundless, false, or fraudulent, so long as the claim, lawsuit, cause of action or other legal action or proceeding is alleged or determined, directly or indirectly, to arise out of, to result from, to relate to or to be based upon, in whole or in part: (a) the issuance of the Bonds, (b) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the issuance of the Bonds, the obligations of the various parties arising under the Bond Documents or the administration of any of the Bond Documents, or (c) the duties, activities, acts or omissions (even if negligent) of any Person in connection with the design, construction, installation, operation, use, occupancy, maintenance or ownership of the Project or any part thereof.

“Closing Date” means the date of closing of the issuance of the Bonds.

“Code” means the Internal Revenue Code of 1986, and the corresponding provisions, if any, of any successor internal revenue laws of the United States.

“Commissioner” means the Commissioner of Education of the State of Texas, or any successor thereto.

“Computation Date” has the meaning set forth in Section 5.3 herein.

“Construction Consultant” means the respective construction consultant, designated by the Company, for any part of the Project.

“Debt” shall have the meaning assigned to such term in the Master Indenture.

“Extraordinary Optional Redemption” shall have the meaning assigned to such term in Exhibit A to the Indenture.

“Fiscal Year” means any twelve-month period beginning on July 1 of any calendar year and ending on June 30 of the following year or such other twelve-month period selected by the Company as the fiscal year for the Company; provided that, the Company shall give written notice of any such change to the Issuer and the Trustee.

“Guarantee” means the PSF Certificate issued by TEA pursuant to Article 7 Section 5 of the Texas Constitution and Subchapter C of Chapter 45 of the Texas Education Code, that guarantees the scheduled payment of principal of and interest on the Bonds when due.

“Highest Lawful Rate” means the maximum rate of nonusurious interest (determined as provided in this Agreement) applicable to each loan made to the Company under this Agreement allowed from time to time by applicable law as is now in effect or, to the extent allowed by applicable law, such higher rate as may hereafter be in effect.

“Indemnified Party” shall mean one or more of the Issuer, the Governing Body of the Issuer, the City and any of their successors, officers, directors, council members or commissioners.

“Indenture” has the meaning ascribed to such term in the fifth recital hereof.

“Independent” when used with respect to any specified Person means such a Person who (i) is in fact independent, (ii) does not have any direct financial interest or any material indirect financial interest in the Company, and (iii) is not connected with the Company as an officer, employee, promoter, trustee, partner, director or person performing similar functions. Whenever it is herein or in the Indenture provided that any Independent Person’s opinion or certificate shall be furnished to the Trustee, such Person shall be appointed by Order and such opinion or certificate shall state that the signer has read this definition and that the signer is Independent within the meaning hereof.

“Loan Payments” means the amounts described in Sections 4.1(a) and (b) of this Agreement.

“Losses” means losses, costs, damages, expenses, judgments, and liabilities of whatever nature (including, but not limited to, reasonable attorney’s, accountant’s and other professional’s fees, litigation and court costs and expenses, amounts paid in settlement and amounts paid to discharge judgments and amounts payable by an Indemnified Party to any other Person under any arrangement providing for indemnification of that Person) directly or indirectly resulting from arising out of or relating to one or more Claims.

“Opinion of Counsel” means a written opinion of counsel, who may (except as otherwise expressly provided) be counsel to any party to a Bond Document, and shall be satisfactory to the Trustee.

“Organizational Documents” of any corporation means the articles of incorporation, certificate of incorporation, corporate charter or other document pursuant to which such corporation was organized, and its bylaws, each as amended from time to time, and as to any other Person, means the instruments pursuant to which it was created and which govern its powers and the authority of its representatives to act on its behalf.

“Permanent School Fund” shall mean the Permanent School Fund of the State of Texas administered pursuant to Subchapter C, Chapter 45, Texas Education Code.

“Plans and Specifications” means the plans and specifications for the Project, as the same may be prepared or amended from time to time as provided in Section 3.1 hereof, on file at the principal business office of the Company and available at all times for inspection by the Issuer.

“Project” means the Project described in Exhibit ”A” hereto.

“Project Costs” means costs permitted to be paid out of proceeds of the Bonds by the Act and by the Code including costs related to the Project (excluding the Costs of Issuance).

“Regulated Chemical” means any substance, the presence of which requires investigation, permitting, control or remediation under any federal, state or local statute, regulation, ordinance or order, including without limitation:

(a) any substance defined as “hazardous waste” under the Resource Conservation and Recovery Act (42 U.S.C. §6901 et seq.);

(b) any substance defined as a “hazardous substance” under the Comprehensive Environmental Response, Compensation and Liability Act (42 U.S.C. §9601 et seq.);

(c) any substance defined as a “hazardous material” under the Hazardous Materials Transportation Act (49 U.S.C. §1800 et seq.);

(d) any substance defined under any Texas statute analogous to (a), (b) or (c), to the extent that said statute defines any term more expansively;

(e) asbestos;

(f) urea formaldehyde;

(g) polychlorinated biphenyls;

(h) petroleum, or any distillate or fraction thereof;

(i) any hazardous or toxic substance designated pursuant to the laws of the State; and

(j) any other chemical, material or substance, exposure to which is prohibited, limited or regulated by any governmental authority.

“Note” means the promissory note in the form attached to the Supplemental Master Indenture as Exhibit A, which is secured by the Master Indenture, executed by the Company and dated the Closing Date in the principal amount of the Bonds.

“State” means the State of Texas

“TEA” means the Texas Education Agency, or any successor thereto.

(c) Certain terms used primarily in Section 5.3 are defined in that Section.

Section 1.2 Form of Documents Delivered to Trustee. Every certificate and every Opinion of Counsel with respect to compliance with a condition or covenant provided for in this Agreement shall include a statement that the Person making such certification or opinion has read such covenant or condition and the definitions relating thereto, has made or caused to be made such examination or investigation as is necessary to enable them to express an informed opinion as to whether such covenant or condition has been complied with, and a statement whether such condition or covenant has been complied with. In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, in so far as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or

representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or Opinion of Counsel may be based, in so far as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments hereunder, they may, but need not, be consolidated and form one instrument.

Section 1.3 Communications. All notices, demands, certificates, requests, consents, submissions or other communications hereunder shall be given as provided in the Indenture.

Section 1.4 Term of Agreement. This Agreement shall remain in full force and effect from the date of execution and delivery hereof until the Indenture has been discharged in accordance with the provisions thereof; provided, however, that (a) the provisions of this Section and of Section 3.10, Section 4.6, Section 5.1, Section 5.3, Section 5.6 and Section 7.6 of this Agreement shall survive any expiration or termination of this Agreement and (b) in addition, if the Indenture is discharged prior to the final Maturity of the Bonds, the provisions of Section 3.6, Section 3.9, Section 4.1, Section 5.3, Section 5.6 and Section 5.7 of this Agreement shall continue until the final Maturity of the Bonds.

Section 1.5 Company's Approval of Bond Documents. The Bond Documents have been submitted to the Company for examination, and the Company acknowledges that, by execution of this Agreement, it has approved the Bond Documents and the Company and each of the Authorized Officers have the authority to perform the obligations imposed upon it under the Bond Documents.

Section 1.6 Effect of Headings and Table of Contents. The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

Section 1.7 Successors and Assigns. All covenants and agreements in this Agreement by the Issuer and the Company shall bind their respective successors and assigns, whether so expressed or not. No assignment by the Issuer or the Company of this Agreement shall relieve them of their obligations hereunder.

Section 1.8 Separability Clause. In case any provision in this Agreement shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 1.9 Benefits of Agreement. Subject to Section 8.9 hereof, nothing in this Agreement or in the Bonds, express or implied, shall give to any Person, other than the parties to the Bond Documents and their successors and assigns hereunder, the Indemnified Parties and the Bondholders, any benefit or any legal or equitable right, remedy or claim under this Agreement.

Section 1.10 Governing Law. This Agreement shall be construed in accordance with and governed by the laws of the State.

Section 1.11 Amendments. This Agreement may be amended only as provided in the Indenture.

ARTICLE II

REPRESENTATIONS, WARRANTIES AND COVENANTS

Section 2.1 Representations, Warranties and Covenants of the Issuer. The Issuer represents, warrants and covenants that:

(a) Corporate Existence; Good Standing. The Issuer is a non-profit higher education finance corporation duly incorporated, organized, validly existing and in good standing under the Act and is empowered to act on behalf of the City.

(b) Power. The Issuer has full corporate power and authority under the Constitution and laws of the State and its Organizational Documents to adopt the resolution authorizing the issuance of the Bonds, to issue the Bonds, to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under such Bond Documents.

(c) Due Authorization. The Issuer has duly adopted the resolution authorizing the issuance of the Bonds and has duly authorized the execution and delivery of the Bond Documents to be executed and delivered by it.

(d) Enforceability. The Bond Documents to which the Issuer is a party and the Bonds constitute valid and binding obligations of the Issuer, enforceable against the Issuer in accordance with their terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(e) No Litigation. There is no action, suit, proceeding or investigation at law or in equity before or by any court, either State or federal, or public board or body pending or, to the Issuer's knowledge, threatened calling into question the creation or existence of the Issuer, the validity of the Bond Documents to be executed and delivered by it, the authority of the Issuer to execute and deliver the Bond Documents to be executed and delivered by it and to perform its obligations under the Bond Documents or the title of any Person to the office held by that Person with the Issuer.

(f) Non-Contravention. The execution and delivery by the Issuer of the Bond Documents to be executed and delivered by it, and the performance of its obligations under such Bond Documents, will not violate in any respect any provision of law or regulation, or of any judgment, decree, writ, order or injunction, or of the Organizational Documents of the Issuer, and to the Issuer's knowledge, will not contravene the provisions of, or constitute a default under, or result in the creation of a lien, charge or encumbrance under, any agreement (other than the

Indenture) to which the Issuer is a party or by which any of its properties constituting a part of the Trust Estate under the Indenture are bound.

(g) No Default. To the Issuer's knowledge, no event has occurred, and no condition currently exists, which constitutes or may, with the passage of time or the giving of notice, or both, constitute an Event of Default on the part of the Issuer.

(h) Amendments. The Issuer covenants that it will perform each of the covenants set forth in Article V of the Indenture for the benefit of the Company, and unless an Event of Default exists, will not join in any amendment of any Bond Document without the consent of the Company.

Each of the foregoing representations, warranties and covenants shall be deemed to have been made as of the date of this Agreement and again as of the Closing Date.

Section 2.2 Representations and Warranties of the Company. In addition to any other representation and warranty of the Company herein, the Company represents and warrants as follows:

(a) Corporate Existence; Good Standing; Power. The Company is a non-profit corporation duly organized, validly existing and in good standing under the laws of the State; is duly qualified, authorized and licensed to transact business in each jurisdiction wherein failure to qualify would have a material adverse effect on the conduct of its business or the ownership of its properties; and has full corporate power and authority to own its properties and to conduct its business as now being conducted.

(b) Accuracy of Information; No Misstatements. All of the documents, instruments and written information furnished by or on behalf of the Company to the Issuer or the Trustee in connection with the issuance of the Bonds are true and correct in all material respects and do not omit or fail to state any material facts necessary or required to be stated therein to make the information provided not misleading.

(c) No Defaults; Non Contravention. No event of default or event which, with notice or lapse of time or both, would constitute an event of default or a default under any agreement or instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, and which would have a material adverse effect on the Company or which would impair its ability to carry out its obligations under the Bond Documents has occurred and is continuing; neither the execution nor the delivery by the Company of the Bond Documents to which it is party, nor the consummation of any of the transactions herein and therein contemplated nor the fulfillment of, or compliance with, the terms and provisions hereof or thereof, will contravene the Organizational Documents of the Company or will conflict with, in any way which is material to the Company, or result in a breach of, any of the terms, conditions or provisions of, or constitute a default under, any corporate or limited partnership restriction or any bond, debenture, note, mortgage, indenture, agreement or other instrument to which the Company is a party or by which the Company is or may be bound or to which any of the property or assets of the Company is or may be subject, or any law or any order, rule or regulation (applicable as of the date hereof to the Company) of any court, or regulatory body, administrative agency or other governmental body having jurisdiction over the

Company or its properties or operations, or will result in the creation or imposition of a prohibited lien, charge or other security interest or encumbrance of any nature upon any property or asset of the Company under the terms of any such restriction, bond, debenture, note, mortgage, indenture, agreement, instrument, law, order, rule or regulation.

(d) No Litigation. Except as disclosed in writing in connection with the offering of the Bonds, there is no action, suit, proceeding or investigation at law or in equity before or by any court or governmental agency or body pending or threatened, wherein an adverse decision, ruling or finding (i) would result in any material adverse change in the condition (financial or otherwise), results of operations, business or prospects of the Company or which would materially and adversely affect the properties of the Company, or (ii) would materially and adversely affect the transactions contemplated by, or the validity or enforceability of, the Bond Documents to which it is a party.

(e) Corporate Authority; Authorization and Enforceability of Transaction. The Company has full corporate power and authority to execute and deliver the Bond Documents to be executed by the Company and has full power and authority to perform its obligations hereunder and thereunder and engage in the transactions contemplated by the Bond Documents to be executed by it. The Bond Documents to be executed by the Company have been duly authorized, executed and delivered by the Company and each constitutes a legal, valid and binding obligation of the Company, enforceable in accordance with its terms (except that (i) the enforceability of such Bond Documents may be limited by bankruptcy, reorganization, insolvency, fraudulent transfer, moratorium or other similar laws of general application relating to the enforcement of creditors' rights, (ii) certain equitable remedies, including specific performance, may be unavailable and (iii) the indemnification provisions contained therein may be limited by applicable securities laws and public policy).

(f) All Approvals. Except as otherwise disclosed in writing in connection with the offering of the Bonds, no consents, approvals, including federal tax related approvals, authorizations or any other actions by any governmental or regulatory authority that have not been obtained or taken are or will be required for the issuance and sale of the Bonds, the execution and delivery of the Bond Documents by the Company, the construction, ownership and operation of the Project or the consummation of the other transactions contemplated by the Bond Documents (except for such licenses, certificates, approvals or permits necessary for the construction of the Project for which the Company either has applied or shall apply with due diligence and which the Company expects to receive).

(g) No Conflict of Interest. No elected or appointed public official, employee, agent or representative of the City or any of its official boards, commissions or committees or any member of the Governing Body of the Issuer has any direct or indirect interest of any kind, or any right, agreement or arrangement to acquire such an interest in the Project, as owner, contractor, subcontractor, shareholder, general or limited partner, tenant or otherwise that would violate or require disclosure or other action under any law, regulation, charter or ordinance of the State or the City. All applicable state and local law requirements governing conflicts of interest and any additional conflict of interest requirements prescribed by the Secretary of the Treasury have been and will be satisfied with respect to the Bonds.

(h) Representations Regarding the Project. The Company intends to construct and operate the Project during the term of this Agreement and to expend a portion of the proceeds of the Bonds in the Project Account of the Project Fund to pay Project Costs. In addition, the Project will be located in its entirety within the boundaries of the State. The principal amount of the Bonds is based upon the Company's most reasonable estimate of financing or refinancing the Project Costs as of the date hereof, which estimates are based upon sound engineering and accounting principles. The ownership of the Project will at all times be under the exclusive control and held for the exclusive benefit of the Company. The Company has obtained or will obtain all licenses and permits necessary with respect to any acquisition, construction, reconstruction, improvement, expansion or operation, as the case may be, of the Project and all necessary approvals from any governmental bodies or agencies having jurisdiction in connection therewith.

(i) Certain Federal Tax Matters. The Company makes the following representations:

(A) The Company is an organization exempt from federal income taxation as provided in Section 501(a) of the Code by virtue of being described in Section 501(c)(3) of the Code;

(B) The purposes, character, activities and methods of operation of the Company are not materially different from the purposes, character, activities and methods of operation at the time of its determination by the IRS as an organization described in Section 501(c)(3) of the Code (the "Determination") or otherwise at the time of its organization as an exempt organization within the meaning of Section 501(c)(3) of the Code, or have been disclosed to the IRS and the Company has received confirmation that such activities or methods of operation do not materially adversely affect the status of the Determination;

(C) The Company has not diverted a substantial part of its corpus or income for a purpose or purposes other than the purpose or purposes (a) for which it is organized or operated or (b) disclosed to the IRS in connection with the Determination;

(D) The Company has not operated during its five most recent fiscal years or the current fiscal year, as of the date hereof, in a manner that would result in it being classified as an "action" organization within the meaning of Section 1.501(c)(3)-(1)(c)(3) of the Regulations including, but not limited to, promoting or attempting to influence legislation by propaganda or otherwise as a substantial part of its activities;

(E) With the exception of the payment of compensation (and the payment or reimbursement of expenses) which is not excessive and is for personal services which are reasonable and necessary to carrying out the purposes of the Company, no individual who would be a "foundation manager" within the meaning of Section 4946(b) of the Code with respect to the Company, nor any Person controlled by any such individual or individuals or any of their Affiliates, nor any Person having a personal or private interest in the activities of the Company has acquired or received, directly or indirectly, any income or assets, regardless of form, of the Company during the current Fiscal Year and the five Fiscal Years preceding the current Fiscal Year, other than as reported to the IRS by the Company;

(F) The Company is not a “private foundation” within the meaning of Section 509(a) of the Code;

(G) The Company has not received any indication or notice whatsoever to the effect that its exemption under Section 501(a) of the Code by virtue of being an organization described under Section 501(c)(3) of the Code has been revoked or modified, or that the IRS is considering revoking or modifying such exemption, and such exemption is still in full force and effect;

(H) The Company has timely filed with the IRS all requests for determination, reports and returns required to be filed by it and such requests for determination, reports and returns have not omitted or misstated any material fact, and the Company has timely notified the IRS of any changes in its organization and operation since the date of the application for the Determination;

(I) The Company has not devoted more than an insubstantial part of its activities in furtherance of a purpose other than an exempt purpose within the meaning of Section 501(c)(3) of the Code;

(J) The Company has not taken any action, nor does it know of any action that any other Person has taken, nor does it know of the existence of any condition that would cause the Company to lose its exemption from taxation under Section 501(a) of the Code or cause interest on the Bonds to be includable in the income of the recipients thereof for federal income tax purposes;

(K) All of the documents, instruments and written information supplied by or on behalf of the Company, which have been reasonably relied upon by Bond Counsel in rendering its opinion with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes or Bond Counsel in rendering an opinion with respect to the status of the Company under Section 501(c)(3) of the Code, are true and correct in all material respects, do not contain any untrue statement of a material fact and do not omit to state any material fact necessary to be stated therein to make the information provided therein, in light of the circumstances under which such information was provided, not misleading.

(j) Indenture. The Indenture has been submitted to the Company for its examination, and the Company acknowledges, by execution of this Agreement, that it has reviewed the Indenture and that it accepts each of its obligations expressed or implied thereunder.

(k) Security Interests. The Company has not heretofore made a pledge of, granted a lien on or security interest in, or made an assignment or sale of the collateral granted hereunder and described in Section 4.3 that ranks on a parity with or prior to the lien granted hereunder that will remain outstanding on the Closing Date. The Company has not described the collateral in a UCC financing statement that will remain effective on the Closing Date. The Company will not hereafter make or suffer to exist any pledge or assignment of, lien on, or security interest in the collateral that ranks prior to or on a parity with the lien granted hereunder, or file any financing

statement describing any such pledge assignment, lien or security interest, except as expressly permitted by the Bond Documents.

(1) Other Representations and Warranties. Any certificate with respect to factual or financial matters signed by an officer of the Company and delivered to the Issuer shall be deemed a representation and warranty by the Company as to the statements made therein.

Each of the foregoing representations and warranties shall be deemed to have been made as of the date of this Agreement and again as of the Closing Date.

ARTICLE III

THE PROJECT

Section 3.1 Acquisition and Construction of the Project.

(a) The Company agrees to utilize the amounts in the Project Fund to pay Project Costs and to complete the acquisition, construction, reconstruction, improvement, expansion or operation, as the case may be, of the Project and to place in service and operate the Project as educational facilities as defined in the Act in furtherance of the public purposes of the Act.

(b) The Plans and Specifications for the part of the Project on each campus shall be approved prior to the commencement of construction of that part of the Project, by a duly authorized officer of the Company. The Company may make insubstantial changes in, additions to, or deletions from the Plans and Specifications and may make substantial changes in, additions to, or deletions from the Plans and Specifications only if the Project shall continue to constitute facilities of the type which may be financed or refinanced by the Issuer under the Act and any required approvals of such changes, additions, or deletions have been obtained from any governmental bodies or agencies having jurisdiction.

Section 3.2 Disbursements of Bond Proceeds.

(a) Disbursements from Project Account of the Project Fund. Pursuant to the provisions of the Indenture, there shall be deposited into the Project Account of the Project Fund a portion of the proceeds received from the sale of the Bonds. Subject to Section 404 of the Indenture, the Trustee is authorized and directed to make payments to the Company, or at the direction of the Company, from the Project Account of the Project Fund, as requested by the Company (by signing at the bottom of a Requisition Certificate) for the Company to pay third parties for amounts due and owing to such third parties with respect to any Project Costs and to reimburse the Company for any Project Costs paid directly by the Company upon receipt of a Requisition Certificate substantially in the form attached as Exhibit "B" to the Indenture. The Company shall retain copies of all Project Cost Requisition Certificates, as defined in the Indenture, until the date that is six years from the first date on which no Bonds are Outstanding.

(b) Disbursements from the Costs of Issuance Account of the Project Fund. Subject to Section 404 of the Indenture, the Trustee is authorized and directed to disburse funds on or after the Closing Date for the Costs of Issuance of the Bonds upon receipt of a Requisition Certificate. The Company shall retain copies of all Requisition Certificates until the date that is six years from

the first date on which no Bonds are Outstanding. Ninety (90) days following the Closing Date, the Costs of Issuance Account for the Bonds shall be closed and any funds remaining therein shall be transferred to the Project Account of the Project Fund and made available to pay any Project Costs relating to the Project for which such specific series of Bonds was issued.

(c) The Trustee may rely fully on any Requisition Certificate delivered pursuant to this Section 3.2 and shall not be required to make any investigation in connection therewith.

Section 3.3 Completion of Project if Bond Proceeds Insufficient. The Company agrees to pay all Project Costs which are not, or cannot be, paid or reimbursed from the proceeds of the Bonds. The Company agrees that if, after exhaustion of the moneys in the Project Fund established pursuant to the Indenture, the Company should pay any portion of the Project Costs, it shall not be entitled to any reimbursement therefor from the Issuer, the Trustee or from any Bondholder, nor shall it be entitled, as a consequence of such unreimbursed payment, to any abatement, postponement or diminution of the amounts payable under this Agreement.

Section 3.4 Completion. Upon completion of the Project, but not later than the end of the fifth Bond Year, the Company shall deliver to the Trustee a Completion Certificate in the form of Exhibit B hereto.

Section 3.5 Modification of the Project. Subject to Section 6.4, the Project may be altered or added to by the Company; provided, however, that the Company shall make no revision to the Project that results in the Project ceasing to (i) constitute educational facilities, as defined in the Act, or (ii) be substantially similar to the Project as approved by the Issuer; provided, further, that no revision to the Project may be made unless the Company has delivered a Favorable Opinion of Bond Counsel to the Trustee.

Section 3.6 Casualty and Condemnation. (a) In the event of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project, the Company shall promptly engage the services of the Construction Consultant, which shall make a determination as to the amount of insurance or condemnation proceeds anticipated to result therefrom within fifteen (15) days of the occurrence of such damage, destruction, condemnation or taking.

(b) If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are equal to or less than \$250,000, such proceeds shall be transferred to the Trustee for deposit in the Insurance Proceeds Account of the Project Fund and shall be applied to repair, restore, modify, improve or replace the Project. The Trustee is hereby directed to make payments from the Insurance Proceeds Account of the Project Fund for such purposes or to reimburse the Company for costs paid by it in connection therewith upon receipt of a Requisition Certificate signed by an Authorized Representative of the Company and approved by the Construction Consultant in substantially the same form as Exhibit "B" to the Indenture. Any balance of the insurance or condemnation proceeds remaining after the Project has been repaired, restored or replaced to a state substantially like that prior to the event of damage, destruction or taking, as determined by the Construction Consultant, shall, upon delivery to the Trustee of a certificate executed by the Construction Consultant to such effect, be deposited

to the Debt Service Fund and applied to the redemption of the Bonds or other Related Bonds issued to finance the repaired, restored or replaced Project at the earliest practical date.

(c) If the insurance or condemnation proceeds of any damage, destruction, condemnation or taking under the threat of condemnation with respect to the Project as determined by the Construction Consultant pursuant to paragraph (a) above are greater than \$250,000, such insurance or condemnation proceeds shall be transferred to the Trustee for deposit into the Insurance Proceeds Account of the Project Fund, and:

(1) The Company shall immediately request that the Construction Consultant prepare a report to determine (A) if the repair, reconstruction, restoration or replacement of the Project or a portion thereof damaged or taken is economically feasible and will restore the Project to the physical and operating condition as existed before and (B) if the Company will have sufficient funds from the insurance proceeds, business interruption insurance proceeds and other available funds to make the payments required hereunder when due, to pay the cost of repairing, reconstructing, restoring or replacing the portion of the Project affected by such loss, damage or condemnation (including without limitation architects' and attorneys' fees and expenses), to pay the Company's operating costs until completion of the repair, construction or replacement of such portion of the Project which report shall be delivered to the Trustee and any holder owning at least ten percent (10%) in aggregate principal amount of any series of Outstanding Bonds, within thirty (30) days of the occurrence of such damage, destruction, condemnation or taking. If the report determines the foregoing conditions are satisfied, then within thirty (30) days after delivery thereof, the Company shall deliver to the Trustee:

(A) cash in an amount equal to the funds, if any, in excess of insurance proceeds and business interruption insurance proceeds required by the report delivered under clause (1) above for deposit in a special separate account of the Project Fund; and

(B) such other documents and information as the holders of a majority in aggregate principal amount of the Outstanding Bonds may reasonably require; and

the Company shall promptly proceed to repair, reconstruct and replace the affected portion of the Project, including all fixtures, furniture and equipment and effects, to its original condition to the extent possible. Each request for payment shall comply with the requirements of the Indenture in Section 404 for payments from the Project Fund.

(2) If the Construction Consultant's report does not determine that the conditions are satisfied or fails to meet the requirements relating to repair or reconstruction or replacement in clause (1) above, the Company shall prepay the Loan and the Bonds shall be redeemed as set forth in paragraph (e) below.

(d) Under the circumstances set forth in subsection (c)(1) hereof, if the insurance or condemnation proceeds are insufficient to pay in full the cost of any repair, restoration, modification or improvement undertaken pursuant to this Section, the Company will nonetheless

complete the work and will pay any cost in excess of the amount of the insurance or condemnation proceeds held by the Trustee. The Company agrees that if by reason of any such insufficiency of the insurance or condemnation proceeds, the Company shall make any payments pursuant to the provisions of this Section, the Company shall not be entitled to any reimbursement therefor from the Trustee or any Bondholder, nor shall the Company be entitled to any diminution of the amount payable hereunder.

(e) Under the circumstances set forth in subsection (c)(2) hereof, the Loan shall be paid and the Bonds redeemed in full without premium and the insurance proceeds shall be transferred by the Trustee from the applicable account in the Project Fund to the applicable account in the Debt Service Fund for such purpose. If the insurance proceeds are insufficient to redeem the Bonds in full, the Company shall provide to the Trustee for deposit into the Debt Service Fund moneys which, together with the insurance proceeds, will be sufficient to redeem all of the Bonds pursuant to the Extraordinary Optional Redemption provisions of the Bonds. In the event that the Company has completed any repair, reconstruction or replacement of the Project after the occurrence of any damage, destruction or condemnation and there are excess insurance proceeds, such excess shall be deposited in the Debt Service Fund and applied to the redemption of all or a portion of the Bonds pursuant to the Extraordinary Optional Redemption provision of the Bonds.

Section 3.7 Inspection of the Project. The Company agrees that the Issuer and its duly authorized agents, including the Trustee, may, but have no obligation to at reasonable times as determined by the Company, enter upon the Project site and examine and inspect the Project and, upon the occurrence of an Event of Default, the books and records of the Company that relate to the Project.

Section 3.8 Maintenance and Operation. The Company undertakes to cause each item of its buildings and other facilities, including the Project, to be maintained and operated so long as the operation of each such item, in the sole judgment of the Company, is economical, lawful, and feasible and in accordance with good operating practice. The Company agrees that during the term of this Agreement it will pay all costs of operating, maintaining, and repairing its buildings and other facilities, including the Project, and that the Issuer shall have no responsibility or liability whatsoever for operating, maintaining, or repairing its buildings and other facilities, including the Project. The Company agrees that it shall not enter into a contract for the management of the Project by a third party service provider unless it receives a Favorable Opinion of Bond Counsel.

Section 3.9 No Establishment and No Impairment of Religion. The Company and the Issuer intend that the Loan and all other transactions provided for in this Agreement be made in strict compliance with all applicable laws and constitutional provisions of the United States and the State. Accordingly, the Company agrees that to the full extent required from time to time by applicable laws and constitutional provisions of the United States and the State in order for the Loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with such laws and constitutional provisions: (a) no part of the Project financed or refinanced in whole or in part with proceeds of the Bonds shall be used for sectarian instruction or as a place of religious worship; (b) notwithstanding the payment in full of the Loan Payments and the Bonds, and notwithstanding the termination of this Agreement, each such part of the Project will continue to be subject to the restrictions set out in clause (a) of this Section for so long as it is owned by the Company, or any voluntary grantee of the Company, provided the

continuance of such restriction is necessary to preserve the exemption from federal income taxation of interest on the Bonds under the Code. Provided, however, that to any extent that a restriction or agreement set out in this Section shall at any time not be required in order for the loan to the Company and all other transactions provided for in this Agreement to be made and effected in compliance with applicable constitutional provisions of the United States and the State, such restriction or agreement shall, to that extent and without necessary action by any party, be without any force or effect; and provided further, that in no event shall such restriction or agreement set out in this Section be more expansive than required by an applicable constitutional provision.

Section 3.10 Issuer Relieved From Responsibility With Respect to Project. The Company and the Issuer hereby expressly acknowledge and agree that the Issuer is under no responsibility to insure, maintain, operate or repair the Project or to pay taxes with respect thereto, and the Company expressly relieves the Issuer from any such responsibility.

Section 3.11 Force Majeure. If by reason of Force Majeure the Company shall be rendered unable wholly or in part to carry out its obligations under this Article (other than its obligations to pay money contained in this Agreement), and if the Company gives notice and full particulars of such Force Majeure in writing to the Issuer and to the Trustee within a reasonable time after failure to carry out such obligations, then the obligations of the Company under this Article, so far as they are affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, including a reasonable time for removal of the effect thereof. The requirement that any Force Majeure shall be reasonably beyond the control of the Company shall be deemed to be fulfilled even though any existing or impending strike, lockout or other industrial disturbance may not be settled but could have been settled by acceding to the demand of the opposing Person. The occurrence of any Force Majeure shall not suspend or otherwise abate, and the Company shall not be relieved from, the obligation to pay the Bonds and to pay any other payments required to be made by it under this Agreement at the times required. For purposes of this Section, “Force Majeure” means acts of God, strikes, lockouts or other industrial disturbances, acts of the public enemy, acts or orders of any kind of the government of the United States of America, or of any state or locality thereof, or any civil or military authority, terrorist acts, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, tornadoes, storms, floods, washouts, droughts, arrests, restraining of government and people, civil disturbances, explosions, nuclear accidents, wars, breakage or accidents to machinery, transmission pipes or canals, partial or entire failure of utilities, shortages of labor, material, supplies or transportation, or any other cause not reasonably within the control of the party claiming such inability.

Section 3.12 Insurance. So long as the Bonds remain Outstanding, the Company shall at all times keep and maintain the insurance required by Section 213 of the Master Indenture.

Section 3.13 Disposition of Project. The Company covenants that the Project will not be sold or otherwise dispose of the Project in a transaction resulting in the receipt by the Company of cash or other compensation, unless the Company delivers a Favorable Opinion of Bond Counsel to the Issuer and the Trustee; provided that this provision shall not apply to any portion of the Property comprising personal property and disposed of in the ordinary course of business.

ARTICLE IV

PAYMENTS

Section 4.1 Loan Payments.

(a) To repay the Loan of the proceeds of the Bonds evidenced by the Note, the Company shall, subject to the limitations of Section 4.5 of this Agreement, make or cause to be made Loan Payments in immediately available funds in accordance with the Indenture and this Agreement directly to the Trustee as follows:

(i) on or before the earlier of the tenth (10th) Business Day prior to any Interest Payment Date or the 25th day of each month, amounts sufficient to provide for the payment of interest which is due on the next ensuing date for payment of such interest with respect to the Bonds;

(ii) on or before the earlier of the tenth (10th) Business Day prior to any Interest Payment Date or the 25th day of each month, amounts sufficient to provide for the payment of the principal of or sinking fund payment on the Bonds which is next due for payment of such principal or for such sinking fund redemption payment; and

(iii) following any draw upon or payment from the Guarantee, TEA Guarantee Payments in the amounts and on the dates set forth in the Guarantee and Section 6.2 of this Agreement.

(b) If, subsequent to a date on which the Company is not obligated to pay the Loan Payments (as a result of defeasance of the Bonds pursuant to Section 1002 of the Indenture), losses (net of gains) shall be incurred in respect of any investments, or any other event or circumstance has occurred causing the amounts in the Debt Service Fund, together with any other amounts then held by the Trustee and available for the purpose, to be less than the amount sufficient at the time of such occurrence or other event or circumstance to pay, in accordance with the provisions of the Indenture, all principal of (premium, if any) and interest on the Bonds due and payable or to become due and payable, the Trustee shall notify the Company of such fact and thereafter the Company, as and when required for purposes of such Debt Service Fund, but subject to the limitations of Section 4.5 of this Agreement, shall pay to the Trustee for deposit in the Debt Service Fund the amount of any such deficiency below such sufficient amount.

(c) If the Texas Education Agency, the Texas Attorney General, the Texas Comptroller of Public Accounts, or any other agency with authority over the expenditures or safekeeping of State Revenues, notifies the Company that the Bonds do not provide benefits to all Participating Campuses sufficient to satisfy the requirements under Section 12.107, Texas Education Code, then the Company shall only provide Loan Payments from any Participating Campuses in excess of its Pro-Rata share through a loan to any other Participating Campuses that cannot pay its Pro-Rata share. Such loan shall not constitute Debt under the terms of the Master Indenture, the Indenture or any Supplement to either document, the Company shall have no duty to notify the Trustee of any such notification or loan, and the Trustee shall have no duty or responsibility to enforce this Section; provided, that nothing herein shall diminish or otherwise excuse performance of the

payment obligations of the Company pursuant to this Section or limit the application of Section 4.4 hereof. For purposes of this paragraph, “Pro-Rata” means in proportion to the percentage of Bond proceeds spent on improvements to schools operated under a specific charter, such that the amount of Loan Payments made from State Revenues with respect to schools operated under a particular charter is proportional to the percentage of Bond proceeds spent on improvements to the schools operated under such charter in accordance with Section 12.107, Texas Education Code.

Section 4.2 Prepayment of Loan; Redemption of Bonds. The Company may at any time deliver money or Defeasance Obligations to the Trustee with instructions to the Trustee to hold such money or Defeasance Obligations pursuant to the Indenture in connection with a deemed payment or redemption of Bonds. The Issuer agrees that, at the request at any time of the Company, it will exercise its rights and otherwise cooperate with the Company to cause the Bonds or any portion thereof to be redeemed to the extent required or permitted by the Indenture. Except to the extent of any such deemed payment or any redemption of the Bonds in whole or in part, neither the Loan made hereunder nor the Note shall be prepayable. Any excess or unclaimed money held by the Trustee under the Indenture shall be paid by the Trustee to the Company in accordance with Article IV or Article X of the Indenture, as applicable.

Section 4.3 Security Interests.

(a) As security for repayment of the Note and performance of the Company’s obligations under this Agreement, the Company hereby pledges, sets over, assigns and grants a security interest to the Issuer in all of the Company’s right, title and interest in and to all amounts at any time deposited in the funds established pursuant to the Indenture (except the Rebate Fund), including all investments and reinvestments made with such amounts and the proceeds thereof, and in all of its rights to and interests in such amounts, investments, reinvestments and proceeds. The Company hereby authorizes and directs the Trustee to invest and disburse such amounts and proceeds in accordance with the Indenture and this Agreement. The Company represents that, under the laws of the State, (i) this Agreement creates a valid and binding lien in favor of the Issuer as security for the payment of the Note, enforceable in accordance with the terms hereof; and (ii) the lien on the collateral granted hereunder, is and shall be prior to any judicial lien hereafter imposed on such collateral to enforce a judgment against the Company on a simple contract. The Company hereby authorizes the Issuer and the Trustee to file any financing statements or continuation statements necessary to maintain the perfection of the security interest granted hereby.

(b) The Company will (i) upon the execution and delivery of the Bond Documents and thereafter, from time to time cause any Bond Document and each amendment and supplement thereto (or financing statements or a memorandum with respect thereto or to such amendment or supplement) to be filed, registered and recorded and to be refiled, reregistered and rerecorded in such manner and in such places as may be required in order to publish notice of and fully to protect the liens, or to perfect or continue the perfection of the security interests, created thereby and (ii) perform or cause to be performed from time to time any other act as required by law, and execute or cause to be executed any and all instruments of further assurance that may be necessary for such publication, perfection, continuation and protection, including without limitation the execution of any deposit account control agreement and the delivery of legal opinions as to the perfection of any such security interests. The Company will not change or relocate its place of business (or its

chief executive office if it has more than one place of business) unless it has taken all actions, and made all filings necessary to continue the effectiveness and perfection of all security interests created by the Bond Documents to which it is a party. The Trustee shall either (i) file continuation statements as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents, or (ii) confirm, on an annual basis, the filing of continuation statements by the Company required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents and, if necessary, make such filings as may be required to maintain the perfection and priority of the security interests granted hereby and by the Bond Documents.

(c) Under the Indenture, the Issuer is, as security for the Bonds, pledging, assigning, transferring and granting a security interest in certain of its rights, title and interest under this Agreement to the Trustee. The Company agrees that this Agreement, and all of the rights, interests, powers, privileges and benefits accruing to or vested in the Issuer shall be protected and enforced in conformity with the Indenture and (except for the Issuer's Unassigned Rights) are being assigned by the Issuer to the Trustee as security for the Bonds and may be exercised, protected and enforced solely by the Trustee for or on behalf of the Bondholders in conformity with this Agreement and the Indenture. The Trustee is hereby given the exclusive right to enforce, as assignee of the Issuer, the performance of the obligations of the Company, and the Company hereby consents to the same and agrees that the Trustee may enforce such rights as provided in this Agreement and in the Indenture. The Issuer and the Company recognize that the Trustee is a third party creditor-beneficiary of this Agreement. The Issuer hereby directs the Company to make all payments (other than payments relating to any money or rights not granted to the Trustee as part of the Trust Estate pursuant to the granting clauses in the Indenture) to the Trustee instead of to the Issuer and the Company hereby agrees to do so. All such payments shall be made in lawful money of the United States of America directly to the Trustee, as assigned by the Issuer, at the location specified by the Trustee, and shall be applied as provided in Section 4.1 of this Agreement. The Company and the Issuer further acknowledge that except for the obligation of the Trustee to credit amounts paid or recovered from this Agreement or the collateral therefor to the Issuer's debt evidenced by the Bonds and except for certain rights not granted to the Trustee as part of the Trust Estate, the Issuer has no further interest in this Agreement and the Trustee shall have the exclusive right (subject to the provisions of the Indenture) to grant consents, extensions, forgiveness, and waivers, make amendments, release collateral and otherwise deal with the Company as the sole owner of this Agreement and the Trustee exclusively may start and prosecute suit hereon or otherwise take action to recover amounts owing under this Agreement without first obtaining the consent of the Issuer or without joining the Issuer as a plaintiff.

Section 4.4 Nature of Obligations of the Company. The Company agrees that its obligations to make payments hereunder shall be absolute and unconditional, irrespective of any rights of set-off, diminution, abatement, recoupment or counterclaim the Company might otherwise have against any Person, and except in connection with a discharge of the Indenture, the Company will perform and observe all its payment obligations and covenants, representations and warranties hereunder without suspension and will not terminate the Bond Documents to which it is a party for any cause. The Company covenants not to seek and hereby waives, to the extent permitted by applicable law, the benefits of any rights which it may have at any time to any stay or extension of time for performance or to terminate, cancel or limit its liability under the Bond Documents to which it is a party except through payment or deemed payment of the Bonds as

provided in such Bond Documents. The Bondholders shall be entitled to rely upon the agreements and covenants in this Section regardless of the validity or enforceability of the remainder of this Agreement or any other Bond Document or agreement.

The preceding paragraph shall not be construed to release the Issuer from the performance of any of its agreements contained in this Agreement, or except to the extent provided in this Section and Section 5.1, prevent or restrict the Company from asserting any rights which it may have against the Issuer, the Trustee or any other Person under this Agreement or any of the other Bond Documents to which it is a party or under any provision of law or prevent or restrict the Company, at its own cost and expense, from prosecuting or defending any action or proceeding against or by third parties or taking any other action to secure or protect its rights in connection with the acquisition, construction, improvement, possession and use of the Project and its rights under such Bond Documents.

Section 4.5 Limitation on Interest. Notwithstanding any provision of the Bond Documents to the contrary, it is hereby agreed that in no event shall the amount of interest (as defined and calculated in accordance with applicable law) contracted for, charged, reserved, received or taken in connection with any loan made hereunder exceed the amount of interest which could have been contracted for, charged, reserved, received or taken at the Highest Lawful Rate. If the applicable law is ever judicially interpreted so as to render usurious any amount called for under the Bond Documents or otherwise contracted for, charged, reserved, received or taken in connection with any loan made hereunder, or if the Trustee's exercise of the right to accelerate the Maturity of any loan made hereunder or if any prepayment of any such loan by the Company results in there having been paid or received any interest in excess of that permitted by applicable law, then notwithstanding anything to the contrary contained in the Bond Documents, all excess amounts theretofore paid or received shall be credited on the principal balance of such loan (or, if such loan has been or would thereby be paid in full, refunded), and the provisions of this Agreement and the related Note shall immediately be deemed reformed and the amounts thereafter collectible thereunder reduced, without the necessity of the execution of any new document, so as to comply with the applicable law, but so as to permit the recovery of the fullest amount otherwise called for thereunder. All sums paid or agreed to be paid for the use, forbearance or detention of the indebtedness evidenced by any such loan shall, to the extent permitted by applicable law, be amortized, prorated, allocated and spread throughout the full term of such indebtedness until payment in full so that the rate or amount of interest on account of such indebtedness does not exceed the usury ceiling from time to time in effect and applicable to such indebtedness for so long as such indebtedness is outstanding (it being understood that the foregoing provisions permit the rate of interest on such loan to exceed the Highest Lawful Rate for any day as long as the total amount of interest paid on such loan from the date of initial delivery of the Bonds to the date of calculation does not exceed the amount of interest which would have been paid on such loan to the date of calculation if such loan had borne interest for such period at the Highest Lawful Rate).

Section 4.6 Fees and Expenses.

(a) Issuer. The Company agrees to pay promptly upon demand therefor all fees and costs paid, incurred or charged by the Issuer in connection with the Bonds, including without limitation, (i) all out-of-pocket expenses and Costs of Issuance (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection

with the issuance of the Bonds and the administration of the Bond Documents, (ii) all payments required to be paid by the Issuer with respect to the Bonds, and (iii) out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Issuer) reasonably incurred by the Issuer in connection with the enforcement of any of its rights or remedies or the performance of its duties under the Bond Documents to which it is a party.

(b) Trustee and Paying Agent. The Company agrees to pay all costs paid, incurred or charged by the Trustee and the Paying Agent including, without limitation, (i) all fees and out-of-pocket expenses incurred with respect to services rendered under any of the Bond Documents, (ii) all amounts payable to the Trustee and the Paying Agent pursuant to Section 807 of the Indenture, and (iii) all out-of-pocket expenses (including reasonable fees and expenses of attorneys employed by the Paying Agent and the Trustee) incurred in connection with the enforcement of any rights or remedies or the performance of duties under the Bond Documents.

(c) TEA. The Company agrees unconditionally that it will pay or reimburse TEA on demand any and all reasonable charges, fees, costs, losses, liabilities and expenses that TEA may pay or incur, including, but not limited to, fees and expenses of TEA's agents, attorneys, accountants, consultants, appraisers and auditors and reasonable costs of investigations, in connection with the administration (including waivers and consents, if any), enforcement, defense, exercise or preservation of any rights and remedies in respect of the Bond Documents. For purposes of the foregoing, costs and expenses shall include a reasonable allocation of compensation and overhead attributable to the time of employees of TEA spent in connection with the actions described in the preceding sentence.

ARTICLE V

COVENANTS OF THE COMPANY

Section 5.1 Indemnification.

(a) Agreements to Indemnify. THE COMPANY AGREES THAT IT WILL AT ALL TIMES INDEMNIFY AND HOLD HARMLESS EACH OF THE INDEMNIFIED PARTIES AGAINST ANY AND ALL LOSSES OTHER THAN LOSSES RESULTING FROM FRAUD, WILLFUL MISCONDUCT OR THEFT ON THE PART OF THE INDEMNIFIED PARTY CLAIMING INDEMNIFICATION. IT IS THE EXPRESS INTENTION AND AGREEMENT OF THE PARTIES THAT THE COMPANY WILL INDEMNIFY THE INDEMNIFIED PARTIES AGAINST LOSSES WHICH ARISE FROM THE NEGLIGENCE OF ANY INDEMNIFIED PARTY.

(b) Release. NONE OF THE INDEMNIFIED PARTIES SHALL BE LIABLE TO THE COMPANY FOR, AND THE COMPANY HEREBY RELEASES EACH OF THEM FROM, ALL LIABILITY TO THE COMPANY FOR, ALL INJURIES, DAMAGES OR DESTRUCTION TO ALL OR ANY PART OF ANY PROPERTY OWNED OR CLAIMED BY THE COMPANY THAT DIRECTLY OR INDIRECTLY RESULT FROM, ARISE OUT OF OR RELATE TO THE DESIGN, CONSTRUCTION, OPERATION, USE, OCCUPANCY, MAINTENANCE OR OWNERSHIP OF THE PROJECT OR ANY PART THEREOF, EVEN IF SUCH INJURIES, DAMAGES OR DESTRUCTION DIRECTLY OR INDIRECTLY RESULT

FROM, ARISE OUT OF OR RELATE TO, IN WHOLE OR IN PART, ONE OR MORE ACTS OR OMISSIONS OF THE INDEMNIFIED PARTIES INCLUDING ACTS OR OMISSIONS CONSTITUTING NEGLIGENCE ON THE PART OF ANY INDEMNIFIED PARTY (OTHER THAN FRAUD, WILLFUL MISCONDUCT OR THEFT ON THE PART OF THE INDEMNIFIED PARTY CLAIMING RELEASE) IN CONNECTION WITH THE ISSUANCE OF THE BONDS OR IN CONNECTION WITH THE PROJECT.

(c) Subrogation. Each Indemnified Party, as appropriate, shall reimburse the Company for payments made by the Company pursuant to this Section to the extent of any proceeds, net of all expenses of collection, actually received by it from any other source (but not from the proceeds of any claim against any other Indemnified Party) with respect to any Loss to the extent necessary to prevent a multiple recovery by such Indemnified Party with respect to such Loss. At the request and expense of the Company, each Indemnified Party shall claim or prosecute any such rights of recovery from other sources (other than any claim against another Indemnified Party) and such Indemnified Party shall assign its rights to such rights of recovery from other sources (other than any claim against another Indemnified Party), to the extent of such required reimbursement, to the Company.

(d) Notice. In case any Claim shall be brought or, to the knowledge of any Indemnified Party, threatened against any Indemnified Party in respect of which indemnity may be sought against the Company, such Indemnified Party promptly shall notify the Company in writing; provided, however, that any failure so to notify shall not relieve the Company of its obligations under this Section.

(e) Defense. The Company shall have the right to assume the investigation and defense of all Claims, including the employment of counsel and the payment of all expenses. Each Indemnified Party shall have the right to employ separate counsel in any such action and participate in the investigation and defense thereof, but the fees and expenses of such counsel shall be paid by such Indemnified Party unless (i) the employment of such counsel has been specifically authorized by the Company, in writing, (ii) the Company has failed after receipt of notice of such Claim to assume the defense and to employ counsel, or (iii) the named parties to any such action (including any impleaded parties) include both an Indemnified Party and the Company, and the Indemnified Party shall have been advised by counsel that there may be one or more legal defenses available to it which are different from or additional to those available to the Company (in which case, if such Indemnified Party notifies the Company in writing that it elects to employ separate counsel at the Company's expense, the Company shall not have the right to assume the defense of the action on behalf of such Indemnified Party; provided, however, that the Company shall not, in connection with any one action or separate but substantially similar or related actions in the same jurisdiction arising out of the same general allegation or circumstances, be liable for the reasonable fees and expenses of more than one separate firm of attorneys for the Indemnified Parties, which firm shall be designated in writing by the Indemnified Parties).

(f) Cooperation; Settlement. Each Indemnified Party shall cooperate with the Company in the defense of any action or Claim. The Company shall not be liable for any settlement of any action or Claim without the Company's consent but, if any such action or Claim is settled with the consent of the Company or there be final judgment for the plaintiff in any such action or with respect to any such Claim, the Company shall indemnify and hold harmless the

Indemnified Parties from and against any Loss by reason of such settlement or judgment to the extent provided in Subsection (a).

(g) Survival; Right to Enforce. The provisions of this Section shall survive the termination of this Agreement, and the obligations of the Company hereunder shall apply to Losses or Claims under Subsection (a) whether asserted prior to or after the termination of this Agreement. In the event of failure by the Company to observe the covenants, conditions and agreements contained in this Section, any Indemnified Party may take any action at law or in equity to collect amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under this Section. The obligations of the Company under this Section shall not be affected by any assignment or other transfer by the Issuer of its rights, titles or interests under this Agreement to the Trustee pursuant to the Indenture and will continue to inure to the benefit of the Indemnified Parties after any such transfer. The provisions of this Section shall be cumulative with and in addition to any other agreement by the Company to indemnify any Indemnified Party.

(h) Trustee. The Company also agrees to indemnify the Trustee, and any of its officers, directors, employees, agents, affiliates (including without limitation, the Trustee as Paying Agent under the Indenture) or successors (collectively, the “Indemnitees”), for, and to defend and hold them harmless against, any loss, liability, claims, proceedings, suits, demands, penalties, costs and expenses, including without limitation, the costs and expenses of outside and in house counsel and experts and their staffs and all expenses of document location, duplication and shipment and of preparation to defend and defending any of the foregoing (for purposes of this clause (h), “Losses”), that may be imposed on, incurred by or asserted against any Indemnitee in respect of (i) any loss, or damage to any property, or injury to or death of any person, asserted by or on behalf of any Person arising out of, resulting from, or in any way connected with the Project, or the conditions, occupancy, use, possession, conduct or management of, or any work done in or about the Project or from the planning, design, acquisition or construction of any Project facilities or any part thereof, (ii) the issuance of the Bonds or the Issuer’s authority therefore; (iii) the Indenture and any instrument related thereto, (iv) the Trustee’s execution, delivery and performance of the Indenture in respect of any Indemnitee except to the extent such Indemnitee’s negligence or bad faith primarily caused the Loss, and (v) compliance with or attempted compliance with or reliance on any instruction or other direction upon which the Trustee may rely under the Indenture or any instrument related thereto. The Company further agrees to indemnify the Indemnitees against any Losses as a result of (1) any untrue statement or alleged untrue statement of any material fact or the omission or alleged omission to state a material fact necessary to make the statements made not misleading in any statement, information or material furnished by the Company to the Issuer or the Trustee, including, but not limited to any disclosure utilized in connection with the sale of the Bonds or (2) the inaccuracy of the statement contained in any section of any Bond Document relating to environmental representations and warranties. The foregoing indemnification shall include, without limitation, indemnification for any statement or information concerning the Company or its officer and members or its Property contained in any official statement or other offering document furnished to the Trustee or the purchaser of any Bonds that is untrue or incorrect in any material respect, and any omission from such official statement or other offering document of any statement or information which should be contained therein for the purpose for which the same is to be used or which is necessary to make the statements therein concerning the Company, its officers and members and its Property not misleading in any material respect. The foregoing is

in addition to any other rights, including rights to indemnification, to which the Trustee may otherwise be entitled.

Section 5.2 Removal of Liens. If any lien, encumbrance or charge of any kind based on any claim of any kind (including, without limitation, any claim for income, franchise or other taxes, whether federal, state or otherwise) shall be asserted or filed against the Trust Estate, or any Loan Payment paid or payable by the Company under or pursuant to this Agreement, or any order (whether or not valid) of any court shall be entered with respect to the Trust Estate, or any such Loan Payment by virtue of any claim of any kind, in any case so as to:

(a) interfere with the due payment of such amount to the Trustee or the due application of such amount by the Trustee or any Paying Agent pursuant to the applicable provisions of the Indenture,

(b) subject the Bondholders to any obligation to refund any money applied to payment of principal (premium, if any) and interest on any Bond, or

(c) result in the refusal of the Trustee or any Paying Agent to make such due application because of its reasonable determination that liability might be incurred if such due application were to be made,

then the Company will promptly take such action (including, but not limited to, the payment of money) as may be necessary to prevent, or to nullify the cause or result of, such interference, obligation or refusal, as the case may be.

Section 5.3 Tax Covenants. The Company will not, through any act or omission, adversely affect the exclusion from gross income of interest paid or payable on the Bonds for federal income tax purposes, and, in the event of such action or omission, it will use all reasonable efforts to cure the effect of such action or omission. Certain terms used in this Section are defined in Section 5.3(r). With the intent not to limit the generality of the foregoing, the Company covenants and agrees that prior to the final Maturity of the Bonds, unless it has received and filed with the Issuer and the Trustee a Favorable Opinion of Bond Counsel:

(a) Maintenance of Exempt Status. The Company will (i) conduct its operations in a manner that will result in its continued qualification as an organization described in Section 501(c)(3) of the Code as represented in Section 2.2(i)(A) through 2.2(i)(K) of this Agreement, and (ii) timely file or cause to be filed all materials, returns, reports and other documents which are required to be filed with the IRS.

(b) Diversion of Funds for Unrelated Purposes. The Company will not divert any substantial part of its corpus or income for a purpose or purposes other than those for which it is organized and operated as represented in Section 2.2(i)(A) through 2.2(i)(J) of this Agreement.

(c) Notification of the Internal Revenue Service. The Company will timely notify the IRS of any changes in its organizational documents or method of operations to the extent that the IRS does not already have knowledge of any such changes.

(d) Ownership of Project. All of the property financed or refinanced with the Net Proceeds of the Bonds will, at all times prior to final Maturity of the Bonds or prior to the expiration of the useful life of such property, be owned for federal income tax purposes by the Company or by another Exempt Person.

(e) Use of Net Proceeds. The Company will not use or permit to be used, directly or indirectly, in any trade or business carried on by any Person who is not an Exempt Person, more than the lesser of (i) 5 percent of the Net Proceeds of the Bonds or (ii) \$15,000,000. For purposes of the preceding sentence, (w) use of Net Proceeds by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a use by an Exempt Person; (x) use of any property financed with the Net Proceeds of the Bonds constitutes use of such proceeds to the extent of the cost of such property financed with such Net Proceeds; (y) any use of the Net Proceeds of the Bonds in any manner contrary to the guidelines set forth in Revenue Procedure 2017-13 shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person; and (z) any use of the Net Proceeds to pay Costs of Issuance shall constitute the use of such proceeds in the trade or business of a Person who is not an Exempt Person.

(f) Loans of Proceeds. The Company will not use or permit the use of any portion of the Sale Proceeds of the Bonds, directly or indirectly, to make or finance loans to persons who are not Exempt Persons. For purposes of the preceding sentence, (i) a loan to an organization described in Section 501(c)(3) of the Code for use with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute a loan to an Exempt Person and (ii) any transaction which constructively transfers ownership of property financed with Sale Proceeds of the Bonds for federal income tax purposes constitutes a loan of such Sale Proceeds.

(g) Limit on Nonhospital Bonds. The Company will expend at least 95 percent of the Net Proceeds of Bonds for Capital Expenditures incurred after August 5, 1997. Accordingly, the Bonds are not subject to the \$150,000,000 limit on nonhospital bonds imposed by section 145(b) of the Code.

(h) Project Useful Life. Taking into account the Issue Price (as defined in Section 5.3(r) of this Agreement) of the Stated Maturity of the Bonds, the weighted average maturity of the Bonds will not exceed 120 percent of the average reasonably expected economic life of the Project to be financed or refinanced by the Bonds, weighted in proportion to the respective cost of each item comprising the property the cost of which has been or will be financed, directly or indirectly, with the Net Proceeds (as defined in Section 5.3(r) of this Agreement) of the Bonds. For purposes of the preceding sentence, the reasonably expected economic life of property shall be determined as of the later of (A) the Closing Date for the Bonds or (B) the date on which such property is placed in service (or expected to be placed in service). In addition, land shall not be taken into account in determining the reasonably expected economic life of property, except that, in the event 25 percent or more of the collective Net Proceeds of the Bonds, directly or indirectly, have been expended for land, such land shall be treated as having an economic life of 30 years and shall be taken into account for purposes of determining the reasonably expected economic life of such property.

(i) Prohibited Facilities. None of the Proceeds of the Bonds will be used to provide any airplane, sky-box or other private luxury box, facility primarily used for gambling or store the principal business of which is the sale of alcoholic beverages for consumption off premises.

(j) Public Approval. The Company covenants and agrees that the Proceeds of the Bonds will not be used in a manner that deviates other than in an insubstantial degree from the Project described in the written notice of public hearing regarding the Bonds posted by the Issuer on their website on _____, 2024.

(k) Limit on Costs of Issuance. The Sale Proceeds of the Bonds will be expended for the purposes set forth in this Agreement and in the Indenture and no portion thereof in excess of 2 percent of the Sale Proceeds of the Bonds, within the meaning of Section 147(g) of the Code, will be expended to pay Costs of Issuance with respect to the Bonds.

(l) No Arbitrage. The Company will not use or invest the Proceeds of the Bonds such that the Bonds become “arbitrage bonds” within the meaning of Section 148 of the Code, and as evidence of this intent, a representative of the Company has reviewed the Issuer’s Federal Tax Certificate prepared in connection with the Bonds and the Company understands, and will take (or request the Trustee or the Issuer to take), the actions described therein.

(m) Yield on Investment of Gross Proceeds. The Company will restrict the cumulative, blended Yield on the investment of the Gross Proceeds of the Bonds, to the Yield of such issue, other than amounts (i) not subject to yield restriction due to any applicable temporary period under Section 148(c) of the Code, or as a result of being on deposit in a Reasonably Required Reserve or Replacement Fund, the Rebate Fund, a bona fide debt service fund (including the Debt Service Fund), or as a minor portion, or (ii) invested at a restricted yield by virtue of being invested in obligations described in Section 103(a) of the Code that are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code to the extent required by the Code or the Regulations.

(n) Rebate. The Company agrees to take all steps necessary to compute and pay any Rebate Amount in accordance with Section 148(f) of the Code, including:

(i) Delivery of Documents and Money on Computation Dates. The Company shall deliver to the Trustee, within 45 days after each Computation Date for the Bonds,

(A) a statement, signed by an officer of the Company, stating the Rebate Amount as of such Computation Date; and

(B) (1) if such Computation Date is an Installment Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund, is equal to at least 90 percent of the Rebate Amount in respect of the Bonds as of such Installment Computation Date, less any prior payments of Rebate Amount made to the United States in respect of the Bonds, or (2) if such Computation Date is the Final Computation Date, an amount which, together with any amount then held for the credit of the Rebate Fund in respect of the Bonds, is

equal to the Rebate Amount as of such Final Computation Date, less any prior payments of Rebate Amount made to the United States in respect of the Bonds; and

(C) an IRS Form 8038-T completed as of such Computation Date.

(ii) Correction of Underpayment. If the Company shall discover or be notified as of any date that any payment paid to the United States Treasury pursuant to the Indenture of an amount described in Section 5.3(n) above shall have failed to satisfy any requirement of Section 1.148-3 of the Regulations (whether or not such failure shall be due to any default by the Company, the Issuer, or the Trustee), the Company shall (1) pay to the Trustee (for deposit to the Rebate Fund) and cause the Trustee to pay to the United States Treasury from the Rebate Fund the Rebate Amount, together with any penalty and/or interest due, as specified in Section 1.148-3(h) of the Regulations, within 175 days after any discovery or notice and (2) deliver to the Trustee an IRS Form 8038-T completed as of such date. If such Rebate Amount, together with any penalty and/or interest due, is not paid to the United States Treasury in the amount and manner and by the time specified in the Regulations the Company shall take such steps as are necessary to prevent the Bonds from becoming arbitrage bonds, within the meaning of Section 148 of the Code. Additionally, the Company agrees that if at any point the Rebate Fund incurs losses from investment, the Company will repay amounts equaling such losses into the Rebate Fund.

(iii) Records. The Company shall retain all of its accounting records relating to the Debt Service Fund, the Project Fund, the Rebate Fund and the investment and expenditure of the Proceeds of the Bonds and all calculations made in preparing the statements described in this Section 5.3(n) for at least six years after the later of the final Maturity of the Bonds or the first date on which no Bonds are Outstanding.

(iv) Fees and Expenses. The Company agrees to pay all of the fees and expenses of Bond Counsel, a certified public accountant and any other necessary consultant employed by the Company, the Trustee or the Issuer in connection with computing the Rebate Amount.

(v) No Diversion of Rebate Amount. The Company will not indirectly pay any amount otherwise payable to the United States Treasury pursuant to the foregoing requirements to any Person other than the United States Treasury by entering into any investment arrangement with respect to the Gross Proceeds of the Bonds that is not purchased at fair market value or includes terms that the Company would not have included if the Bonds were not subject to Section 148(f) of the Code.

(vi) Modification of Requirements. If, at any time during the term of this Agreement, the Issuer, the Trustee, or the Company desires to take any action that would otherwise be prohibited by the terms of this Section, such Person shall be permitted to take such action if it shall first obtain and provide to the other Persons named herein a Favorable Opinion of Bond Counsel. The Company will hire a Rebate Analyst to perform the calculations required in this Section 5.3(n); provided, however, this shall not absolve the Company of any of the covenants of this Section 5.3(n).

(o) “Federally Guaranteed” Obligations. The Company will not cause or permit the Bonds to be treated as “federally guaranteed” obligations for purposes of Section 149(b) of the Code.

(p) Information Reporting Requirements. The Company will cause the Issuer to comply with the information reporting requirements of Section 149(e)(2) of the Code requiring certain information regarding the Bonds to be filed with the IRS within prescribed time limits.

(q) Bonds are Not Hedge Bonds. The Company covenants and agrees that not more than 50 percent of the Proceeds of the Bonds will be invested in Nonpurpose Investments having a substantially guaranteed Yield for four years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Company reasonably expects that at least 85 percent of the spendable proceeds of the Bonds will be used to carry out the governmental purposes of the Bonds within the three-year period beginning on the Closing Date.

(r) Definitions. The following terms have the meanings assigned to them below whenever they are used in this Agreement:

“Bond Year” means, with respect to the Bonds, each one-year period (or shorter period from the Closing Date) that ends at the close of business on the day selected by the Company. The first and last Bond Years may be short periods. If no day is selected by the Company before the earlier of the final Maturity of such issue of Bonds or the date that is five years after the Closing Date, Bond Years end on each anniversary of the Closing Date and on the date of final Maturity. Unless notified in writing to the contrary, the Trustee may conclusively presume that Bond Years end on each anniversary of the Closing Date and the date of final maturity.

“Computation Date” means each Installment Computation Date and the Final Computation Date.

“Costs of Issuance” means issuance costs with respect to the Bonds within the meaning of Section 147(g) of the Code.

“Exempt Person” means a state or local governmental unit or an organization exempt from federal income taxation under Section 501(a) of the Code by reason of being described in Section 501(c)(3) of the Code.

“Final Computation Date” means the final Maturity of the Bonds.

“Gross Proceeds” means any Proceeds and Replacement Proceeds of the Bonds.

“Installment Computation Date” means the last day of the fifth and each succeeding fifth Bond Year.

“Investment Proceeds” means any amounts actually or constructively received from investing Proceeds.

“Investment Property” means (i) any security (within the meaning of Section 165(g)(2)(A) or (B) of the Code), (ii) any obligation, (iii) any annuity contract, (iv) any investment-type

property, or (v) in the case of a bond other than a private activity bond, any residential rental property for family units which is not located within the jurisdiction of the issuer and which is not acquired to implement a court ordered or approved housing desegregation plan.

“Issue Price” means, with respect to the Bonds, “issue price” as defined in Sections 1273 and 1274 of the Code, unless otherwise provided in Sections 1.148-0 through 1.148-11 of the Regulations and, generally, is the aggregate initial offering price to the public (excluding bond houses, brokers and other intermediaries acting in the capacity of wholesalers or underwriters) at which a substantial number of each Maturity of the Bonds is sold.

“Net Proceeds” means, any Net Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Bonds.

“Net Sale Proceeds” means the Sale Proceeds less any Sale Proceeds deposited into a Reasonably Required Reserve or Replacement Fund.

“Nonpurpose Investments” means Investment Property acquired with the Gross Proceeds of the Bonds.

“Proceeds” means, any Sale Proceeds, Investment Proceeds and Transferred Proceeds of the Bonds.

“Qualifying Costs” means the Project Costs (excluding the costs for funding a debt service reserve fund, if any), that will be used, directly or indirectly in any trade or business carried on by any Person who is an Exempt Person. For purposes of the preceding sentence, (i) use by an organization described in Section 501(c)(3) of the Code with respect to an unrelated trade or business, determined according to Section 513(a) of the Code, does not constitute use by an Exempt Person, and (ii) any use in any manner contrary to the guidelines set forth in Revenue Procedures 97-13, 1997-1 C.B. 632 (as modified by Revenue Procedure 2001-39, 2001-2 C.B. 38) or the Regulations promulgated under Section 141 of the Code, shall constitute use by a Person who is not an Exempt Person.

“Reasonably Required Reserve or Replacement Fund” means any fund described in Section 148(d) of the Code provided that the amount thereof allocable to the Bonds invested at a Yield materially higher than the Yield on the Bonds does not exceed the least of (i) 10 percent of the stated principal amount of the Bonds; (ii) the maximum annual debt service on the Bonds; or (iii) 125 percent of the average annual debt service on the Bonds, within the meaning of Section 1.148-2(f)(2)(ii) of the Regulations; provided that, if the Bonds are sold with more than a de minimus amount of original issue discount or premium, the issue price will be used to measure the 10 percent limit.

“Rebate Amount” has the meaning ascribed in Section 1.148-3 of the Regulations and generally means the excess as of any date of the future value of all receipts on Nonpurpose Investments over the future value of all payments on Nonpurpose Investments, all as determined in accordance with Section 1.148-3 of the Regulations.

“Rebate Analyst” means an independent certified public accountant, financial analyst or bond counsel, or any firm of the foregoing, or financial institution, experienced in making the

arbitrage and rebate calculations required pursuant to Section 148(f) of the Code, selected, retained and compensated by the Company pursuant to this Section 5.3(r) to make the computations and give the directions required under Section 405 of the Indenture.

“Replacement Proceeds” has the meaning set forth in Section 1.148-1(c) of the Regulations.

“Sale Proceeds” means, any amounts actually or constructively received from the sale (or other disposition) of any Bond, including amounts used to pay underwriters’ discount or compensation and accrued interest other than pre-issuance accrued interest. Sale Proceeds also include, but are not limited to, certain amounts derived from the sale of a right that is associated with any Bond, as described in Section 1.148-4(b)(4) of the Regulations, and certain amounts received upon termination of certain hedges, as described in Section 1.148-4(h)(5) of the Regulations.

“Transferred Proceeds” means, with respect to the portion of the Bonds that is a refunding issue, proceeds that have ceased to be proceeds of a refunded issue and are transferred proceeds of the refunding issue by reason of section 1.148-9 of the Regulations.

“Yield” means yield as determined in accordance with Section 148(h) of the Code and the Regulations, and generally, is the yield which when used in computing the present worth of all payments of principal and interest to be paid on an obligation produces an amount equal to the Issue Price of such obligation.

To the extent that published rulings of the IRS, or amendments to the Code or the Regulations modify the covenants of the Company which are set forth in this Section 5.3 or which are necessary to preserve the excludability from gross income of interest on the Bonds for federal income tax purposes, the Company and the Issuer will comply with such modifications.

Section 5.4 Financial Reports; No Default Certificates; Notice of Default.

(a) The Company shall cause an annual audit of its books and accounts to be made by Independent certified public accountants and delivered to it within 180 days after the end of each Fiscal Year of the Company. At the same time said audit report is delivered to the Company, the Company shall deliver to the Trustee and TEA a certificate signed by an Authorized Representative of the Company stating that such person has reviewed the obligations of the Company under this Agreement, the Deed of Trust, the Note, the Master Indenture and the Indenture and the performance of the Company hereunder and thereunder, and has consulted with such officers and employees of the Company as he deemed appropriate and necessary for the purpose of delivering such certificate, and based on such review and consultation, no Event of Default and no event which, with the giving of notice or the passage of time or both, would constitute an Event of Default has occurred and is continuing under the aforementioned documents. Such certificate shall also set forth the debt service coverage ratio as calculated in Section 5.9. The Trustee shall have no duty to examine or independently verify any such audit reports or the matters described in any such certificate other than to examine the certificate for compliance with the required statements therein, and shall have no duty to furnish such audits to any third party.

(b) The Company shall also, promptly upon receiving notice thereof, notify the Issuer, the Trustee, and TEA in writing upon the occurrence of an Event of Default or any event which with the giving of notice or the passage of time or both would constitute an Event of Default hereunder or under the Note, the Master Indenture or the Indenture.

Section 5.5 Further Assurances and Corrective Instruments; Recordation. The Issuer and the Company agree that they will, from time to time, execute, acknowledge, and deliver, or cause to be executed, acknowledged, and delivered, such supplements hereto and such further instruments as may reasonably be required for carrying out the intention or facilitating the performance of this Agreement, the Master Indenture and the Indenture.

The Company covenants that it will act and cooperate so that this Agreement, the Master Indenture, the Indenture, any financing statements, and all supplements thereto, and any other instruments as may be required from time to time to be kept, will be recorded and filed in such manner and in such places as may from time to time be required by law in order fully to preserve and protect the security of the Bondholders and the rights of the Trustee under the Indenture.

Section 5.6 Environmental Indemnity. The Company hereby agrees to indemnify and hold harmless the Master Trustee, the Trustee, the Issuer and their successors, assigns, officers, affiliates and employees (collectively referred to in this Section 5.6 as the “Indemnified Parties”) for, from and against any and all losses, costs, damages, exemplary damages, natural resources damages, liens, and expenses (including, but not limited to, attorneys’ fees and any and all other costs incurred in the investigation, defense and settlement of claims) that Indemnified Parties may incur as a result of or in connection with the assertion against Indemnified Parties, of any claim, civil, criminal or administrative, which:

(a) arises out of the actual, alleged or threatened discharge, dispersal, release, storage, treatment, generation, disposal or escape of any Regulated Chemical, including, but not limited to, any solid, liquid, gaseous or thermal irritant or contaminant, including, but not limited to, smoke, vapor, soot, fumes, acids, alkalis, chemicals, medical waste and waste (including materials to be recycled, reconditioned or reclaimed); or

(b) actually or allegedly arises out of the use of any Regulated Chemical, the existence or failure to detect the existence or proportion of any Regulated Chemical in the soil, air, surface water or groundwater, or the performance or failure to perform the abatement or removal of any Regulated Chemical or of any soil, water, surface water or groundwater containing any Regulated Chemical; or

(c) arises out of the actual or alleged existence of any Regulated Chemical on, in, under, or affecting all or a portion of the Project; or

(d) arises out of any misrepresentations of the Company concerning any matter involving Regulated Chemicals; or

(e) arises out of the Company’s failure to provide all information, make all submissions and filings, and take all steps required by appropriate government authority under any applicable

environmental law, regulation, statute or program, whether federal, state or local, whether currently existing or hereinafter enacted.

The obligations under this Section 5.6 shall not be affected by any investigation by or on behalf of Indemnified Parties, or by any information which Indemnified Parties may have or obtain with respect thereto.

Notwithstanding anything to the contrary contained in this Section 5.6, no indemnification shall be required for any damages under this Section incurred solely as the result of the gross negligence or willful misconduct of the party seeking indemnification.

The indemnification of the Indemnified Parties as provided in this Section 5.6 shall remain in full force and effect if any such Losses directly or indirectly result from, arise out of, or relate to, or are asserted to have resulted from, arisen out of or related to, the sole or contributory negligence of any of the Indemnified Parties.

Section 5.7 Existence of the Company. While any of the Bonds remain Outstanding, the Company shall maintain its corporate existence and qualification to do business in the State, and, if different, the state of the Company's incorporation, and shall not merge or consolidate with any other corporation or entity or sell or dispose of all or substantially all of its assets, unless (and subject to the provisions of Sections 3.13 and 5.3) (a) either the Company shall be the surviving corporation in the case of a merger, or the surviving, resulting, or transferee corporation, as the case may be, shall expressly and unconditionally assume, in a written instrument delivered to the Issuer and the Trustee, the punctual performance and observance of all of the covenants and conditions of this Agreement to be performed by the Company; (b) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall not, immediately after such merger or consolidation, or sale or disposition, be in default in the performance of any covenant or condition hereunder; (c) the surviving, resulting, or transferee corporation, as the case may be, shall be duly authorized to transact business in the State; (d) the Company or such surviving, resulting, or transferee corporation, as the case may be, shall have a net worth at least equal to the net worth of the Company immediately preceding such merger or consolidation, or sale or disposition, with net worth being determined in accordance with generally accepted accounting principles; and (e) the Trustee shall have received, to its reasonable satisfaction, such other information, documents, certificates and opinions as the Trustee may reasonably require. Prior to the consummation of any such merger, sale, conveyance or transfer, (y) the Company shall deliver to the Issuer and the Trustee a Favorable Opinion of Bond Counsel and an Opinion of Counsel to the effect that such act does not violate the Act or the Code and (z) the surviving, resulting, or transferee entity's certification to the Issuer and the Trustee to the effect that each of the conditions stated in clauses (a) through (e) of the preceding sentence is and will remain satisfied as of the date of such consummation and that such consummation will not cause any such condition to not be satisfied. Furthermore, the Company or any surviving, resulting or transferee corporation shall, at all times during the term of this Agreement, qualify as an "accredited primary or secondary school" or "authorized charter school" as such terms are defined in Section 53.02, Texas Education Code.

Section 5.8 Continuing Disclosure Undertaking.

(a) The Company hereby agrees to enter into and fully perform its obligations under that certain Continuing Disclosure Agreement dated as of June 1, 2024 between the Company and Masterson Advisors LLC, as dissemination agent; provided, however, that failure of the Company to comply with such requirements shall not constitute an Event of Default hereunder.

(b) The Company will provide to the Texas Education Agency all notices and other information it is obligated to provide under its Continuing Disclosure Agreement at the times and in the circumstances specified therein.

Section 5.9 Debt Service Coverage Ratio.

(a) The Company covenants that the Available Revenues for each Fiscal Year will be equal to at least 1.10x the Annual Debt Service Requirements of the Company as of the end of each Fiscal Year. If the Company does not maintain Available Revenues for any Fiscal Year ending on or after June 30, 2024, of at least one hundred ten percent (110%) of the Annual Debt Service Requirements during such Fiscal Year, then the Company will, at its sole expense, promptly employ a Management Consultant to review and analyze the operations and administration of the Company, inspect the facilities, and submit to the Company and Trustee written reports, and make such recommendations as to the operation and administration of the Company as such Management Consultant deems appropriate, including any recommendation as to a revision of the methods of operation thereof. The Company agrees to consider any recommendations by the Management Consultant and, to the fullest extent practicable, to adopt and carry out such recommendations; provided that, in the Opinion of Counsel, the actions recommended by the Management Consultant will not cause the interest on the Bonds Outstanding issued as tax-exempt bonds to be includable in the gross income of the Owners thereof for purposes of federal income taxation. Notwithstanding the preceding sentence, if the debt service coverage ratio falls below 1.0x the Annual Debt Service Requirements of the Company, it shall constitute a default hereunder.

Section 5.10 Negative Pledge.

(a) The Company shall not create or allow any liens to exist on any of its property or equipment included in any Deed of Trust, except such liens as are expressly permitted by such Deed of Trust and the Master Indenture, including, without limitation, any mortgage or other lien on the property comprising the Trust Estate (as defined in the Master Indenture).

Section 5.11 Disposition of Assets.

(a) Property and Equipment (“P&E”). No P&E of the Company may be sold or otherwise disposed of unless (i) the P&E is obsolete or worn out or (ii) fair market value is received in return or (iii) the market value of all P&E disposed of in any Fiscal Year does not exceed five percent (5%) of the total market value of all P&E of the Company.

(b) Cash, Investments and Other Current Assets (“Liquid Assets”). No Liquid Assets of the Company may be sold or otherwise disposed of unless (i) fair market value is received in

return or (ii) the total market value of Liquid Assets disposed of in any Fiscal Year does not exceed one percent (1%) of all Liquid Assets of the Company.

ARTICLE VI PERMANENT SCHOOL FUND GUARANTEE

Section 6.1 Permanent School Fund Guarantee. The Company has applied for and received approval from the Commissioner of Education, subject to compliance with the Commissioner of Education's rules and regulations, for payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund. If the Bonds are defeased, the Guarantee will be removed in its entirety and, in case of payment default and in accordance with Texas Education Code §45.061, the Comptroller of Public Accounts will withhold the amount paid, plus interest, from the first state money payable to the Company in the following order: foundation school fund, available school fund. In connection with the Guarantee, the Company, hereby certifies and covenants that:

(a) a certified copy of the Indenture and copies of the Final Official Statement shall be furnished to the Division of State Funding, School Facilities and Transportation, within ten (10) calendar days following the pricing of the Bonds;

(b) following any determination by the Company that it is or will be unable to pay maturing or matured principal or interest on the Bonds, the Company will take all action required by Subchapter C of Chapter 45 of the Texas Education Code, including, but not limited to, the giving of timely notice of such determination to the Commissioner; and

(c) the Company will notify the Division of State Funding in writing within ten (10) calendar days of the defeasance of any Bonds.

Section 6.2 TEA Reimbursement Amounts. The Company agrees to pay to TEA (i) a sum equal to the total of all amounts paid by TEA under the Guarantee ("TEA Guarantee Payment"); and (ii) interest on such TEA Guarantee Payments payable to TEA at the interest rate on the Bonds as specified in the Indenture (the "TEA Reimbursement Amounts"), with such interest compounded semi-annually. Notwithstanding anything to the contrary, including without limitation the post default application of revenue provisions, TEA Reimbursement Amounts shall be, and the Issuer and Company hereby covenant and agree that the TEA Reimbursement Amounts are, payable from and secured by a lien on and pledge of the Trust Estate.

Section 6.3 Non-Impairment of Rights. No contract shall be entered into or any action taken by the Company by which the rights of TEA or security for or source of payment of the Bonds may be impaired or prejudiced in any material respect except upon obtaining the prior written consent of TEA.

Section 6.4 Insolvency. The Company agrees that any reorganization or liquidation plan with respect to the Company must be acceptable to TEA.

Section 6.5 Consent Required for Release, Sale, Disposition, or Substitution of Property. During the pendency of any Event of Default and so long as the Bonds are Outstanding or any amounts are due and payable to TEA, no complete or partial release, sale, disposition or

substitution of any property subject to any mortgage, deed of trust or other document evidencing a security interest in, or otherwise pledged, directly or indirectly, to secure the Bonds (the “Property”), shall occur without the prior written consent of TEA. Notwithstanding the foregoing, and at any time other than the during the pendency of an Event of Default, and so long as the Bonds are outstanding, any complete or partial release, sale, disposition or substitution of any Property shall only occur in accordance with the applicable provisions of the Master Indenture and Deed of Trust.

With respect to substitution or replacement of any Property, or the subsequent acquisition of additional real property by the Company that is intended to become part of the Trust Estate, the Company shall (i) provide at least thirty (30) days’ prior written notice to the Trustee and TEA, which notice shall include (1) a reasonably detailed summary of the conveyances that are subject to the proposed substitution, replacement, and/or acquisition, (2) valid legal description of the after-acquired real property, and (3) a supplemental Deed of Trust in favor of the Master Trustee evidencing lien priority on property resultant from such substitution, replacement or acquisition of the same (or superior) priority to the lien required by TEA at the time the Deed of Trust originally granting TEA its security interest in the Property was recorded, and (ii) execution and recordation of such supplemental Deed of Trust in in favor of the Master Trustee.

Section 6.6 Notices. The Company will provide TEA with all notices and other information that the Company is obligated to provide (a) under its Continuing Disclosure Agreement and (b) to the Bondholders or the Trustee under the Bond Documents.

Section 6.7 Conflicting Provisions. So long as the Guarantee is effective, the Guarantee shall be in addition to and, to the extent possible, reconciled with other provisions in the Bond Documents; provided, however, that, if there has been any draw upon the Guarantee, then the Guarantee provisions, including those set forth in Article XI of the Indenture and Section 4.6(c) and Article VI of this Agreement, shall supersede any conflicting or inconsistent provisions in the Bond Documents.

ARTICLE VII

EVENTS OF DEFAULT; REMEDIES

Section 7.1 Events of Default Defined. The following shall be “Events of Default” under this Agreement and the term “Events of Default” shall mean, whenever used in this Agreement, any one or more of the following events:

(a) Failure by the Company to pay the Loan Payments when due pursuant to Section 4.1 of this Agreement; provided that, such Event of Default shall terminate (i) upon timely receipt of two successive payments of the amounts then required under Section 4.1 and (ii) the balance in the Debt Service Fund must equal the amount that is then required to be on deposit.

(b) Any representation or warranty made or deemed made by the Company under the Bond Documents shall be false, misleading or erroneous in any material respect when made or deemed made, or a failure by the Company to observe and perform any covenant, condition, or agreement on its part to be observed or performed under this Agreement or the Indenture, other

than as referred to in subsection (a) of this Section, for a period of 60 days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee.

(c) The occurrence and continuance of any “Events of Default” specified in the Bond Documents or the Master Indenture that has not been waived or cured.

The foregoing provisions of this Section (except Subsection (a) of this Section) are subject to the following limitations: If by reason of Force Majeure the Company is unable in whole or in part to carry out its agreements contained herein, other than the obligations on the part of the Company to make Loan Payments, the Company shall not be deemed in default during the continuance of such inability. The Company agrees, however, to remedy with all reasonable dispatch the cause or causes preventing the Company from carrying out its agreements by reason of such Force Majeure.

Section 7.2 Remedies Upon An Event of Default. Whenever any Event of Default shall have happened and be continuing, the Issuer, the Trustee as assignee of the Issuer, or TEA may, subject to Article VIII of the Indenture, take any one or more of the following remedial steps:

(a) From time to time, may take whatever action at law or in equity or under the terms of the Bond Documents as necessary or desirable to collect the amounts then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement, or covenant of the Company under this Agreement or any other Bond Document.

(b) From time to time take whatever actions at law or in equity as necessary or desirable to enforce the obligations of the Company under Section 4.6, Section 5.1, Section 5.6 and Section 7.6 hereof.

Section 7.3 No Remedy to be Exclusive. No remedy herein conferred upon or reserved to the Trustee or the Issuer is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given under this Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Trustee or the Issuer to exercise any remedy reserved to it in this Article, it shall not be necessary to give any notice other than such notice as may be herein expressly required.

Section 7.4 No Additional Waiver Implied by One Waiver. In the event any provision, covenant, or agreement contained in this Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder.

Section 7.5 Remedial Rights Assigned to the Trustee. Such rights and remedies as are given the Issuer hereunder (except the Issuer’s rights under Sections 4.6, 5.1, 5.6 and 7.6 hereof) shall upon execution and delivery of the Indenture be assigned to the Trustee, and the Trustee shall have the right to exercise such rights and remedies, without the joinder or consent of the Issuer, in

the same manner and under the limitations and conditions that the Trustee is entitled to exercise rights and remedies under the Indenture.

Section 7.6 Agreement to Pay Attorney's Fees and Expenses. If the Company should default under any of the provisions of this Agreement and as a consequence the Issuer and/or the Trustee should employ attorneys or incur other expenses for the collection for amounts payable hereunder or the enforcement of performance or observance of any obligation or agreement on the part of the Company contained in this Agreement, the Company agrees that it will on demand therefor reimburse the Issuer and/or the Trustee for the reasonable fees of such attorneys and such other reasonable expenses so incurred. When the Trustee or the Issuer incurs expenses, attorneys' fees, or renders services after an Event of Default specified in Section 601(c) or (d) of the Master Indenture occurs that is related to the dissolution or liquidation by the Company or the filing by the Company of a voluntary petition for relief, or the entry of an order or decree for relief in an involuntary case, or the entry of an order or decree for dissolution, liquidation or winding up of the affairs of the Company under any applicable bankruptcy, insolvency, or similar law, the expenses, attorneys' fees and compensation for the services are intended to constitute post-petition expenses of administration under any bankruptcy law.

ARTICLE VIII

MISCELLANEOUS

Section 8.1 Severability of Provisions of this Agreement. In the event any provision of this Agreement shall be held invalid or unenforceable by any court or competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof.

Section 8.2 Execution of this Agreement in Counterparts. This Agreement may be simultaneously executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 8.3 Captions and Preambles. The captions or headings in this Agreement are for convenience only and in no way define, limit, or describe the scope or intent of any provisions or sections of this Agreement. The preambles hereto are hereby incorporated herein and made a part of this Agreement for all purposes.

Section 8.4 No Pecuniary Liability of the Issuer. No provision, covenant, or agreement contained in this Agreement or breach thereof shall constitute or give rise to any pecuniary liability on the part of the Issuer or any charge upon its general credit. In making such provisions, covenants, or agreements, the Issuer has not obligated itself, except with respect to the Project and the application of the revenues of this Agreement, as hereinabove provided. It is recognized that the Issuer's only source of funds with which to carry out its commitments under this Agreement will be from the proceeds of the sale of the Bonds and payments to be made by the Company hereunder; and it is expressly agreed that the Issuer shall have no liability, obligation, or responsibility with respect to this Agreement or the Project except to the extent of funds available from such Bond proceeds and payments to be made by the Company hereunder.

Section 8.5 Payment to the Issuer. The Company agrees to pay directly to the Issuer all fees required to be paid by the Company under the Issuer's regulations as in effect as of the date hereof, Costs of Issuance reasonably incurred by the Issuer in connection with the issuance of the Bonds, and other expenses, if any, incurred from time to time by the Issuer in connection with the Project or the Bonds.

Section 8.6 Status of the Parties' Relationship. Nothing in this Agreement shall be construed to make either party the partner or joint venturer of or with the other party.

Section 8.7 Governing Law. The validity, interpretation, and performance of this Agreement shall be governed by the laws of the State.

Section 8.8 Final Agreement. THIS WRITTEN AGREEMENT AND THE OTHER BOND DOCUMENTS REPRESENT THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

Section 8.9 Third Party Beneficiaries. The parties hereto expressly recognize that the Trustee and the TEA are third party beneficiaries to this Agreement and may enforce any right, remedy, or claim conferred, given or granted hereunder.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Issuer and the Company have caused this Agreement to be signed in their behalf by their duly authorized representatives as of the date set forth above.

ARLINGTON HIGHER EDUCATION FINANCE
CORPORATION

By: _____
President, Board of Directors

[Remainder of page intentionally left blank]

HARMONY PUBLIC SCHOOLS

By: _____
Chief Financial Officer

EXHIBIT A

The Project

The Project consists of the following “educational facilities” (as defined in Chapter 53, Texas Education Code):

(1) financing and refinancing certain costs of acquiring, constructing, improving, furnishing, expanding and equipping educational facilities for students of the Borrower’s campuses, including the purchase of land, reimbursement of the Borrower for costs incurred with respect to the Project, and payment of interest on the Bonds, for such purposes at the following locations:

Campus Name	Location
Harmony School of Science – El Paso	1730 Joe Battle Blvd, El Paso, TX 79928
Harmony School of Excellence – Katy	6300 Peek Rd, Katy, TX 77449
Harmony Science Academy – Beaumont	6490 Phelan Blvd. Beaumont, TX 77706
Harmony Science Academy - Fort Worth	7900 S Hulen St, Fort Worth, TX 76133
Harmony Science Academy - Midland	2501 E Loop 250 N Midland, TX 79705
Harmony Science Academy - Leander	3250 Hero Way, Leander, TX 78641
Harmony Science Academy – Bridge Land	12800 Creekland Village Dr, Cypress, TX 77433
Harmony Science Academy – City Place	2600 Spring Stuebner Rd. Spring, TX 77389

(2) paying capitalized interest, the costs of issuing the Bonds, and a fee for a guarantee of debt service payments on the Bonds by the Texas Permanent School Fund; and

(3) and for the refunding of interim taxable obligations under a Loan Agreement with Regions Commercial Equipment Finance, LLC, as amended, of Harmony Education Foundation, an organization described in Section 501(c)(3) of the Code, the proceeds of which were used to finance educational facilities to be acquired by the Borrower from Harmony Education Foundation.

EXHIBIT B

FORM OF COMPLETION CERTIFICATE

_____, _____]

Regions Bank
3773 Richmond Avenue, Suite 1100
Houston, Texas 77046
Attention: Corporate Trust Services

Re: \$ _____ Arlington Higher Education Finance Corporation Education Revenue Bonds
(Harmony Public Schools), Series 2024

Ladies and Gentlemen:

The undersigned, being the owner of the Project, as defined in that certain Loan Agreement dated as of June 1, 2024 (the "Loan Agreement") by and among the undersigned and the Issuer hereby certifies to Regions Bank, as trustee (the "Trustee"), that "Completion" of the Project on the _____ Campus has been attained as of the date hereof and all conditions relating thereto as set forth below have been satisfied. Capitalized terms used herein and not defined shall have the meanings ascribed thereto in the Loan Agreement.

The undersigned hereby represents and warrants that:

1. as of the date hereof, all Project Costs payable with respect to the acquisition of the Project have been paid;
2. the amount from the Project Fund expended for Project Costs relating to the Project totaled \$ _____;
3. the amount from the Project Fund expended for Project Costs which are not Qualifying Costs (as defined in Section 5.3(r) of the Loan Agreement) totaled \$ _____; and
4. not less than 95 percent of the Net Proceeds of the Bonds were used for Qualifying Costs. If less than 95 percent of the Proceeds of the Bonds were used for Qualified Costs, the Company has redeposited amounts into the Project Fund such that the amount of proceeds disbursed for Qualified Costs is equal to at least 95 percent of the Net Proceeds of the Bonds; provided, however, that such redeposit and expenditure did occur not later than 18 months after the later of (i) the date the expenditure to which the redeposited funds are allocated was paid, or (ii) the date the asset to which the redeposited funds are allocated was placed in service, and in no event later than sixty (60) days after the fifth anniversary of the date of issue of the Bonds or the date sixty (60) days after the retirement of the issue, if earlier. Moreover, proceeds in an amount equal to not more than 2 percent of the Sale Proceeds of the Bonds were used for Costs of Issuance.

HARMONY PUBLIC SCHOOLS

By: _____
Authorized Representative

APPROVED BY:

as Construction Consultant

By: _____
Authorized Representative

APPENDIX I

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.

During the 87th Regular Session of the Texas Legislature (the “87th Regular Session”), which concluded on May 31, 2021, Senate Bill 1232 (“SB 1232”) was enacted and became effective on

September 1, 2021. SB 1232 provided for a variety of changes to the operations and management of the Fund, including the creation of the Permanent School Fund Corporation (the “PSF Corporation”), and the delegation of responsibility to manage the portion of the Fund previously under the management supervision of the State Board of Education (the “SBOE”) to the PSF Corporation. SB 1232 also required changes with respect to the management of certain investments previously made at the discretion of the Texas School Land Board (the “SLB”), including limiting the types of investments that may be made by the SLB and mandating the transfer of cash and certain other investment properties from the SLB to the PSF Corporation.

The regular session of the 88th Texas Legislature (the “Legislature”) was held from January 10, 2023, to May 29, 2023. As of the date of this disclosure, there have been four special sessions held, with the fourth special session ending December 5, 2023. The Texas Governor may call one or more additional special sessions. During this time, the Legislature may enact laws that materially change current law as it relates to the Guarantee Program, the TEA, the SBOE, the Act, the PSF Corporation, and Texas school finance generally. No representation is made regarding any actions the Legislature has taken or may take, but the TEA, SBOE, and PSF Corporation monitor and analyze legislation for any developments applicable thereto.

History and Purpose

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

securities transactions, and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Corporation’s Annual Comprehensive Financial Report (the “*Annual Report*”), which is filed with the Municipal Securities Rulemaking Board (“*MSRB*”). Due to the establishment of the PSF Corporation, the most recent financial statements include several restatements related thereto. The SLB’s land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the “*GLO*”) that is included in the annual comprehensive report of the State of Texas. The Annual Report includes the Message of the Chief Executive Officer of the PSF Corporation (the “*Message*”) and the Management’s Discussion and Analysis (“*MD&A*”). The Annual Report for the year ended August 31, 2023, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“*Rule 15c2-12*”) of the United States Securities and Exchange Commission (the “*SEC*”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2023, is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2023, and for a description of the financial results of the PSF for the year ended August 31, 2023, the most recent year for which audited financial information regarding the Fund is available. The 2023 Annual Report speaks only as of its date and the TEA has not obligated itself to update the 2023 Annual Report or any other Annual Report. The PSF Corporation posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation’s Investment Policy Statement (the “*IPS*”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “*Web Site Materials*”) on the PSF Corporation’s web site at <https://texaspsf.org/bond-guarantee-program/> and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, are available from the SEC at www.sec.gov/edgar. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation’s web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

Management and Administration of the Fund

The Texas Constitution and applicable statutes delegate to the SBOE and the PSF Corporation the authority and responsibility for investment of the PSF’s financial assets. The SBOE consists of 15 members who are elected by territorial districts in the

State to four-year terms of office. The PSF Corporation is a special-purpose governmental corporation and instrumentality of the State entitled to sovereign immunity, and is governed by a nine-member board of directors (the “*PSFC Board*”), which consists of five members of the SBOE, the Land Commissioner, and three appointed members who have substantial background and expertise in investments and asset management, with one member being appointed by the Land Commissioner and the other two appointed by the Governor with confirmation by the Senate.

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

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

PSFC’s roles and responsibilities in managing and administering the fund, see the IPS (available on the PSF Corporation’s website).

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

The Texas Constitution also provides authority to the GLO or another entity (described in statute as the SLB or the PSF Corporation) that has responsibility for the management of revenues derived from land or other properties of the PSF to determine whether to transfer an amount each year to

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

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

Annual Distributions to the Available School Fund¹

Fiscal Year Ending	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023²
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,076
PSF(SBOE) Distribution	839	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-
PSF(SLB) Distribution	0	0	0	0	0	300	600	600 ³	415	115
Per Student Distribution	175	173	215	212	247	306	347	341	432	440

¹ In millions of dollars. Source: PSF Annual Report for year ended August 31, 2023.

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

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

In November 2022, the SBOE approved a \$3.1 billion distribution to the ASF for State fiscal biennium 2024-2025. In making its determination of the 2024-2025 Distribution Rate, the SBOE took into account the announced planned distribution to the ASF by the SLB of \$1.2 billion for the biennium.

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

State Fiscal Biennium	2008-09	2010-11	2012-13	2014-15	2016-17	2018-19	2020-21	2022-23	2024-25	SBOE
Distribution Rate ¹	3.5%	2.5%	4.2%	3.3%	3.5%	3.7%	2.974%	4.18%	3.32%	²

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

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

PSF Corporation Strategic Asset Allocation

The PSFC Board sets the asset allocation policy for the Fund, including determining the available asset classes for investment and approving target percentages and ranges for allocation to each asset class, with the goal of delivering a long-term risk adjusted return through all economic and market environments. Effective January 1, 2023, the IPS includes a combined asset allocation for all Fund assets (consisting of assets transferred for management to the PSF Corporation from the SBOE and the SLB). The IPS provides that the Fund’s investment objectives are as follows:

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

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

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

The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2022 and 2023, as set forth in the Annual Report for the 2023 fiscal year. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF (SLB) were generally combined (referred to herein as the PSF(CORP)) for investment management and accounting purposes.

COMPARATIVE INVESTMENT SCHEDULE – PSF(CORP)

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

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

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

INVESTMENT SCHEDULE - PSF(SLB)¹

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

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

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

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

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

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

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

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

The School District Bond Guarantee Program

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

In the event of default, holders of guaranteed school district bonds will receive all payments due from the corpus of the PSF. Following a determination that a school district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires the school district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment. Immediately following receipt of such notice, the Education Commissioner must cause to be transferred from the appropriate account in the PSF to the Paying Agent/Registrar an amount necessary to pay the maturing or matured principal and interest. Upon receipt of funds for payment of such principal or interest, the Paying Agent/Registrar must pay the amount due and forward the canceled bond or evidence of payment of the interest to the State Comptroller of Public Accounts (the “Comptroller”). The Education Commissioner will instruct the Comptroller to withhold the amount paid, plus interest, from the first State money payable to the school district. The amount withheld pursuant to this funding “intercept” feature will be deposited to the credit of the PSF. The Comptroller must hold such canceled bond or

evidence of payment of the interest on behalf of the PSF. Following full reimbursement of such payment by the school district to the PSF with interest, the Comptroller will cancel the bond or evidence of payment of the interest and forward it to the school district. The Act permits the Education Commissioner to order a school district to set a tax rate sufficient to reimburse the PSF for any payments made with respect to guaranteed bonds, and also sufficient to pay future payments on guaranteed bonds, and provides certain enforcement mechanisms to the Education Commissioner, including the appointment of a board of managers or annexation of a defaulting school district to another school district.

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

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

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

The Charter District Bond Guarantee Program

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

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

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2024 fiscal year, the ratio is 7.69%. At February 26, 2024, there were 186 active open-enrollment charter schools in the State and there were 1,128 charter school campuses authorized under such charters, though as of such date, 212 of such campuses are not currently serving students for various reasons; therefore, there are 916 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee

Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

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

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

The IRS Notice changed the IRS Limit from a static limit to a dynamic limit for the Guarantee Program based upon the cost value of Fund assets, multiplied by five. As of December 31, 2023 the cost value of the Guarantee Program was \$44,034,322,531 (unaudited), thereby producing an IRS Limit of \$220,171,612,655 in principal amount of guaranteed bonds outstanding.

As of December 31, 2023, the estimated State Capacity Limit is \$154,120,128,859, which is lower than the IRS Limit, making the State Capacity Limit the current Capacity Limit for the Fund.

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

The percentage of the charter district scholastic population to the overall public school scholastic population has grown from 3.53% in September 2012 to 7.69% in February 2024. TEA is unable to predict how the ratio of charter district students to the total State scholastic population will change over time.

In addition to modifying the manner of determining the CDBG 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 CDBG Rules also require the Education Commissioner to make an investigation of the accreditation status and financial status for a charter district applying for a bond guarantee.

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At January 31, 2024, the Charter District Reserve Fund contained \$97,636,048, which represented approximately 2.32% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter

districts have issued non-guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

As described above, the Act includes a funding "intercept" function that applies to both the School District Bond Guarantee Program and the Charter District Bond Guarantee Program. However, school districts are viewed as the "educator of last resort"

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

Infectious Disease Outbreak

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value⁽¹⁾	Market Value⁽¹⁾
2019	\$ 35,288,344,219	\$ 46,464,447,981
2020	36,642,000,738	46,764,059,745
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023 ⁽²⁾	43,915,792,841	59,020,536,667

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

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

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

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

⁽²⁾ At August 31, 2023 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$178,520,723,868, of which \$62,789,897,186 represents interest to be paid. As shown in the table above, at August 31, 2023, there were \$115,730,826,682 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$154,120,128,859 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2023, 7.36% of the Guarantee Program’s capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2023, the amount of outstanding bond guarantees represented 76.36% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2023 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>		
	<u>8/31</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>
2019		3,297	82,537,755,203	49	1,860,145,000	3,346	84,397,900,203
2020		3,296	87,800,478,245	64	2,536,202,000	3,360	90,336,680,245
2021		3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022		3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023 ⁽²⁾		3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682

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

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

Discussion and Analysis Pertaining to Fiscal Year Ended August 31, 2023

The following discussion is derived from the Annual Report for the year ended August 31, 2023, including the Message from the Chief Executive Officer of the Fund, the Management’s Discussion and Analysis, and other schedules contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the PSFC Board are referred to throughout this MD&A as the PSF(CORP). The Fund’s non-financial real assets are managed by the SLB and these assets are referred to throughout as the PSF(SLB) assets.

At the end of fiscal year 2023, the PSF(CORP) net position was \$52.3 billion. During the year, the PSF(CORP) continued

implementing the long-term strategic asset allocation, diversifying the investment mix to strengthen the Fund. The asset allocation is projected to increase returns over the long run while reducing risk and portfolio return volatility. The PSF(CORP) is invested in global markets and liquid assets experience volatility commensurate with the related indices. The PSF(CORP) is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted, and implemented to make the cost structure more effective and efficient. The PSF(CORP) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2023, net of fees, were 6.14%, 6.19%, and 6.78%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). See "Comparative Investment Schedule - PSF(CORP)" for the PSF(CORP) holdings as of August 31, 2023.

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

PSF RETURNS FISCAL YEAR ENDED 8-31-2023¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(CORP) Portfolio	6.14	4.38
Domestic Large Cap Equities	16.09	15.94
Domestic Small/Mid Cap Equities	9.31	9.14
International Equities	12.38	11.89
Emerging Market Equity	2.48	1.25
Fixed Income	(1.30)	(1.19)
U.S. Treasuries	(9.21)	(9.69)
Absolute Return	7.59	3.58
Real Estate	(1.96)	(3.13)
Private Equity	4.55	0.20
Real Return	(5.51)	(5.88)
Emerging Market Debt	12.68	11.34
High Yield	7.80	7.19
Emerging Manager Program	33.35	0.97
Natural Resources	5.70	3.67
Infrastructure	14.22	3.67

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

² Benchmarks are as set forth in the PSF Annual Report for year ended August 31, 2023.

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, interest in real estate, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2023 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. In fiscal year 2023, \$2.1 billion was distributed to the ASF, \$345 million of which was distributed by the PSF(CORP) on behalf of the SLB.

Other Events and Disclosures

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

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

As of August 31, 2023, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

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

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

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

Annual Reports

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

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

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

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

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

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

Event Notices

The TEA and the PSF Corporation will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA or the PSF Corporation will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all

of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption, or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

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

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

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

Compliance with Prior Undertakings

Except as stated below, during the last five years, the TEA and the PSF Corporation have not failed to substantially comply with their previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022, TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action

and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents.

SEC Exemptive Relief

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

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