

OFFICIAL STATEMENT
Dated February 18, 2026

NEW ISSUE – BOOK-ENTRY-ONLY

Enhanced/Unenhanced Ratings:
Moody's: "Aaa" / "A1"
PSF: "Guaranteed"

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

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



\$28,175,000
NAVASOTA INDEPENDENT SCHOOL DISTRICT
(a political subdivision of the State of Texas located in Grimes and Brazos Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

Dated Date: March 15, 2026

Due: as shown on the inside cover page hereto

Interest to Accrue from Date of Delivery

AUTHORITY FOR ISSUANCE ... The Navasota Independent School District Unlimited Tax School Building Bonds, Series 2026 (the "Bonds") are direct obligations of the Navasota Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an election held in the District on May 4, 2024 (the "Election"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on January 20, 2026. In the Bond Order, the District delegated pricing of the Bonds and certain other matters to the Superintendent and Chief Financial Officer (each, a "Pricing Officer"). The Pricing Officer approved a "Pricing Certificate" on the date of the sale of the Bonds, which contains the final terms of sale and completed the sale of the Bonds. The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order". The Bonds are direct and voted obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District. See "THE BONDS - Authority for Issuance" herein.

PAYMENT TERMS ... Interest on the Bonds will accrue from the date of initial delivery to the underwriters (the "Underwriters") named below, will be payable on each August 15 and February 15, commencing February 15, 2027, until stated maturity, or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully-registered obligations in principal denominations of \$5,000 or any integral multiple thereof. The definitive Bonds will be registered and delivered to Cede & Co., as the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as the initial securities depository (the "Securities Depository") for the Bonds. Book-entry interests in the Bonds will be made available for purchase in multiples of \$5,000 of the principal amount. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds (as applicable) will be payable by the Paying Agent/Registrar, initially BOKF, NA, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

PURPOSE ... Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, and with preference to academic space and safety and security, and (ii) to pay for the costs of issuance of the Bonds. See "PLAN OF FINANCING – Purpose" and "– Sources and Uses of Funds" herein.

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

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

The Bonds are offered for delivery when, as, and if issued and received by the underwriters named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Cantu Harden Montoya LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" attached hereto. Certain matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through DTC on or about March 19, 2026 (the "Date of Delivery").

FHN FINANCIAL CAPITAL MARKETS
OPPENHEIMER & Co. **FROST BANK**

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

\$28,175,000
NAVASOTA INDEPENDENT SCHOOL DISTRICT
(a political subdivision of the State of Texas located in Grimes and Brazos Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

CUSIP No. Prefix 639319 ⁽¹⁾

\$19,390,000 Serial Bonds

Maturity Date	Principal	Interest Rate	Initial Yield ⁽²⁾	CUSIP No. ⁽¹⁾
(2/15)	(\$)	(%)	(%)	Suffix
2027	65,000	5.00	2.25	QZ8
2028	625,000	5.00	2.23	RA2
2029	655,000	5.00	2.22	RB0
2030	690,000	5.00	2.31	RC8
2031	725,000	5.00	2.36	RD6
2032	765,000	5.00	2.44	RE4
2033	805,000	5.00	2.55	RF1
2034	845,000	5.00	2.63	RG9
2035	885,000	5.00	2.72	RH7
2036	930,000	5.00	2.81	RJ3
2037	980,000	5.00	2.95 ⁽³⁾	RK0
2038	1,030,000	5.00	3.07 ⁽³⁾	RL8
2039	1,085,000	5.00	3.18 ⁽³⁾	RM6
2040	1,140,000	5.00	3.30 ⁽³⁾	RN4
2041	1,195,000	5.00	3.43 ⁽³⁾	RP9
2042	1,260,000	5.00	3.55 ⁽³⁾	RQ7
2043	1,325,000	5.00	3.70 ⁽³⁾	RR5
2044	1,390,000	5.00	3.83 ⁽³⁾	RS3
2045	1,460,000	5.00	3.98 ⁽³⁾	RT1
2046	1,535,000	5.00	4.11 ⁽³⁾	RU8

\$8,785,000 Term Bonds

\$8,785,000 4.25% Term Bonds Due February 15, 2051 to yield at 4.457% CUSIP No. ⁽¹⁾ Suffix RV6

(Interest to accrue from the initial Date of Delivery)

Optional Redemption. The District reserves the option to redeem the Bonds maturing on and after February 15, 2037, in whole or in part, before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2036, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on February 15, 2051 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity. See "THE BONDS – Redemption Provisions of the Bonds" herein.

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2024 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the Underwriters, the District, or the Municipal Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein. CUSIP numbers for the Bonds are subject to change after the issuance as a result of various post-issuance events, including, but not limited to, a partial defeasance of the Bonds.

⁽²⁾ The initial yields at which Bonds are priced are established by and are the sole responsibility of the Underwriters and, subject to certain hold-the-offering-price restrictions of limited duration in the purchase agreement for the Bonds, may be changed by the Underwriters.

⁽³⁾ Priced to first optional redemption date of February 15, 2036.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
705 E. Washington Avenue
Navasota, Texas 77868

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>	<u>Occupation</u>
Jennifer Ramirez	President	May 2027	Educator
Tim J. Harris	Vice President	May 2026	Store Manager
Amy Jarvis	Secretary	May 2026	Educator (Retired)
Greg Mock	Trustee	May 2027	Agri-Business Supervisor
Trisha Harris	Trustee	May 2028	Educator (Retired)
Valerie Jefferson	Trustee	May 2028	Industrial Account Specialist
Paul E. Malek, PE	Trustee	May 2028	Co-Owner, Construction Company

ADMINISTRATION – FINANCE RELATED

<u>Name</u>	<u>Position</u>
Dr. Stu Musick	Superintendent of Schools
Ms. Trish Cunneen	Business Manager

CONSULTANTS AND ADVISORS

Auditors	Crowe LLP, Houston, Texas
Bond Counsel	Cantu Harden Montoya LLP, San Antonio, Texas
Municipal Advisor	Live Oak Public Finance, LLC, Austin, Texas

For Additional Information Contact:

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the District 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 either of the foregoing.

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

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

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

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

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

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

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

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

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

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICTThe District is a political subdivision of the State of Texas (the "State" or "Texas") located in Grimes and Brazos Counties. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. See "INTRODUCTION – Description of the District" herein.

AUTHORITY FOR ISSUANCE.....The Bonds are being issued in the principal amount of \$28,175,000 are direct obligations of the Navasota Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an election held in the District on May 4, 2024 (the "Election"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on January 20, 2026. In the Bond Order, the District delegated pricing of the Bonds and certain other matters to the Superintendent and Chief Financial Officer (each, a "Pricing Officer"). The Pricing Officer approved a "Pricing Certificate" on the date of the sale of the Bonds, which contains the final terms of sale and completed the sale of the Bonds. The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order". See "THE BONDS - Authority for Issuance" herein.

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

DATED DATEMarch 15, 2026.

PAYMENT OF INTEREST ..Interest on the Bonds will accrue from the date of initial delivery to the Underwriters (listed on the cover page hereof), will be payable on each August 15 and February 15, commencing February 15, 2027, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. See "THE BONDS – Description of the Bonds" herein.

REDEMPTIONThe District reserves the option to redeem the Bonds maturing on and after February 15, 2037, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2036, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. The Bonds maturing on February 15, 2051 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity. See "THE BONDS – Redemption Provisions of the Bonds" herein.

SECURITY FOR THE BONDSThe Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE BONDS – Security and Source of Payment" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.

TAX MATTERSIn the opinion of Bond Counsel, Cantu Harden Montoya LLP, the interest on the Bonds will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax of the owners thereof who are individuals. See "TAX MATTERS" and "APPENDIX D - FORM OF BOND COUNSEL'S OPINION".

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

PAYING AGENT/REGISTRARThe initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.

MUNICIPAL BOND RATINGMoody's Investors Service, Inc. ("Moody's") has assigned an underlying, unenhanced rating of "A1" to the Bonds. Moody's has assigned a rating of "Aaa" to the Bonds based upon the Permanent School Fund Guarantee. Moody's generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa". See "OTHER PERTINENT INFORMATION – Municipal Bond Rating" and "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, and with preference to academic space and safety and security and (ii) to pay for the costs of issuance of the Bonds. See "PLAN OF FINANCING – Purpose" and "- Sources and Uses of Funds" herein.

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

beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

DELIVERYWhen issued, anticipated to occur on or about March 19, 2026.

LEGALITYThe Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Cantu Harden Montoya LLP, San Antonio, Texas, Bond Counsel. See "APPENDIX D – FORM OF BOND COUNSEL'S OPINION" attached hereto.

OFFICIAL STATEMENT

Relating to

\$28,175,000

NAVASOTA INDEPENDENT SCHOOL DISTRICT
(a political subdivision of the State of Texas located in Grimes and Brazos Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

INTRODUCTION

This Official Statement, which includes the schedule and appendices attached hereto, and incorporated herein, provides certain information regarding the issuance of the \$28,175,000 Unlimited Tax School Building Bonds, Series 2026 (the "Bonds") of the Navasota Independent School District (the "District"). The Bonds are direct obligations of the Navasota Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Sections 45.001 and 45.003(b)(1), Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an election held in the District on May 4, 2024 (the "Election"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on January 20, 2026. In the Bond Order, the District delegated pricing of the Bonds and certain other matters to the Superintendent and Chief Financial Officer (each, a "Pricing Officer"). The Pricing Officer approved a "Pricing Certificate" on the date of the sale of the Bonds, which contains the final terms of sale and completed the sale of the Bonds. The Bond Order and the Pricing Certificate are collectively referred to herein as the "Order". See "THE BONDS - Authority for Issuance" herein.

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

Included in this Official Statement are descriptions of the Bonds, the Order, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Navasota Independent School District, 705 E. Washington Avenue, Navasota, Texas 77868 Attention: Superintendent of Schools and, during the offering period, from the District's Municipal Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, Attention: Joey Dawson, upon payment of reasonable copying, mailing and handling charges.

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

Description of the District

The District is a political subdivision of the State located in Grimes and Brazos Counties. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used (i) for the purposes of designing, constructing, renovating, improving, upgrading, updating, acquiring, and equipping school facilities, and with preference to academic space and safety and security and (ii) to pay for the costs of issuance of the Bonds. See "Sources and Uses of Funds" herein.

Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$28,175,000.00
Net Reoffering Premium on the Bonds	2,159,195.15
TOTAL SOURCES	<u>\$30,334,195.15</u>
 <u>Uses of Funds:</u>	
Deposit to Construction Fund	\$30,000,000.00
Costs of Issuance & Rounding Amount	169,973.73
Underwriters' Discount	164,221.42
TOTAL USES	<u>\$30,334,195.15</u>

THE BONDS

Description of the Bonds

The Bonds will be dated March 15, 2026 (the "Dated Date") and mature on February 15 in each of the years and in the amounts shown on the inside cover page of this Official Statement. Interest on the Bonds will accrue from the date of initial delivery to the Underwriters (detailed below), will be payable on each August 15 and February 15, commencing February 15, 2027, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued only in fully-registered form in denominations of \$5,000 of the principal amount or any integral multiple thereof within a stated maturity.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books kept by the Paying Agent/Registrar relating to the Bonds (the "Bond Register") on the Record Date (detailed below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class, postage prepaid, to the address of the registered owner recorded in the Bond Register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at stated maturity or prior redemption upon presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully-registered form in any integral multiple of \$5,000 of the principal amount for any one maturity.

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

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State particularly Texas Education Code, Sections 45.001 and 45.003(b)(1), as amended, Chapter 1371, Texas Government Code, as amended, the Election, and the Order.

Use of Proceeds

The proceeds of the Bonds (which include certain premium allocations) are anticipated to represent a portion of the total amount of voted bonds (described below) approved at the Election. Following the issuance of the Bonds, the District anticipates that it will have voted but unissued bonds as reflected below. See "TABLE 8 – Authorized but Unissued Bonds in APPENDIX A hereto.

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

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
School Building	\$71,000,000	\$41,000,000	\$30,000,000 ⁽¹⁾	\$0

⁽¹⁾ Includes premium allocations that the District has applied against voted authorization.

Security and Source of Payment

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

Permanent School Fund Guarantee

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

Redemption Provisions of the Bonds

Optional Redemption

The District reserves the right to redeem the Bonds maturing on and after February 15, 2037, in whole or in part, in denominations of \$5,000 of the principal amount or any integral multiple thereof, on February 15, 2036 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. When the Bonds or portions thereof have been called for redemption and due provisions have been made to redeem the Bonds, the amounts so redeemed shall be payable solely from the funds provided for redemption, and interest that would otherwise accrue on the Bonds or portions thereof called for redemption shall terminate on the date fixed for redemption.

Mandatory Redemption

The Bonds maturing on February 15, 2051 (the “Term Bonds”) are also subject to mandatory sinking fund redemption prior to stated maturity from moneys required to be deposited into the Bond Fund for such purpose and shall be redeemed in part, by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on February 15 in each of the years as set forth below:

\$8,785,000 Term Bond	
Due February 15, 2051	
Date	Principal Amount
2/15	(\$)
2047	1,610,000
2048	1,680,000
2049	1,755,000
2050	1,830,000
2051*	1,910,000

*Stated maturity

Approximately forty-five (45) days prior to each mandatory redemption date that a Term Bond is to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable stated maturity to be redeemed on the next

following February 15 from money set aside for that purpose in the Interest and Sinking Fund maintained for the payment of the Bonds. Any Term Bond not selected for prior redemption shall be paid on the date of its stated maturity.

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

Selection of Bonds for Redemption

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

Notice of Redemption

No fewer than thirty (30) days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

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

Defeasance

The Order provides that the Bonds may be defeased, refunded or discharged in any manner permitted by applicable law. Under current The District reserves the right to defease, refund or discharge the Bonds in any manner now or hereafter provided by law. Upon defeasance, such defeased Bonds shall no longer be regarded to be outstanding or unpaid. The District reserves the right to modify the scope of eligible defeasance securities in the Pricing Certificate.

Notwithstanding the above, the District may contractually limit defeasance investments in connection with the pricing of the Bonds. In such event, the Final Official Statement for the Bonds will provide details regarding the limitations on defeasance investments.

Amendments

The District may amend the Order without the consent of any beneficial owner in any manner not detrimental to the interests of the beneficial owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may,

with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the beneficial owners of the Bonds then outstanding, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereof or in any other way modify the terms of payment of the principal or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the percentage of the aggregate principal amount of Bonds required to be held for beneficial owners for consent to any amendment, addition, or waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "APPENDIX E - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the approval of legality by the Attorney General of the State of Texas and the opinion of the District's Bond Counsel, Cantu Harden Montoya LLP, San Antonio, Texas.

Delivery

When issued; anticipated to occur on or about March 19, 2026.

Future Issues

Following the issuance of the Bonds, the District anticipates that it will have no voted, unissued bonds from the Election. See "TABLE 8 – Authorized but Unissued Bonds" in APPENDIX A hereto.

Aside from the Bonds and any refunding bonds issued for debt service savings, the District does not anticipate the issuance of additional new money ad valorem tax-supported debt in the next twelve months. Additionally, the District may enter into other financial obligations, including maintenance tax notes payable from its collection of maintenance taxes, public property finance contractual obligations, delinquent tax notes, and leases for various purposes payable from State appropriations and surplus maintenance taxes.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Record Date for Interest Payment

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

In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

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

BOOK-ENTRY-ONLY SYSTEM

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

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

United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds. DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility of such Participant

and not of DTC [nor its nominee], the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

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

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2025 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5,160,000 (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent

tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

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

State-Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all residence homesteads (but not less than \$5,000); and (2) an additional exemption of at least \$3,000 of the appraised value of the residence homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option residence homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2) above may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. Cities, counties and school districts are prohibited from reducing or repealing a general optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

State-Mandated Freeze on School District Taxes

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

The total amount of ad valorem taxes that may be imposed for general elementary and secondary public school purposes on the residence homestead of a person who is 65 years of age or older or disabled may be adjusted to reflect any statutory reduction from the preceding tax year in the maximum compressed rate of the maintenance and operations taxes imposed for those purposes on the homestead.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Legislation passed by the Legislature during the 89th Regular Session and approved by voters provides a person an exemption from taxation by a taxing unit of \$125,000 of the appraised value of tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

Freeport and Goods-in-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or fewer for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action

to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or outside of the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or outside of the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

In the 88th Legislative Session, House Bill 5 ("HB 5" or "The Texas Jobs, Energy, Technology, and Innovation Act") was adopted to create an economic development program, subject to state oversight, which would attract jobs and investment to Texas through school district

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

District and Taxpayer Remedies

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year “minimum eligibility amount,” as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

Levy and Collection of Taxes

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

District’s Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal Districts have the responsibility for appraising the majority of the property in the District as well as other taxing units in Brazos and Grimes Counties. The Appraisal Districts are governed by boards of five directors appointed by voters of the governing bodies of various Brazos and Grimes County political subdivisions. The District's taxes are collected by the Brazos County Tax Assessor/Collector and Grimes Central Appraisal District. The Appraisal Districts do not tax personal property not used in the production of income, such as personal automobiles.

The Appraisal Districts do not tax personal property not used in the production of income, such as personal automobiles.

The District's taxes are collected by the Grimes County Tax Assessor/Collector's Office and Brazos Central Appraisal District (the "Tax Assessor/Collector").

The Tax Assessor/Collector does not allow split payments of taxes.

The Tax Assessor/Collector does not give discounts for early payment of taxes.

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

The District does not tax non-business personal property.

The District does tax "goods in transit" without exemption.

The District has not granted a tax abatement under the Chapter 313 Property Value Limitations.

The District does not grant the additional local option exemption of up to 10% of the market value of residence homesteads; minimum exemption of \$5,000.

The District grants a State Mandated homestead exemption of \$140,000 for taxpayers, and an additional exemption of \$60,000 for taxpayers who are at least 65 years of age or disabled.

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

<u>Month</u>	<u>Cumulative Penalty</u>	<u>Cumulative Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	38%

The Tax Assessor/Collector does collect an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Tax Code after July 1. Interest continues to accrue after July 1 at the rate of 1% per month until paid.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

On seven occasions in the last thirty years, the Texas Supreme Court (the "Court") has issued decisions assessing the constitutionality of the Texas public school finance system (the "Finance System"). The litigation has primarily focused on whether the Finance System, as amended by the Legislature from time to time (i) met the requirements of Article VII, Section 1 of the Texas Constitution, which requires the Legislature to "establish and make suitable provision for the support and maintenance of an efficient system of public free schools," or (ii) imposed a statewide ad valorem tax in violation of Article VIII, Section 1-e of the Texas Constitution because the statutory limit on property taxes levied by school districts for maintenance and operation purposes had allegedly denied school districts meaningful

discretion in setting their tax rates. In response to the Court's previous decisions, the Legislature enacted multiple laws that made substantive changes in the way the Finance System is funded in efforts to address the prior decisions declaring the Finance System unconstitutional.

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

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

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

2025 Legislative Session

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

which the Governor sets the agenda. The Governor has called and the Legislature has concluded two special sessions since the conclusion of the 89th Regular Session. Additional special sessions may be called by the Governor.

During the 89th Regular Session, the Legislature adopted 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. Pursuant to voter approval at a Statewide election held on November 4, 2025 and legislation passed by both houses of the Legislature, the following will increase: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) the exemption for tangible personal property used in the production of income from the current \$2,500 to \$125,000. Voters approved constitutional amendments authorizing the new exemption at a statewide election held on November 4, 2025. Additionally, the Legislature passed legislation authorizing roughly \$8.5 billion in funding for public schools and provides districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as providing districts with additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning.

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

Local Funding for School Districts

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

State Compression Percentage. The "State Compression Percentage" is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

Maximum Compressed Tax Rate. The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then the MCR is equal to the prior year MCR); or (2) the product of the State Compression Percentage for the current year multiplied by \$1.00. However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is 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. For the 2025-2026 school year, the Legislature reduced the maximum MCR, establishing \$0.6322 as the maximum rate and \$0.5689 as the floor.

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

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

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

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

State Funding for School Districts

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

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

The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2026-2027 State fiscal biennium, the State 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 school districts with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 plus the guaranteed yield increment adjustment (the "GYIA") for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than the school district's MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive compensation allotment to increase

teacher retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by the District's Basic Allotment, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

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

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

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

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

Since future-year IFA awards were not funded by the Legislature for the 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 Regular and Special Legislative Sessions." Hold-harmless applies only to bonds authorized by voters prior to September 1, 2023. The Election occurred after such date.

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six (6) options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters. A district that enters into an agreement to exercise an option to reduce the district's local revenue level in excess of entitlement under options (3), (4), or (5) for the 2025-2026 school year and that has not previously held an election to exercise said options may request and may receive approval from the Education Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Education Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Education Commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district's excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. A district that receives approval of a request to delay the date of an election shall pay for credit purchased in equal monthly payments as determined by the Education Commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the Education Commissioner of the district's election to pay through a lump sum not later than March 15, 2026.

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

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2025-2026 fiscal year, the District was designated as an "excess local revenue" district by the TEA. Accordingly, the District has entered into a wealth equalization agreement with the Commissioner for the purchase of attendance credits for the 2025-26 school year, for the purpose of implementing a permitted wealth equalization option under Chapter 49, Texas Education Code.

A district's local revenue levels must be tested for each future school year and, if local revenues exceed the district's entitlements, the district must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's local revenues should exceed its entitlements in future school years, it will be required to exercise one or more of the permitted options to reduce local revenues.

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy M&O taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The District is authorized to levy a M&O tax rate pursuant to the approval of the voters of the District at an election held on December 2, 1972, under Chapter 20, Texas Education Code (now codified as Section 45.003, Texas Education Code, as amended).

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

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

I&S Tax Rate Limitations

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

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

purposes pursuant to Chapter 45, Texas Education Code as new debt and are subject to the 50-cent test. The District has not utilized projected property values or State assistance to satisfy the \$0.50 test in connection with the prior bond issues.

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

DEBT LIMITATIONS

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "Notes to the Financial Statements – Note 4 – Other Information: Defined Benefit Pension Plan" as set out in the audited financial statements of the District for the year ended August 31, 2025, as set forth in APPENDIX B attached hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "Notes to the Financial Statements – Note 4 – Other Information: Defined Other Postemployment Benefit Plan" in the audited financial statements of the District for the year ended August 31, 2025, as set forth in APPENDIX B attached hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. See "CHANGE IN NET ASSETS" in APPENDIX B attached hereto. GASB Statement No. 68 applies only to pension benefits and does not apply to OPEB or TRS-Care related liabilities. At the conclusion of the 2024-2025 fiscal year, the District had a net pension liability of \$11,497,675.

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

INVESTMENT POLICIES

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

Legal Investments

Under State law, the District is authorized to invest in: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the District in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the District's account, (iii) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States, and (iv)

the District appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for District deposits, or (ii) where (a) the funds are invested by the District through a broker or institution that has a main office or branch office in the State and selected by the District in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the District appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), which are pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with a stated maturity of 270 days or less from date of issuance, will be liquidated in full at maturity, are eligible for collateral for borrowing from a Federal Reserve Bank, and, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less from the date of issuance that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and provides the District with a prospectus required by the Securities Exchange Act of 1934 and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the District is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract and is pledged to the District and deposited to the District or third party selected by the District; (16) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the PFIA; and (17) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent, or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party designated by the District, (v) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less

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

In addition to authorized investments described above, the Texas law provides that the District may invest in corporate bonds that, at the time of purchase, are rated by a nationally recognized investment rating firm "AA-" or the equivalent and have a stated final maturity that is not later than the third anniversary of the date the corporate bonds were purchased. As used herein, corporate bond means a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm, and does not include unsecured debt obligations or debt obligations that, on conversion, would result in the holder becoming a stockholder or shareholder in the entity that issued the debt obligation. The District may not (1) invest in the aggregate more than 15% of its monthly average fund balance, excluding funds held for the payment of debt service, in corporate bonds or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The investment officer of the District must sell any corporate bonds not later than seven days after a nationally recognized investment rating firm (1) issues a release that places the corporate bonds or the entity that issued the corporate bonds on negative credit watch or the equivalent, if the corporate bonds are rated "AA-" or the equivalent at the time the release is issued; or (2) changes the rating on the corporate bonds to a rating lower than "AA-" or the equivalent. The District may invest its funds in corporate bonds only if the Board

of Trustees of the District (1) amends its investment policy to authorize corporate bonds as an eligible investment, (2) adopts procedures to provide for the monitoring of rating changes in corporate bonds and liquidating the investment in corporate bonds and (3) identifies the funds eligible to be invested in corporate bonds. The District has not taken such actions to authorize investment in corporate bonds.

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

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

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

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas, who will deliver its opinion, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, which will deliver their opinion to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. The form of Bond Counsel's opinion is attached hereto as Appendix D. The legal fee to be paid to Bond Counsel 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, Austin, Texas. The legal fee to be paid to counsel to the Underwriters for services rendered in connection with the issuance of the Bonds is contingent upon the sale of the delivery of the Bonds.

Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firms have not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in their capacity as Bond Counsel, such firms have reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Payment Record," "Future Issues," "Permanent School Fund Guarantee" and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE

SYSTEM," "TAX RATE LIMITATIONS," "LEGAL MATTERS" (excluding the information under the subcaption "Litigation," as to which no opinion is expressed), "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and "OTHER PERTINENT INFORMATION – Registration and Qualification of Bonds for Sale" in the Official Statement and such firms are of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the caption "TAX MATTERS" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such caption is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order.

Though they represent the Municipal Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel have been engaged by and only represent the District with respect to the issuance of the Bonds. The legal opinions to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering legal opinions, the attorneys do not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of such opinions guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

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

TAX MATTERS

The Internal Revenue Code of 1986, as amended (the "Code"), includes requirements which the District must continue to meet after the issuance of the Bonds in order that the interest on the Bonds be and remain excludable from gross income for federal income tax purposes. The District's failure to meet these requirements may cause the interest on the Bonds to be included in gross income for federal income tax purposes retroactively to the date of issuance of the Bonds. The District has covenanted in the Order to take the actions required by the Code in order to maintain the exclusion from gross income for federal income tax purposes of interest on the Bonds.

In the opinion of Bond Counsel, assuming the accuracy of certain representations and certifications of the District and continuing compliance by the District with the tax covenants referred to above, under existing statutes, regulations, rulings and judicial decisions, interest on the Bonds is excludable from gross income of the holders thereof for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals. Bond Counsel will express no opinion as to any other federal, state or local tax consequences under present law or any proposed legislation regarding the Bonds. 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.

Interest on the Bonds included in the adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax.

Except as described above, Bond Counsel will express no opinion regarding the federal income tax consequences resulting from the receipt or accrual of the interest on the Bonds, or the ownership or disposition of the Bonds. The accrual or receipt of interest on the Bonds may otherwise affect the federal income tax liability of the owners of the Bonds. The extent of these other tax consequences will depend upon such owner's particular tax status and other items of income or deduction. Purchasers of the Bonds, particularly purchasers that are corporations (including S corporations, foreign corporations operating branches in the United States of America, and certain corporations subject to the alternative minimum tax imposed on corporations), property or casualty insurance companies, banks, thrifts or other financial institutions, certain recipients of social security or railroad retirement benefits, taxpayers entitled to claim the earned income credit, taxpayers entitled to claim the refundable credit in Section 36B of the Code for coverage under a qualified health plan or taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, should consult their tax advisors as to the tax consequences of purchasing or owning the Bonds. Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on factual representations made to Bond Counsel as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention, or to reflect any changes in law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of a particular result, and are not binding on the Internal Revenue Service ("IRS") or the courts; rather, such

opinions represent Bond Counsel's professional judgment based on its review of existing law, and in reliance on the representations and covenants that it deems relevant to such opinion.

The IRS has initiated an expanded program for auditing tax-exempt bond issues, including both random and targeted audits. It is possible that the Bonds will be selected for audit by the IRS. Under existing procedures relating to audits of tax-exempt obligations such as the Bonds by the IRS, owners of the Bonds would have little, if any, right to participate in the audit examination process. It is also possible that the market value of the Bonds might be adversely affected as a result of such an audit of the Bonds (or by an audit of similar bonds). No assurance can be given that in the course of an audit, as a result of an audit, or otherwise, Congress or the IRS might not change the Code (or interpretation thereof) subsequent to the issuance of the Bonds to the extent that it adversely affects the exclusion from gross income of interest on the Bonds or their market value.

Original Issue Premium and Discount

Certain of the Bonds ("Premium Bonds") may be offered and sold to the public at a price in excess of their stated redemption price at maturity (or earlier for certain Premium Bonds callable prior to maturity). That excess constitutes bond premium. For federal income tax purposes, bond premium is amortized over the period to maturity of a Premium Bond, based on the yield to maturity of that Premium Bond (or, in the case of a Premium Bond callable prior to its stated maturity, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on that Premium Bond), compounded semiannually (or over a shorter permitted compounding interval selected by the owner). No portion of that bond premium is deductible by the owner of a Premium Bond. For purposes of determining the owner's gain or loss on the sale, redemption (including redemption at maturity), or other disposition of a Premium Bond, the owner's tax basis in the Premium Bond is reduced by the amount of bond premium that amortizes during the period of ownership. As a result, an owner may realize taxable gain for federal income tax purposes from the sale or other disposition of a Premium Bond for an amount equal to or less than the amount paid by the owner for that Premium Bond.

Certain of the Bonds ("Discount Bonds") may be offered and sold to the public at an original issue discount ("OID"). OID is the excess of the stated redemption price at maturity over the "issue price" of a Discount Bond determined under Code Section 1273 or 1274 (i.e., for obligations issued for money in a public offering, the initial offering price to the public (other than to bond houses and brokers) at which a substantial amount of the obligation of the same maturity is sold pursuant to that offering). For federal income tax purposes, OID accrues to the owner of a Discount Bond over the period to maturity based on the constant yield method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). The portion of OID that accrues during the period of ownership of a Discount Bond (i) is interest excludable from the owner's gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as other interest on the Bonds, and (ii) is added to the owner's tax basis for purposes of determining gain or loss on the maturity, redemption, prior sale or other disposition of that Discount Bond.

Owners of Discount and Premium Bonds should consult their own tax advisers as to the determination for federal income tax purposes of the amount of OID or bond premium properly accruable or amortizable in any period with respect to the Discount or Premium Bonds and as to other federal tax consequences, and the treatment of OID and bond premium for purposes of state and local taxes on, or based on, income.

Changes in Tax Law

From time to time, there are legislative proposals suggested, debated, introduced or pending that, if enacted into law, could alter or amend one or more of the tax matters described above including, without limitation, the excludability from gross income of interest on the Bonds, adversely affect the market price or marketability of the Bonds, or otherwise prevent the holders from realizing the full current benefit of the status of the interest thereon. It cannot be predicted whether or in what form any such proposal may be enacted, or whether, if enacted, any such proposal would affect the Bonds. Prospective purchasers of the Bonds should consult their tax advisors as to the impact of any proposed or pending legislation.

Information Reporting and Backup Withholding

Interest paid on tax-exempt bonds such as the Bonds is subject to information reporting to the IRS in a manner similar to interest paid on taxable obligations. This reporting requirement does not affect the excludability of interest on the Bonds from gross income for federal income tax purposes. However, in conjunction with that information reporting requirement, the Code subjects certain non-corporate owners of Bonds, under certain circumstances, to "backup withholding" at the rates set forth in the Code, with respect to payments on the Bonds and proceeds from the sale of Bonds. Any amount so withheld would be refunded or allowed as a credit against the federal income tax of such owner of Bonds. This withholding generally applies if the owner of Bonds (i) fails to furnish the payor such owner's social security number or other taxpayer identification number ("TIN"), (ii) furnished the payor an incorrect TIN, (iii) fails to properly report interest, dividends, or other "reportable payments" as defined in the Code, or (iv) under certain circumstances, fails to provide the payor or such owner's securities broker with a certified statement, signed under penalty of perjury, that the TIN provided is correct and that such owner is not subject to backup withholding. Prospective purchasers of the Bonds may also wish to consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

Future and Proposed Legislation

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE

The District in the Order has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB". This information will be available to the public free of charge from the MSRB via the EMMA system at www.emma.msrb.org. See "APPENDIX E – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for a description of the TEA's continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of specified events related to the guarantee to the MSRB.

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in APPENDIX A attached hereto, exclusive of the table reflecting "Table 6 – Estimated Overlapping Debt Statement", and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to the "Authorized but Unissued Bonds", have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2026.

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

The District's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than ten (10) business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material, (15) incurrence of a financial obligation of the District (as defined by Rule 15c2-12, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the District, any of which reflect financial difficulties.

Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the MSRB.

For these purposes, any event described in clause (12) in the first paragraph of this subcaption is considered to occur when any of the following occur; the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Additionally, the District intends the words used in clauses (15) and (16) of the first paragraph of this subcaption and the definition of "financial obligation" in these clauses to have the same meanings as when they are used in Rule 15c2-12, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

Availability of Information from MSRB

All information and documentation filing required to be made by the District in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

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

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

or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of Rule 15c2-12. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

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

WEATHER EVENTS

The District is located near the weather path of the Texas Gulf Coast. Land located in this area is susceptible to, and land within the District has experienced high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a future weather event significantly damaged all or part of the properties comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. Texas law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as floods and upon a gubernatorial or presidential declaration of disaster. See "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate." There can be no assurance that a casualty loss to taxable- property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

CYBERSECURITY

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

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources, which are believed to be reliable. All of the summaries of the statutes, documents and orders contained in this Official Statement are made subject to all of the provisions of such statutes, documents and orders. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

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

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

Municipal Bond Rating

Moody's Investors Service Inc. ("Moody's") has assigned an underlying, unenhanced rating of "A1" to the Bonds. Moody's is expected to assign a rating of "Aaa" to the Bonds based upon the Permanent School Fund Guarantee. Moody's generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa".

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

Municipal Advisor

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

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

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on inside cover page, less an Underwriters' discount of \$164,221.42. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

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

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

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

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

Use of Audited Financial Statements

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

Forward-Looking Statements

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

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

Information from External Sources

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

Authorization of the Official Statement

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

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

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

NAVASOTA INDEPENDENT SCHOOL DISTRICT

/s/ Dr. Stu Musick
Superintendent

APPENDIX A
SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

TABLE 1 - Valuation, Exemption & Tax Supported Debt

2025 Tax Year Total Valuation ⁽¹⁾	\$7,173,213,155
Less: Exemptions and Deductions ⁽¹⁾	4,004,495,624
2025 Tax Year Net Taxable Valuation ⁽¹⁾	<u>\$3,168,717,531</u>
Tax Supported Debt	
Total Unlimited Tax Bonds (as of January 1, 2026)	\$93,936,622
Plus: The Bonds	28,175,000
Less: Interest & Sinking Fund Balance (as of January 1, 2026) ⁽²⁾	4,303,805
Net General Obligation Debt	<u>\$117,807,817</u>
Ratio of Net G.O. Debt to Net Taxable Valuation	3.72%
Estimated District Population ⁽³⁾	23,298
Per Capita Net Taxable Valuation	\$136,008
Per Capita Net G.O. Debt	\$5,057

⁽¹⁾ Source: Brazos Central and Grimes Central Appraisal Districts.

⁽²⁾ Source: District's unaudited records as of January 1, 2026.

⁽³⁾ Source: The Municipal Advisory Council of Texas.

TABLE 2 - Historical Net Taxable Assessed Valuation ⁽¹⁾

	Tax Year 2025	Tax Year 2024	Tax Year 2023	Tax Year 2022	Tax Year 2021
Gross Value	\$7,173,213,155	\$6,251,588,821	\$5,730,251,382	\$5,118,949,287	\$4,133,343,356
Less: Exemptions	(4,004,495,624)	(3,215,230,704)	(2,935,966,919)	(2,483,052,339)	(2,018,231,907)
Net Taxable Value	\$3,168,717,531	\$3,036,358,117	\$2,794,284,463	\$2,635,896,948	\$2,115,111,449

⁽¹⁾ Source: Grimes Central and Brazos Central Appraisal Districts

TABLE 3 - Valuation and Tax Supported Debt History

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Net Taxable AV Per Capita	Unlimited Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2022	22,231	\$2,115,111,449	\$95,142	\$67,317,897	3.18%	3,028
2023	22,025	2,635,896,948	119,678	61,989,405	2.35%	2,815
2024	22,612	2,794,284,463	123,575	58,846,776	2.11%	2,602
2025	23,092	3,036,358,117	131,490	93,936,622	3.09%	4,068
2026	23,298	3,168,717,531	136,008	119,603,748 ⁽³⁾	3.77%	5,134

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Source: Brazos Central and Grimes Central Appraisal Districts.

⁽³⁾ Projected to fiscal year end. Includes the Bonds.

TABLE 4 - Tax Rate, Levy and Collection History ⁽¹⁾

Fiscal Year Ended 08/31	Total Tax Rate	Local Maintenance	I&S Fund	Tax Levy	Percent Collections	
					Current ⁽²⁾	Total ⁽²⁾
2022	\$1.2480	\$0.9235	\$0.3245	\$25,309,209	97.56%	100.70%
2023	1.1751	0.8546	0.3205	29,183,630	97.05%	99.22%
2024	0.9853	0.6692	0.3161	24,975,435	96.89%	99.68%
2025	0.9790	0.6669	0.3121	27,083,984	97.41%	100.54%
2026	0.9632	0.6552	0.3080	27,848,104 ⁽³⁾	[Process of Collection]	

⁽¹⁾ Source: Brazos Central and Grimes Central Appraisal Districts

⁽²⁾ Source: District's Audited Financial Statements. Excludes penalties and interest

⁽³⁾ Projected levy, subject to change.

TABLE 5 - Largest Taxpayers ⁽¹⁾

Taxpayer Name	Property Type	AV	% of Total
National Oilwell Varco LP	Oil & Gas Drilling Services/Equipment	132,038,336	4.17%
Ellwood Texas Forge Navasota	Industrial Manufacturing	77,997,289	2.46%
Magellan Pipeline Company LP	Oil & Gas Pipeline	57,956,213	1.83%
Union Pacific Railroad Co.	Railroad	50,352,267	1.59%
Helmerich & Payne Int'l. Drilling Co.	Oil & Gas Drilling Services/Equipment	46,643,702	1.47%
Energry Texas Inc.	Electric Utility/Power Plant	43,151,516	1.36%
Trinity Industries Inc.	Industrial Manufacturing	35,447,367	1.12%
Seaway Crude Pipeline LLC	Oil & Gas Pipeline	34,514,820	1.09%
BNSF Railway Co.	Railroad	33,869,169	1.07%
Centerpoint Energy Inc.	Electric Utility/Power Plant	23,386,053	0.74%
Top 10 Totals:		\$535,356,732	16.90%

⁽¹⁾ Source: Brazos Central and Grimes Central Appraisal Districts

TABLE 6 - Estimated Overlapping Debt ⁽¹⁾

Taxing Jurisdiction	As Of	Total Debt	Estimated % Overlapping	Overlapping Debt
Brazos County	11/30/2025	\$81,235,000	0.89%	\$722,992
Brazos County MUD #2	11/30/2025	2,935,000	3.67%	107,715
Grimes County	11/30/2025	-	53.49%	-
City of Navasota	11/30/2025	21,430,000	100.00%	21,430,000
Estimated (Net) Overlapping Debt				\$22,260,706
Navasota ISD ⁽²⁾		122,111,622	100.00%	122,111,622
Total Direct & Estimated Overlapping Debt				<u>\$144,372,328</u>

Total and Overlapping Debt as a % of 2025 Certified Taxable Assessed Valuation ⁽²⁾

4.56%

Total and Overlapping Debt as a Per Capita ⁽²⁾

\$6,196.77

⁽¹⁾ Source: The Municipal Advisory Council of Texas

⁽²⁾ Includes the Bonds.

TABLE 7 - General Obligation Tax Supported Debt Service Requirements

Fiscal Year Ending 08/31	The Bonds				New Total Debt Service Requirements
	Outstanding Debt Service	Principal	Interest	Total	
2026	\$6,974,022	\$-	\$-	\$-	\$6,974,022
2027	6,889,610	65,000	1,885,843	1,950,843	8,840,453
2028	6,605,266	625,000	1,323,988	1,948,988	8,554,253
2029	6,453,307	655,000	1,291,988	1,946,988	8,400,294
2030	6,473,047	690,000	1,258,363	1,948,363	8,421,410
2031	5,954,336	725,000	1,222,988	1,947,988	7,902,324
2032	5,956,375	765,000	1,185,738	1,950,738	7,907,112
2033	5,953,693	805,000	1,146,488	1,951,488	7,905,180
2034	5,954,996	845,000	1,105,238	1,950,238	7,905,234
2035	5,957,011	885,000	1,061,988	1,946,988	7,903,998
2036	5,865,314	930,000	1,016,613	1,946,613	7,811,926
2037	5,864,049	980,000	968,863	1,948,863	7,812,912
2038	5,865,895	1,030,000	918,613	1,948,613	7,814,507
2039	5,865,627	1,085,000	865,738	1,950,738	7,816,365
2040	5,863,458	1,140,000	810,113	1,950,113	7,813,570
2041	5,864,874	1,195,000	751,738	1,946,738	7,811,611
2042	5,864,351	1,260,000	690,363	1,950,363	7,814,714
2043	5,866,649	1,325,000	625,738	1,950,738	7,817,386
2044	5,867,423	1,390,000	557,863	1,947,863	7,815,286
2045	5,865,500	1,460,000	486,613	1,946,613	7,812,113
2046	5,866,433	1,535,000	411,738	1,946,738	7,813,170
2047	2,584,700	1,610,000	339,150	1,949,150	4,533,850
2048	2,586,500	1,680,000	269,238	1,949,238	4,535,738
2049	2,585,100	1,755,000	196,244	1,951,244	4,536,344
2050	2,585,400	1,830,000	120,063	1,950,063	4,535,463
2051	2,582,300	1,910,000	40,588	1,950,588	4,532,888
2052	2,585,600	-	-	-	2,585,600
2053	2,585,100	-	-	-	2,585,100
2054	2,585,700	-	-	-	2,585,700
Total	\$148,371,635	\$28,175,000	\$20,551,887	\$48,726,887	\$197,098,522
Average Annual Debt Service Requirement					\$6,796,501
Maximum Debt Service Requirement					\$8,840,453

TABLE 8 – Authorized but Unissued Bonds

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

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue ⁽¹⁾	Amount Remaining
School Building	\$71,000,000	\$41,000,000	\$30,000,000	\$0
Refunding Maintenance Tax Notes	\$3,040,000	\$2,740,000	\$0	\$300,000

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

⁽¹⁾ Includes premium allocations that the District has applied against voted authorization.

TABLE 9 - Other Obligations ⁽¹⁾

The District entered into an Equipment Lease Agreement with Xerox Financial Services LLC on December 2, 2024. The initial term being 60 months with a \$11,550.00 monthly payment.

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

TABLE 10 - Schedule of General Fund Revenues and Expenditure History

For Fiscal Year ended August 31,	2025	2024	2023	2022	2021
REVENUES:					
Total Local and Intermediate Sources	\$20,559,760	\$18,832,758	\$22,588,369	\$19,918,978	\$19,080,929
State Program Revenues	15,531,700	16,031,451	9,411,323	10,184,311	9,239,894
Federal Program Revenues	143,124	170,616	867,642	951,588	908,915
Total Revenues	\$36,234,584	\$35,034,825	\$32,867,334	\$31,054,877	\$29,229,738
EXPENDITURES:					
Instruction	\$19,361,096	\$17,669,761	\$15,105,526	\$15,061,584	\$17,042,209
Instructional Resources & Media Services	75,134	54,473	26,039	15,857	30,921
Curriculum and Instructional Staff Development	622,978	595,438	377,886	158,423	62,744
Instructional Leadership	409,074	363,811	341,541	130,035	130,052
School Leadership	2,431,856	2,267,143	2,027,592	1,783,767	2,019,096
Guidance, Counseling & Evaluation Services	702,239	709,666	130,666	44,019	26,842
Social Work	966	446	-	-	-
Health Services	366,532	251,331	31,273	5,468	265,532
Student Transportation	2,319,939	2,099,977	2,319,722	1,816,738	1,674,811
Food Services	-	-	-	-	-
Extracurricular Activities	1,759,972	1,681,736	1,469,107	1,384,984	1,248,911
General Administration	1,633,125	1,716,726	1,535,352	1,306,887	1,203,457
Plant Maintenance & Operations	4,038,580	4,459,014	3,883,386	3,650,081	3,346,261
Security Monitoring and Services	229,084	321,248	286,291	215,588	188,121
Data Processing Services	613,022	731,400	644,588	516,365	805,903
Community Service	369,359	384,135	277,156	165,436	160,535
Debt Service:					
Principal on Long Term Debt	50,627	567,526	603,678	585,639	367,000
Interest on Long Term Debt	-	59,899	72,844	96,420	119,278
Debt Service Cost and Fees	-	-	-	-	-
Capital Outlay	4,673,822	-	-	-	-
Intergovernmental:					
Payments to Fiscal Agents/Member Districts of SSA	1,222,980	1,011,327	866,633	729,350	474,768
Payments to Juvenile Justice Alternative Ed Programs	34,224	56,414	34,117	2,294	21,687
Other Intergovernmental	558,049	565,228	478,281	522,678	465,187
Total Expenditures	\$41,472,658	\$35,566,699	\$30,511,678	\$28,191,613	\$29,653,315
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$5,238,074)	(\$531,874)	\$2,355,656	\$2,863,264	(\$423,577)
Other Financing Sources and (Uses):					
Sale of Real or Personal Property	-	-	-	63,001	-
Capital Leases	-	-	-	-	-
Loan Proceeds	-	-	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	(50,962)	(385,480)	-	-	(1,959,855)
Other Uses	-	-	-	-	-
Special Item (Outflow)	-	(212,800)	-	-	-
Total Other Financing Sources and (Uses)	(50,962)	(598,280)	-	63,001	(1,959,855)
Special Items:					
Impairment gain on Fire, Net of Insurance Recovery ⁽²⁾	4,206,639	-	-	-	-
Net Change in Fund Balances ⁽³⁾⁽⁴⁾	(1,082,397)	(1,130,154)	2,355,656	2,926,265	(2,383,432)
Fund Balances - Beginning	\$8,592,819	\$9,722,973	\$7,367,317	\$4,441,052	\$6,824,484
Fund Balances - Ending	\$7,510,422	\$8,592,819	\$9,722,973	\$7,367,317	\$4,441,052

⁽¹⁾ Source: District's Audited Financial Statements

⁽²⁾ As of August 31, 2025, the District has filed several claims with its insurance carrier and has received \$4,206,639 in insurance proceeds related to the fire. The insurance recovery exceeded the net book value of the destroyed assets by \$1,752,697.

⁽³⁾ The deficit in FYE 2024 primarily due to an increase in expenditures for payroll-related costs, an increase in the District's budget shares for shared services arrangements, a refund of prior year SHARS revenue, and a transfer of funds to the capital projects fund.

⁽⁴⁾ The deficit in FYE 2021 was primarily due to increases in payroll-related expenditures and a transfer to the capital projects fund.

TABLE 11 - General Operating Fund Comparative Balance Sheet

For Fiscal Year Ended, August 31	2025	2024	2023	2022	2021
ASSETS:					
Cash & Cash Equivalents	6,162,663	7,389,606	9,180,656	\$6,453,781	\$5,588,381
Taxes Receivable, Net	1,388,126	1,505,493	1,494,653	1,355,363	1,529,057
Allowance for uncollectible taxes (credit)	(288,183)	(301,098)	(298,931)	(271,073)	(485,336)
Due from Other Governments	4,037,807	3,040,457	2,060,881	1,796,560	523,132
Due from Other Funds	171,229	374,129	487,873	574,283	1,940,569
Due from Fiduciary	4,126	3,700	3,593	3,070	2,558
Inventories, at cost	-	-	-	-	-
Prepaid Items	62,879	120,064	12,000	16,000	20,000
Restricted Cash and Investments	-	-	-	-	-
Total Assets	\$11,538,647	\$12,132,351	\$12,940,725	\$9,927,984	\$9,118,361
LIABILITIES					
Accounts Payable	667,196	498,740	429,816	\$397,381	\$567,007
Payroll Deductions and Withholdings Payable	-	-	-	-	-
Accrued Wages Payable	1,781,542	1,623,598	1,592,214	1,078,996	1,211,666
Due to Other Funds	197,622	-	-	-	-
Payable to Other Governments	-	-	-	-	-
Accrued Expenditures	-	-	-	-	-
Other Liabilities	212,800	212,799	-	-	-
Deferred/Unearned Revenues	69,122	-	-	-	1,825,076
Total Liabilities	\$2,928,282	\$2,335,137	\$2,022,030	\$1,476,377	\$3,603,749
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	\$1,099,943	\$1,204,395	\$1,195,722	\$1,084,290	\$1,073,560
Total Deferred Inflows of Resources	\$1,099,943	\$1,204,395	\$1,195,722	\$1,084,290	\$1,073,560
FUND BALANCES:					
Nonspendable					
Inventories	-	-	-	-	-
Prepaid Items	62,879	120,064	12,000	16,000	20,000
Restricted Fund Balances:					
Federal/State Funds Grant Restrictions	-	-	-	-	-
Capital Acquisitions & Contractual Obligations	-	-	-	-	-
Retirement of Long-Term Debt	-	-	-	-	-
Committed Fund Balance:					
Construction	400,000	400,000	400,000	400,000	400,000
Unassigned Fund Balance:	7,047,543	8,072,755	9,310,973	6,951,317	4,021,052
Total Fund Balances	\$7,510,422	\$8,592,819	\$9,722,973	\$7,367,317	\$4,441,052
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$11,538,647	\$12,132,351	\$12,940,725	\$9,927,984	\$9,118,361

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

TABLE 12 - Current Investments ⁽¹⁾

The following percentages of the District's Investable Funds were invested as indicated below:

Investment Type	Percent	Amount
Investment Pool - Operating	22.22%	\$12,149,279
Investment Pool - Capital Projects	62.54%	\$34,193,148
Investment Pool - Debt Service Fund	9.41%	\$5,144,109
MMA - Operating	3.83%	\$2,092,163
MMA - Capital Projects	0.91%	\$495,520
MMA - Debt Service Fund	1.10%	\$600,789
Total	100.00%	\$54,675,010

⁽¹⁾ Source: The District's unaudited records as of January 1, 2026.

TABLE 13 - Tax Adequacy

2026 Net Principal and Interest Requirements	\$6,974,022	
\$0.2246 Tax Rate at 98% Collection Produces	\$6,974,601	(1)
Average Net Annual Principal and Interest Requirements, 2026-2054	\$6,796,501	(2)
\$0.2189 Tax Rate at 98% Collection Produces	\$6,797,596	(1)
Maximum Net Principal and Interest Requirements, 2027	\$8,840,453	(2)
\$0.2847 Tax Rate at 98% Collection Produces	\$8,840,912	(1)

⁽¹⁾ Based upon the 2025 Certified Net Taxable Value. Source: The Brazos Central and Grimes Central Appraisal Districts.

⁽²⁾ Includes principal and interest of the Bonds.

TABLE 14 - Interest and Sinking Fund Budget Projection

Interest & Sinking Fund Balance, 09/01/2025 (Beginning) ⁽¹⁾		\$4,303,805
Estimated Tax Supported Debt Service Requirements for FYE 2026	\$6,974,022	
Projected Interest & Sinking Fund Tax Revenue ⁽²⁾	\$8,904,917	
EDA/IFA from Texas Education Agency ⁽³⁾	-	
ASAHE from Texas Education Agency ⁽³⁾	\$504,871	
Transfers In/(Out)	-	
Projected Interest & Sinking Fund Balance, 08/31/2026 (Ending)		\$6,739,571
Net Increase/(Decrease) in Fund Balance		\$2,435,766

⁽¹⁾ Source: The District's records. Unaudited.

⁽²⁾ Projection based upon the 2025 I&S Tax Rate and 2025 Tax Levy.

⁽³⁾ Source: Texas Education Agency Summary of Finances dated December 10, 2025.

APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Enrollment Statistics ⁽¹⁾

<u>Year Ending 8/31</u>	<u>Enrollment</u>
2016	3,078
2017	3,047
2018	3,047
2019	3,043
2020	3,017
2021	2,847
2022	2,991
2023	2,977
2024	3,030
2025	3,117
Current ⁽²⁾	3,136

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

⁽²⁾ Source: The District's records as of January 12, 2026.

District Staff

Teachers	234
Auxiliary Personnel	151
Administrators	40
Total	<u>425</u>

Source: The District's records as of January 12, 2026.

<u>Campus</u>	<u>Grades</u>	<u>Current Enrollment</u>
Brule Elementary School	PreK - 5	358
John C. Webb Elementary School	1 - 5	651
High Point Elementary School	1 - 5	500
Navasota Junior High	6-8	686
Navasota High School	9-12	934
W.B. Bizzell Academy	9-12	7

Source: The District's records as of January 12, 2026.

APPENDIX C

AUDITED FINANCIAL STATEMENTS

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

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

NAVASOTA INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT
For the year ended August 31, 2025

NAVASOTA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the year ended August 31, 2025

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NAVASOTA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
For the year ended August 31, 2025

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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

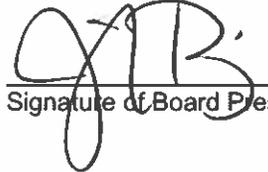
Navasota Independent School District
Name of School District

Grimes
County

093-904
Co. Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved ___ disapproved for the year ended August 31, 2025, at a meeting of the Board of Trustees of such school district on the 18 day of December 2025


Signature of Board Secretary


Signature of Board President

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Navasota Independent School District
Navasota, Texas

Report on the Audit of the Financial Statements***Opinions***

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

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

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

(Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

(Continued)

Supplementary Information

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and the schedule of required responses to selected school first indicators but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.


Crowe LLP

Houston, Texas
December 17, 2025

MANAGEMENT'S DISCUSSION AND ANALYSIS

NAVASOTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended August 31, 2025

This discussion and analysis of Navasota Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2025. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total net position at year end was \$14,870,185.
- For the fiscal year ended August 31, 2025, the District's general fund reported a total fund balance of \$7,510,422 of which \$62,879 is nonspendable for prepaid items, \$400,000 is committed for construction, and \$7,047,543 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund, the debt service fund, capital projects fund and nonmajor governmental funds) reported a combined ending fund balance of \$49,463,657.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic financial statements include two kinds of statements that present different views of the District.

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

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended August 31, 2025

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred outflows/inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other nonfinancial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following class of activities:

Governmental Activities – Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operations and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

The government-wide financial statements can be found after the Management Discussion and Analysis.

FUND FINANCIAL STATEMENTS

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

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

The District has the following kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity and private-purpose trust funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended August 31, 2025

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

**Table 1
Net Position**

	<u>Governmental Activities</u>		<u>Total Change</u>
	<u>2025</u>	<u>2024</u>	<u>2025-2024</u>
ASSETS			
Current assets	\$ 56,845,130	\$ 18,061,771	\$ 38,783,359
Capital assets	88,386,081	83,151,545	5,234,536
Total assets	<u>145,231,211</u>	<u>101,213,316</u>	<u>44,017,895</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	1,896,209	2,008,618	(112,409)
Deferred outflows - pensions	4,365,161	5,281,253	(916,092)
Deferred outflows - OPEB	<u>5,512,734</u>	<u>3,520,432</u>	<u>1,992,302</u>
Total deferred outflows of resources	<u>11,774,104</u>	<u>10,810,303</u>	<u>963,801</u>
LIABILITIES			
Current liabilities	6,133,025	2,896,419	3,236,606
Long-term liabilities	<u>127,267,413</u>	<u>89,216,729</u>	<u>38,050,684</u>
Total liabilities	<u>133,400,438</u>	<u>92,113,148</u>	<u>41,287,290</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - pensions	1,178,001	1,681,225	(503,224)
Deferred inflows - OPEB	<u>7,556,691</u>	<u>8,877,760</u>	<u>(1,321,069)</u>
Total deferred inflows of resources	<u>8,734,692</u>	<u>10,558,985</u>	<u>(1,824,293)</u>
NET POSITION			
Net investment in capital assets	23,527,142	18,378,503	5,148,639
Restricted	6,067,442	5,296,768	770,674
Unrestricted	<u>(14,724,399)</u>	<u>(14,323,785)</u>	<u>(400,614)</u>
Total net position	<u>\$ 14,870,185</u>	<u>\$ 9,351,486</u>	<u>\$ 5,518,699</u>

The District's combined net position was \$14,870,185 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2025. The District reported an increase of \$5,518,699 in net position from the prior year. Capital assets increased due to current year construction in progress. Current assets increased primarily due to an increase in cash due to new debt issuance. Current liabilities increased largely due to an increase in accounts payable and interest payable. Long-term liabilities increased due to new debt issuance. Total deferred outflows of resources increased, while total deferred inflows of resources decreased related to the pension and OPEB plans compared to the prior year due to changes in actuarially determined amounts that are deferred for pension and OPEB plan assets.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended August 31, 2025

Table 2
Change in Net Position

	<u>Governmental Activities</u>		<u>Total Change</u>
	<u>2025</u>	<u>2024</u>	<u>2025-2024</u>
Revenues			
Program revenues			
Charges for services	\$ 2,639,411	\$ 2,197,471	\$ 441,940
Operating grants and contributions	8,403,050	10,679,556	(2,276,506)
General revenues			
Property Taxes	27,576,017	25,369,790	2,206,227
Grants and contributions not restricted	14,432,648	15,197,330	(764,682)
Investment earnings	2,568,201	954,822	1,613,379
Miscellaneous	863,332	706,588	156,744
Impairment gain on fire, net of insurance recovery	1,752,697	-	1,752,697
Total revenues	<u>58,235,356</u>	<u>55,105,557</u>	<u>3,129,799</u>
Expenses			
Instruction	24,411,273	23,848,296	562,977
Instructional resources and media services	319,084	336,096	(17,012)
Curriculum/instructional staff development	878,605	904,573	(25,968)
Instructional leadership	907,172	837,200	69,972
School leadership	2,637,296	2,605,750	31,546
Guidance, counseling, and evaluation services	2,870,632	2,712,285	158,347
Social work/health services	8,342	446	7,896
Health services	392,604	423,221	(30,617)
Student (pupil) transportation	2,687,448	2,467,513	219,935
Food services	2,824,662	2,903,728	(79,066)
Cocurricular/extracurricular activities	2,265,368	2,215,213	50,155
General administration	1,611,146	1,904,739	(293,593)
Plant maintenance and operations	4,310,574	4,751,338	(440,764)
Security and monitoring services	356,516	455,893	(99,377)
Data processing services	689,354	809,747	(120,393)
Community services	368,561	387,083	(18,522)
Debt service - interest	2,840,039	1,635,393	1,204,646
Debt service - other fees	506,127	13,452	492,675
Payments related to shared services arrangements	1,236,980	1,025,327	211,653
Payments to juvenile justice programs	36,825	68,000	(31,175)
Other intergovernmental charges	558,049	565,228	(7,179)
Special items	-	212,800	(212,800)
Total expenses	<u>52,716,657</u>	<u>51,083,321</u>	<u>1,633,336</u>
Change in net position	5,518,699	4,022,236	1,496,463
Net position - beginning of year	<u>9,351,486</u>	<u>5,329,250</u>	<u>4,022,236</u>
Net position - end of year	<u>\$ 14,870,185</u>	<u>\$ 9,351,486</u>	<u>\$ 5,518,699</u>

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended August 31, 2025

Total revenues increased by \$3,129,799 or 6% mainly due to increases in property taxes and investment earnings in the current year. Total expenses increased by \$1,633,336 or 3%. Expenses increased primary due to an increase in the District's budgeted share for shared services arrangements and payroll-related expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2025, the District's governmental funds reported a combined fund balance of \$49,463,657. This compares to a combined fund balance of \$13,717,739 at August 31, 2024. The fund balance in the general fund decreased \$1,082,397 primarily due to an increase in expenditures for payroll-related costs and an increase in the District's budgeted share for shared services arrangements. The fund balance for the debt service fund increased \$539,380 primarily due to an increase in state allotment payments and property tax revenue as a result of an increase in assessed value of taxable property. During the current fiscal year, the District's capital projects fund was reclassified from a nonmajor governmental fund to a major governmental fund. This change was the result of an increase in the fund's financial activity and significance relative to the District's total governmental funds. There was an increase in fund balance of \$36,034,298, which was primarily due to the issuance of bonds.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the period ended August 31, 2025, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. The general fund's actual revenues exceeded budgeted revenues by \$569,626, which was primarily due to the District receiving more local and state program revenues than anticipated. The budgeted expenditures exceeded actual expenditures by \$963,220 which was primarily due to the District spending less than expected and realizing cost savings across all functions with the exception of capital outlay.

CAPITAL ASSETS

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

At year end, the District had a total of \$88,386,081 invested in capital assets (net of depreciation/amortization) such as land, buildings, equipment, and right-to-use assets. This total includes \$11,302,427 invested during the fiscal year ended August 31, 2025 with the major capital assets purchased being:

- CTE Building – \$3,914,451
- Construction of Playground and Roofing - \$3,498,533
- 340 Ton Chiller - \$361,556
- Bus Barn Site Improvement and Heater – \$240,340
- High School AHU Replacement - \$227,430

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

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended August 31, 2025

LONG-TERM DEBT

At year end, the District had \$127,267,413 in general obligation bonds and other liabilities, including a net pension liability, total OPEB liability, accreted interest liability, and lease liabilities, outstanding versus \$89,216,729 last year. This is a net increase of \$38,050,684 which was primarily due to new bonds issued.

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The following were considered in establishing the District's budget for 2025-2026:

Expenditures:

- Student enrollment increased in 2024-2025 to 2,810 average daily attendance (ADA) as compared to 2,742 in 2023-2024. The projected student enrollment for forecasting Foundation payments was 2,880 ADA in the 2025-2026 budget.
- The District budgeted revenues of \$52,774,767 and expenditures of \$53,672,876 for fiscal year 2025-2026.
- The District adopted a 2025-2026 maintenance and operation tax rate of \$0.6552 and an interest and sinking tax rate of \$0.3080 for a total of \$0.963200 per \$100 of valuation.
- The District reports cash flows to the Board on a monthly basis; therefore, adjustments to operating expenses are made in response to any negative or positive impact on revenue estimates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Trish Cunneen, Business Manager, at (936) 825-4200.

BASIC FINANCIAL STATEMENTS

NAVASOTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - EXHIBIT A-1
August 31, 2025

Data Control Codes		1 Governmental Activities
ASSETS		
1110	Cash and cash equivalents	\$ 50,759,764
1225	Property taxes receivable	1,887,490
1230	Allowance for uncollectible taxes	(394,056)
1240	Due from other governments	4,470,632
1267	Due from fiduciary funds	4,130
1300	Inventories	50,291
1410	Prepays	66,879
		<u>56,845,130</u>
	Capital assets	
1510	Land	1,009,634
1520	Buildings and improvements, net	77,438,211
1530	Equipment and vehicles, net	3,686,016
1580	Construction in progress	6,252,220
		<u>88,386,081</u>
1000	Total assets	<u>145,231,211</u>
DEFERRED OUTFLOW OF RESOURCES		
1701	Deferred charge on refunding	1,896,209
1705	Deferred outflows - pensions	4,365,161
1710	Deferred outflows - OPEB	5,512,734
1700	Total deferred outflows of resources	<u>11,774,104</u>
LIABILITIES		
2110	Accounts payable	3,717,675
2120	Other liabilities	212,800
2140	Interest payable	244,986
2165	Accrued liabilities	1,883,696
2300	Unearned revenue	73,868
		<u>6,133,025</u>
	Noncurrent liabilities	
2501	Long-term liabilities due within one year	3,845,717
2502	Long-term liabilities due in more than one year	104,292,363
2540	Net pension liability	11,497,675
2545	Net OPEB liability	7,631,658
2000	Total liabilities	<u>133,400,438</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows - pensions	1,178,001
2610	Deferred inflows - OPEB	7,556,691
2600	Total deferred inflows of resources	<u>8,734,692</u>
NET POSITION		
3200	Net investment in capital assets	23,527,142
	Restricted for	
3820	Federal and state programs	1,615,132
3850	Debt service	4,452,310
3900	Unrestricted	(14,724,399)
3000	Total net position	<u>\$ 14,870,185</u>

See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES - EXHIBIT B-1
For the year ended August 31, 2025

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense)
			3 Charges for Services	4 Operating Grants and Contributions	Revenue and Changes in Net Position
					6 Primary Governmental Activities
	Governmental activities				
11	Instruction	\$ 24,411,273	\$ 487,678	\$ 3,212,284	\$ (20,711,311)
12	Instructional resources and media services	319,084	-	196,828	(122,256)
13	Curriculum/ instructional staff development	878,605	-	267,796	(610,809)
21	Instructional leadership	907,172	377,441	145,258	(384,473)
23	School leadership	2,637,296	-	333,181	(2,304,115)
31	Guidance, counseling, and evaluation services	2,870,632	1,224,911	1,079,853	(565,868)
32	Social work services	8,342	-	-	(8,342)
33	Health services	392,604	-	190,893	(201,711)
34	Student (pupil) transportation	2,687,448	-	-	(2,687,448)
35	Food services	2,824,662	273,304	2,618,470	67,112
36	Extracurricular activities	2,265,368	202,747	91,336	(1,971,285)
41	General administration	1,611,146	1,830	77,014	(1,532,302)
51	Plant maintenance and operations	4,310,574	57,500	40,360	(4,212,714)
52	Security and monitoring services	356,516	-	100,209	(256,307)
53	Data processing services	689,354	-	25,020	(664,334)
61	Community services	368,561	-	21,947	(346,614)
72	Debt service - interest	2,840,039	-	-	(2,840,039)
73	Debt service - other fees	506,127	-	-	(506,127)
93	Payments to fiscal agent/member districts of SSA	1,236,980	14,000	-	(1,222,980)
95	Payments to juvenile justice programs	36,825	-	2,601	(34,224)
99	Other intergovernmental charges	558,049	-	-	(558,049)
TG	Total governmental activities	<u>52,716,657</u>	<u>2,639,411</u>	<u>8,403,050</u>	<u>(41,674,196)</u>
TP	Total primary government	<u>\$ 52,716,657</u>	<u>\$ 2,639,411</u>	<u>\$ 8,403,050</u>	<u>\$ (41,674,196)</u>
	General revenues				
MT	Property taxes, levied for general purposes				18,823,217
DT	Property taxes, levied for debt service				8,752,800
GC	Grants and contributions not restricted for				
GC	specific programs				14,432,648
IE	Investment earnings				2,568,201
MI	Miscellaneous local and intermediate revenue				863,332
E1	Impairment gain on fire, net of insurance recovery				<u>1,752,697</u>
TR	Total general revenues and special items				<u>47,192,895</u>
CN	Change in net position				5,518,699
NB	Beginning net position				<u>9,351,486</u>
NE	Ending net position				<u>\$ 14,870,185</u>

See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS - EXHIBIT C-1
 August 31, 2025

Data Control Codes	10	50	60 Formerly <u>Nonmajor</u> Capital <u>Projects</u>	ONMF Nonmajor Governmental <u>Funds</u>	98 Total Governmental <u>Funds</u>	
<u>Codes</u>	<u>General</u>	<u>Debt Service</u>				
ASSETS						
1110	Cash and cash equivalents	\$ 6,162,663	\$ 4,268,713	\$ 38,698,255	\$ 1,630,133	\$ 50,759,764
1220	Property taxes receivable	1,388,126	499,364	-	-	1,887,490
1230	Allow ance for uncollectibles	(288,183)	(105,873)	-	-	(394,056)
1240	Due from other governments	4,037,807	35,088	-	397,737	4,470,632
1260	Due from other funds	171,229	-	197,622	-	368,851
1267	Due from fiduciary funds	4,126	4	-	-	4,130
1300	Inventories	-	-	-	50,291	50,291
1410	Prepaid items	62,879	-	-	4,000	66,879
1000	Total assets	<u>\$ 11,538,647</u>	<u>\$ 4,697,296</u>	<u>\$ 38,895,877</u>	<u>\$ 2,082,161</u>	<u>\$ 57,213,981</u>
LIABILITIES						
2110	Accounts payable	\$ 667,196	\$ -	\$ 2,861,579	\$ 188,900	\$ 3,717,675
2120	Other liabilities	212,800	-	-	-	212,800
2160	Accrued w ages payable	1,781,542	-	-	102,154	1,883,696
2170	Due to other funds	197,622	-	-	171,229	368,851
2300	Unearned revenue	69,122	-	-	4,746	73,868
2000	Total liabilities	<u>2,928,282</u>	<u>-</u>	<u>2,861,579</u>	<u>467,029</u>	<u>6,256,890</u>
DEFERRED INFLOWS OF RESOURCES						
2600	Unavailable revenue - property taxes	1,099,943	393,491	-	-	1,493,434
FUND BALANCES						
Nonspendable						
3410	Inventories	-	-	-	50,291	50,291
3430	Prepaid items	62,879	-	-	4,000	66,879
Restricted						
3450	Grant funds	-	-	-	1,564,688	1,564,688
3470	Construction	-	-	36,034,298	-	36,034,298
3480	Debt service	-	4,303,805	-	-	4,303,805
Committed						
3510	Construction	400,000	-	-	-	400,000
3600	Unassigned	7,047,543	-	-	(3,847)	7,043,696
3000	Total fund balances	<u>7,510,422</u>	<u>4,303,805</u>	<u>36,034,298</u>	<u>1,615,132</u>	<u>49,463,657</u>
4000	Total liabilities, deferred inflow s of resources, and fund balances	<u>\$ 11,538,647</u>	<u>\$ 4,697,296</u>	<u>\$ 38,895,877</u>	<u>\$ 2,082,161</u>	<u>\$ 57,213,981</u>

See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R
 August 31, 2025

Total fund balances for governmental funds \$ 49,463,657

Amounts reported for governmental activities in the Statement of
 Net Position are different because:

Capital assets used in governmental activities are not
 current financial resources and, therefore, not
 reported in the governmental funds.

Capital assets - nondepreciable	7,261,854	
Capital assets - depreciable, net	<u>81,124,227</u>	
		88,386,081

Other long-term assets are not available to pay for current
 period expenditures and, therefore, are deferred in the
 governmental funds.

1,493,434

Deferred items and liabilities, including bonds, notes payable, and
 net pension and other postemployment benefits (OPEB), are not
 reported as deferred items in the governmental funds.

Deferred charges on refunding	1,896,209	
Deferred outflows - pensions	4,365,161	
Deferred outflows - OPEB	5,512,734	
Deferred inflows - pensions	(1,178,001)	
Deferred inflows - OPEB	(7,556,691)	
Accrued interest	(244,986)	
Net pension liability	(11,497,675)	
Net OPEB liability	(7,631,658)	
Noncurrent liabilities due in one year	(3,845,717)	
Noncurrent liabilities due in more than one year	<u>(104,292,363)</u>	
		<u>(124,472,987)</u>

Net position of governmental activities \$ 14,870,185

See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS - EXHIBIT C-2
For the year ended August 31, 2025

Data Control Codes	10 General	50 Debt Service	60 Formerly Nonmajor Capital Projects	ONMF Nonmajor Governmental Funds	98 Total Governmental Funds
Revenues					
5700 Local and intermediate sources	\$ 20,559,760	\$ 8,994,971	\$ 1,788,582	\$ 2,436,664	\$ 33,779,977
5800 State program revenues	15,531,700	550,547	-	222,980	16,305,227
5900 Federal program revenues	<u>143,124</u>	<u>-</u>	<u>-</u>	<u>5,131,350</u>	<u>5,274,474</u>
5020 Total revenues	<u>36,234,584</u>	<u>9,545,518</u>	<u>1,788,582</u>	<u>7,790,994</u>	<u>55,359,678</u>
Expenditures					
0011 Instruction	19,361,096	-	-	1,883,851	21,244,947
0012 Instructional resources and media services	75,134	-	-	157,749	232,883
0013 Curriculum and instructional staff development	622,978	-	-	220,529	843,507
0021 Instructional leadership	409,074	-	-	450,122	859,196
0023 School leadership	2,431,856	-	-	115,993	2,547,849
0031 Guidance, counseling, and evaluation services	702,239	-	-	1,942,537	2,644,776
0032 Social work	966	-	-	-	966
0033 Health services	366,532	-	-	-	366,532
0034 Student transportation	2,319,939	-	-	-	2,319,939
0035 Food service	-	-	-	2,551,444	2,551,444
0036 Extracurricular activities	1,759,972	-	-	-	1,759,972
0041 General administration	1,633,125	-	-	1,830	1,634,955
0051 Plant maintenance and operations	4,038,580	-	-	132,262	4,170,842
0052 Security and monitoring services	229,084	-	-	100,209	329,293
0053 Data processing services	613,022	-	-	14,192	627,214
0061 Community services	369,359	-	-	-	369,359
Debt service					
0071 Principal on long-term debt	50,627	4,795,154	-	-	4,845,781
0072 Interest on long-term debt	-	4,218,989	-	-	4,218,989
0073 Other debt service fees	-	71,999	434,128	-	506,127
0081 Capital outlay	4,673,822	-	6,754,284	-	11,428,106
Intergovernmental					
0093 Payments to member districts of SSA	1,222,980	-	-	14,000	1,236,980
0095 Payments to juvenile justice programs	34,224	-	-	2,601	36,825
0099 Other intergovernmental charges	<u>558,049</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>558,049</u>
6030 Total expenditures	<u>41,472,658</u>	<u>9,086,142</u>	<u>7,188,412</u>	<u>7,587,319</u>	<u>65,334,531</u>
1100 Excess (deficiency) of revenues over					
1100 (under) expenditures	<u>(5,238,074)</u>	<u>459,376</u>	<u>(5,399,830)</u>	<u>203,675</u>	<u>(9,974,853)</u>
Other financing sources (uses)					
7911 Issuance of bonds	-	2,740,000	40,145,000	-	42,885,000
7915 Transfers in	-	-	-	50,962	50,962
7916 Premium/discount on bonds	-	-	1,289,128	-	1,289,128
8911 Transfers (out)	(50,962)	-	-	-	(50,962)
8949 Payment to escrow agent	-	(2,659,996)	-	-	(2,659,996)
7080 Total other financing sources	<u>(50,962)</u>	<u>80,004</u>	<u>41,434,128</u>	<u>50,962</u>	<u>41,514,132</u>
Special Items					
7919 Impairment gain on fire, net of insurance recover	<u>4,206,639</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,206,639</u>
1200 Net change in fund balances	(1,082,397)	539,380	36,034,298	254,637	35,745,918
0100 Beginning fund balances	<u>8,592,819</u>	<u>3,764,425</u>	<u>-</u>	<u>1,360,495</u>	<u>13,717,739</u>
3000 Ending fund balances	<u>\$ 7,510,422</u>	<u>\$ 4,303,805</u>	<u>\$ 36,034,298</u>	<u>\$ 1,615,132</u>	<u>\$ 49,463,657</u>

See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
 STATEMENT OF ACTIVITIES - EXHIBIT C-3
 For the year ended August 31, 2025

Net change in fund balances - total governmental funds \$ 35,745,918

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation/amortization expense.

Depreciation/amortization	(3,514,230)
Capital outlay	11,302,427
Disposals	(2,553,661)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(133,016)
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments	7,600,781
Issuance of bonds	(42,885,000)
Amortization of loss on refunding	(112,409)
Amortization of premiums	(723,567)
Accrued interest	(66,149)
Accreted interest	896,943

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in net pension liability	(446,818)
Net change in deferred outflows and inflows related to pensions	(412,868)
Change in net OPEB liability	(2,493,023)
Net change in deferred outflows and inflows related to OPEB	3,313,371
Net on-behalf contributions adjustment - revenues	2,753,683
Net on-behalf contributions adjustment - expenses	(2,753,683)

Some revenues/expenditures reported in the governmental funds are not recognized as revenues/expenditures in the Statement of Activities.

Fund level on-behalf adjustment - revenues	(1,497,686)
Fund level on-behalf adjustment - expenditures	<u>1,497,686</u>

Change in Net Position of Governmental Activities	<u><u>\$ 5,518,699</u></u>
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See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS - EXHIBIT E-1
 August 31, 2025

	Private- Purpose <u>Trust</u>	<u>Custodial</u>
ASSETS		
Cash and cash equivalents	\$ -	\$ 222,008
Restricted assets	<u>91,930</u>	<u>-</u>
Total assets	<u>91,930</u>	<u>222,008</u>
LIABILITIES		
Current Liabilities		
Due to governmental funds	-	4,130
Accrued expenses	<u>-</u>	<u>1,398</u>
Total liabilities	<u>-</u>	<u>5,528</u>
NET POSITION		
Restricted for individuals and organizations	<u>\$ 91,930</u>	<u>\$ 216,480</u>

See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FIDUCIARY FUNDS - EXHIBIT E-2
 For the year ended August 31, 2025

	Private- Purpose <u>Trust</u>	<u>Custodial</u>
Additions		
Donations	\$ -	\$ 37,004
Dues	-	21,672
Fees	-	24,928
Fundraisers	-	69,050
Investment income	1,783	-
Other revenue	-	261,746
Total operating revenues	1,783	414,399
Deductions		
Supplies and materials	-	237,215
Fees	-	26,546
Fundraisers	-	28,260
Scholarship awards	6,500	-
Other	-	140,572
Total operating expenses	6,500	432,593
Change in net position	(4,717)	(18,194)
Beginning net position	96,647	234,674
Ending net position	\$ 91,930	\$ 216,480

See Notes to Financial Statements.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Navasota Independent District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas (the “State”). It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and it complies with the requirements of the appropriate version of Texas Education Agency’s (TEA) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State governed by the Board and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District’s financial reporting entity. No other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Government-Wide Financial Statements: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

Basis of Presentation – Government-Wide Financial Statements: While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Basis of Presentation – Fund Financial Statements: The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following governmental funds:

General Fund: The general fund is the District’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is always considered a major fund for reporting purposes.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Capital Projects Fund: The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlay, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund was reported as a nonmajor fund in the prior year; however, the capital projects fund met the requirements to be presented as a major fund in the current year.

Special Revenue Funds: The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes other than debt service or capital projects. The restricted proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund.

Additionally, the District reports the following fund type:

Fiduciary Funds: The fiduciary funds account for assets held by the District in a trustee capacity or as a custodian on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs.

The District has the following types of fiduciary funds:

Custodial Fund: The custodial fund reports resources, not in a trust, that are held by the District for other parties outside of the District. Custodial funds are accounted for using the accrual basis of accounting. This fund is used to account for the District's student activity funds.

Private-Purpose Trust Funds: The private-purpose trust funds are used to report resources held in trust. These funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's scholarship activity.

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

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

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting: The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements

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

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

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

Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance:

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

Investments: Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Fully collateralized repurchase agreements that meet certain criteria
- Government investment pools and commercial paper

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

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

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20-50 years
Vehicles and equipment	5-50 years

Deferred Outflows/Inflows of Resources: In addition to assets, the statement of financial position will sometimes report a separate section for *deferred outflows of resources*. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for *deferred inflows of resources*. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

Long-Term Obligations: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount, and payment of principal and interest is reported as expenditures. In the governmental fund types, issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

Leases: The District was a lessee for noncancellable leases of equipment. The District recognized a lease liability and an intangible, right-to-use lease asset (the "lease asset") in the government-wide financial statements.

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

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Employee Absences: The District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, which provides new guidance on the recognition and measurement of liabilities for leave benefits, including vacation, sick leave, and other paid time off. The District evaluated a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. Based on the criteria listed, two types of leave qualify for liability recognition for compensated absences – state and local vacation leave. The District remeasured its compensated absences liability as of year-end in accordance with GASB 101, and the resulting liability was determined to be immaterial to the government-wide financial statements. The District will continue to remeasure this liability annually in accordance with the standard.

The State has created a minimum leave program consisting of five days of personal leave per year with no limit on accumulation and transferability among school districts for every person regularly employed in Texas public schools. State leave is not paid out or converted to state pension benefit upon separation from the District. Local school districts may provide additional local leave beyond the State minimum. District employees are granted local vacation leave depending upon their employment calendar. Each employee should earn local leave in accordance with administrative regulations, and local leave shall accumulate up to a maximum of 20 days.

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

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

Fund Balance Policies: Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

Estimates: The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

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

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

Other Postemployment Benefits: The fiduciary net position of the TRS Texas Public School Retired Employees Group Insurance Program ("TRS-Care") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Expenditures/Expenses:

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

Property Taxes: Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

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

New Accounting Pronouncements: In June 2022, the GASB issued GASB Statement No. 101, Compensated Absences, effective for fiscal years beginning after December 15, 2023. GASB Statement No. 101 requires recognition of a liability for leave when earned if it is attributable to services already rendered and is expected to be paid. The liability includes vacation, sick leave, and other forms of paid time off that accumulate and vest or are expected to be used in future periods. In accordance with GASB 101, the District remeasured its compensated absences liability as of year-end. The resulting amount was determined to be immaterial to the government-wide financial statements. The District will continue to perform this annual remeasurement in compliance with the standard.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with GAAP. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets.

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

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures.

Expenditures in Excess of Appropriations: For the year ended August 31, 2025 expenditures exceed appropriations at the legal level of control for the general fund as follows:

Capital Outlay	\$ 40,901
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NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS

Deposits and Investments: As of August 31, 2025, the District held the following cash in an investment pool:

<u>Cash Held in Investment Pool</u>	<u>Amount</u>	<u>Weighted Average Maturity (Years)</u>
External investment pool - Lone Star	\$ <u>47,477,250</u>	0.14

Custodial credit risk - deposits – In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s investment policy requires funds on deposit at the depository bank to be collateralized. As of year end, checking and time deposits were entirely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

Custodial credit risk - investments – For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District’s investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

Lone Star Investment Pool – The Lone Star Investment Pool (“Lone Star”) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards, with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star’s assets. State Street Bank provides custody and valuation services to Lone Star. All of the Board of Trustees’ eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and nonmembers. Lone Star is rated “AAAm” by Standard and Poor’s. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of \$1.00. Lone Star has 3 different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government Overnight, Corporate Overnight, and the Corporate Overnight Plus maintain a net asset value of \$1.00.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Capital Assets: A summary of changes in capital assets for governmental activities at year end is as follows:

	<u>Beginning Balances</u>	<u>Increase</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
<u>Governmental activities</u>				
Capital assets not being depreciated/ amortized:				
Land and land improvements	\$ 1,009,634	\$ -	\$ -	\$ 1,009,634
Construction in progress	-	6,252,220	-	6,252,220
Total capital assets not being depreciated/amortized	<u>1,009,634</u>	<u>6,252,220</u>	<u>-</u>	<u>7,261,854</u>
Other capital assets:				
Buildings and improvements	125,955,816	3,914,451	(3,163,886)	126,706,381
Vehicles, furniture, and equipment	10,005,248	1,135,756	(1,660,715)	9,480,289
Right-to-use assets	398,067	-	(398,067)	-
Total other capital assets	<u>136,359,131</u>	<u>5,050,207</u>	<u>(5,222,668)</u>	<u>136,186,670</u>
Less accumulated depreciation/ amortization for:				
Buildings and improvements	(47,342,516)	(2,785,722)	860,068	(49,268,170)
Vehicles, furniture, and equipment	(6,523,667)	(728,508)	1,457,902	(5,794,273)
Right-to-use assets	(351,037)	-	351,037	-
Total accumulated depreciation/ amortization	<u>(54,217,220)</u>	<u>(3,514,230)</u>	<u>2,669,007</u>	<u>(55,062,443)</u>
Other capital assets, net	<u>82,141,911</u>	<u>1,535,977</u>	<u>(2,553,661)</u>	<u>81,124,227</u>
Governmental activities capital assets, net	<u>\$ 83,151,545</u>	<u>\$ 7,788,197</u>	<u>\$ (2,553,661)</u>	<u>88,386,081</u>
			Less associated debt	(102,789,446)
			Plus deferred charge on refunding	1,896,209
			Plus unspent bond proceeds	<u>36,034,298</u>
			Net investment in capital assets	<u>\$ 23,527,142</u>

At the beginning of the 2024–2025 school year, a fire occurred at the District’s school facilities, resulting in the destruction of certain capital assets, including a building and related equipment.

The destroyed building had a historical cost of \$3,163,886 and a net book value of \$2,303,818 at the time of the loss. The related equipment had a historical cost of \$259,939 and a net book value of \$150,124. In total, the assets destroyed in the fire had a combined historical cost of \$3,423,825 and a combined net book value of \$2,453,942.

As of August 31, 2025, the District has filed several claims with its insurance carrier and has received \$4,206,639 in insurance proceeds related to the fire. The insurance recovery exceeded the net book value of the destroyed assets by \$1,752,697, which has been recognized as an impairment gain on fire, net of insurance recovery in the governmental activities column of the statement of activities for the year ended August 31, 2025.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

The insurance proceeds were used to replace the destroyed assets. Of this amount, \$3,914,451 was expended for the construction of a replacement building, and the remaining funds were used to purchase new equipment. These capital additions are reflected in the capital assets schedule.

Although the insurance proceeds exceeded the book value of the destroyed assets, the building had originally been constructed in 1980 and was renovated in 2020 and 2021. As such, the difference between the insurance recovery and the net book value primarily reflects the accumulated depreciation of an older facility rather than a true economic gain. The replacement cost of the new building and equipment is generally consistent with the insured value of the property destroyed, making the overall effect to the District's financial position essentially a wash.

Depreciation/amortization was charged to governmental functions as follows:

<u>Data Control Codes</u>	<u>Governmental Activities</u>
11 Instruction	\$ 2,245,414
12 Instructional resources/media services	50,122
13 Curriculum and staff development	10,063
23 School leadership	24,008
31 Guidance, counseling, and evaluation services	5,453
32 Social work services	7,376
34 Student (pupil) transportation	367,536
35 Food services	131,860
36 Extracurricular activities	461,062
41 General administration	334
51 Facilities maintenance and operations	34,930
52 Security and monitoring services	27,223
53 Data processing services	61,099
81 Capital outlay	<u>87,750</u>
Total depreciation/amortization expense	<u>\$ 3,514,230</u>

Construction Commitments: As of August 31, 2025, the District has the following construction commitments for governmental activities:

	<u>Project Amount</u>	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Collier Construction, Inc.	<u>\$ 8,121,511</u>	<u>\$ 4,783,226</u>	<u>\$ 3,338,285</u>

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Long-Term Debt: The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities.

	Beginning <u>Balances</u>	<u>Additions</u>	<u>(Reductions)</u>	Ending <u>Balances</u>	Amounts Due Within <u>One Year</u>	Interest <u>Rates</u>
<u>Governmental activities</u>						
Bonds payable:						
Series 2014	\$ 185,000	\$ -	\$ (185,000)	\$ -	\$ -	2.00-4.50%
Series 2017A	2,030,000	-	(790,000)	1,240,000	820,000	4.00%
Series 2017B	1,140,000	-	(365,000)	775,000	380,000	4.00%
Series 2020	10,280,000	-	-	10,280,000	-	1.79-5.00%
Series 2021	42,211,776	-	(1,110,154)	41,101,622	882,874	2.09-5.00%
Series 2024	-	40,145,000	(1,930,000)	38,215,000	-	4.33-4.70%
Series 2024A	-	2,740,000	(415,000)	2,325,000	425,000	4.00-5.00%
Note payable						
Series 2019	2,755,000	-	(2,755,000)	-	-	1.89%
Leases liability						
	<u>50,627</u>	<u>-</u>	<u>(50,627)</u>	<u>-</u>	<u>-</u>	<u>5.00%</u>
	<u>58,652,403</u>	<u>42,885,000</u>	<u>(7,600,781)</u>	<u>93,936,622</u> *	<u>2,507,874</u>	
Other liabilities						
Premium on bonded debt	8,129,257	1,289,128	(565,561)	8,852,824 *	-	
Accreted interest	6,245,577	-	(896,943)	5,348,634	1,111,471	
Net pension liability	11,050,857	446,818	-	11,497,675	-	
Net OPEB liability	<u>5,138,635</u>	<u>2,493,023</u>	<u>-</u>	<u>7,631,658</u>	<u>226,372</u>	
Total governmental activities	<u>\$ 89,216,729</u>	<u>\$ 47,113,969</u>	<u>\$ (9,063,285)</u>	<u>\$ 127,267,413</u>	<u>\$ 3,845,717</u>	
				Long-term liabilities due in more than one year	<u>\$ 123,421,696</u>	
				*Debt associated with capital assets	<u>\$ 102,789,446</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Bonds Payable: During the fiscal year ended August 31, 2025, the District issued \$40,145,000 in Unlimited Tax School Building Bonds, Series 2024 (the "Series 2024 Bonds"). The Series 2024 Bonds bear interest rates from 4.33% to 4.70% and mature serially through February 2054. Proceeds were used for the construction and renovation of school facilities. The Bonds are payable from a continuing, direct ad valorem tax levied on all taxable property within the District.

During the fiscal year ended August 31, 2025, the District issued \$2,740,000 in Unlimited Tax Refunding Bonds, Taxable Series 2024A (the "Series 2024A Bonds"). The Series 2024A Bonds bear interest rates ranging from 4.00% to 5.00% and mature serially through February 2054. The bonds were issued to refund the outstanding Series 2019 note. The refunding resulted in a loss of \$95,004, which is recognized in the current year.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 3 - DETAILED NOTES ON ALL FUNDS (Continued)

Debt service requirements on long-term debt at August 31, 2025 are as follows:

<u>Fiscal Year</u> <u>Ended August 31</u>	<u>Governmental Activities - Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 2,507,874	\$ 4,466,149	\$ 6,974,023
2027	2,090,102	4,799,508	6,889,610
2028	2,614,471	3,990,795	6,605,266
2029	2,501,968	3,951,338	6,453,306
2030	2,577,207	3,895,841	6,473,048
2031 - 2035	16,795,000	12,981,411	29,776,411
2036 - 2040	19,180,000	10,144,342	29,324,342
2041 - 2045	22,895,000	6,433,797	29,328,797
2046 - 2050	13,220,000	2,988,133	16,208,133
2051 - 2054	9,555,000	783,700	10,338,700
Total	<u>\$ 93,936,622</u>	<u>\$ 54,435,014</u>	<u>\$ 148,371,636</u>

Interfund Transactions: The interfund balances consisted of the following:

<u>Due To</u>	<u>Due From</u>	<u>Amounts</u>
General fund	Other nonmajor governmental funds	\$ 171,229
Debt service fund	Custodial Fund	4
General fund	Custodial Fund	4,126
Capital Projects Fund	General Fund	197,622
		<u>\$ 372,981</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General fund	Nonmajor governmental funds	<u>\$ 50,962</u>

Amounts recorded as transfers are for contributions to the food service fund.

NOTE 4 - OTHER INFORMATION

Risk Management: The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Contingent Liabilities: Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

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

Defined Benefit Pension Plan:

Teacher Retirement System

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

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

Pension Plan Fiduciary Net Position: Detailed information about the TRS's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov/Pages/aboutpublications.aspx>, or by writing to TRS at attention Finance Division, PO Box 149676, Austin, TX, 78714-0185; or by calling 1-800-223-8778.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

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

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

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

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

Contributions: Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of TRS 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 through 2025.

<u>Fiscal Year</u>	Contribution Rates		
	<u>State</u>	<u>Public Education Employer</u>	<u>Active Employee</u>
2024	8.25%	1.90%	8.25%
2025	8.25%	2.00%	8.25%

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Note: SB12 of the 86th Texas Legislature establishes contributions rates through fiscal year 2025. Additional rate changes will require Texas Legislative action.

	Contribution Rates	
	2024	2025
Medicare	8.25%	8.25%
NECE (State)	8.25%	8.25%
Employers	8.25%	8.25%
	Measurement Year 2024	Fiscal Year Year 2025
District contributions	\$ 1,060,720	\$ 1,058,522
Member contributions	\$ 1,880,082	\$ 1,976,696
NECE on-behalf contributions	\$ 1,166,157	\$ 1,343,069

Contributors to TRS include active members, employers, and the State of Texas as the only nonemployer contributing entity (“NECE”). The State is also the employer for senior colleges, medical schools, and other entities, including TRS. In each respective role, the State contributes to TRS in accordance with state statutes and the General Appropriations Act (GAA).

As the NECE for public education and junior colleges, the State contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below, which are paid by the employers. Employers (public schools, junior colleges, other entities, or the State as the employer for senior colleges, 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 noneducational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to TRS 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 to which an employer is subject;

- All public schools, charter schools, and regional educational service centers must contribute 1.9% of the member’s salary beginning in fiscal year 2024, gradually increasing to 2.0% in fiscal year 2025.
- When employing a retiree of TRS, the District shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Actuarial Assumptions: The actuarial valuation was performed as of August 31, 2023. Update procedures were used to roll forward the total pension liability to August 31, 2024 and assumptions included:

Valuation date	August 31, 2023 rolled forward to August 31, 2024
Actuarial cost method	Individual entry age normal
Asset valuation method	Fair value
Single discount rate	7.00%
Long-term expected rate of return	7.00%
Municipal bond rate as of August 2024*	3.87%
Inflation	2.30%
Salary increases	2.95% to 8.95%, including inflation
Benefit changes during the year	None

**The source for the rate is the Bond Buyers 20 Index which represents the estimated yield of a portfolio of 20 general obligation bonds maturing in 20 years based on a survey of municipal bond traders.*

The actuarial methods and assumptions used in the determination of the TPL are the same assumptions used in the actuarial valuation as of August 31, 2023. For a full description of these assumptions, please see the TRS actuarial valuation report dated November 21, 2023.

Discount Rate: A single discount rate of 7.00 percent was used to measure the TPL. The single discount rate was based on the expected rate of return on plan investments of 7.00 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the NECE will be made at the rates set by the Legislature during the 2019 legislative session. It is assumed that future employer and state contributions will be 9.54 percent of payroll in fiscal year 2025 and thereafter. This includes all employer and state contributions for active and rehired retirees.

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

The long-term expected rate of return on pension plan investments is 7.00%. The long-term expected rate of return on TRS investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Best estimates of geometric real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2024 are summarized below:

**Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2024**

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

* Absolute Return includes Credit Sensitive Investments

1. Target allocations are based on the FY2024 policy model.
2. Capital Market Assumptions (CMA) come from 2024 SAA Study CMA Survey (as of 12/31/2023).
3. The volatility drag results from the conversion between arithmetic and geometric mean returns.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Discount Rate Sensitivity Analysis: The following table presents the net pension liability (NPL) of TRS using the discount rate of 7%, and what the NPL would be if it was calculated using a discount rate that is 1% point lower (6%) or 1% point higher (8%) than the current rate:

	1% Decrease in Discount Rate (6%)	Current Discount Rate (7%)	1% Increase in Discount Rate (8%)
District's proportionate share of the NPL	\$ 18,364,700	\$ 11,497,675	\$ 5,807,856

Pension Liability, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions: At the fiscal year ended August 31, 2025, the District reported a liability of \$11,497,675 for its proportionate share of the TRS's NPL. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 11,497,675
State's proportionate share that is associated with the District	<u>12,640,511</u>
Total	<u>\$ 24,138,186</u>

The NPL was measured as of August 31, 2023 and rolled forward to August 31, 2024, and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date. The District's proportion of the NPL was based on the District's contributions to TRS relative to the contributions of all employers to TRS for the period September 1, 2023 through August 31, 2024.

At the measurement year ended August 31, 2024, the District's proportion of the collective NPL was .0188227%, which was an increase of .0027348% from its proportion measured as of August 31, 2023.

Changes Since the Prior Actuarial Valuation: The actuarial assumptions and methods have been modified since the determination of the prior year's NPL. These new assumptions were adopted in conjunction with an actuarial experience study.

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

The amount of pension expense recognized by the District for the reporting period was \$1,918,212.

For the measurement year ended August 31, 2024, the District recognized pension expense of \$1,510,752 and revenue of \$1,510,752 for support provided by the State.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 633,736	\$ (89,768)
Changes in actuarial assumptions	593,650	(79,588)
Difference between projected and actual investment earnings	69,890	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,009,363	(1,008,645)
Contributions paid to TRS subsequent to the measurement date	<u>1,058,522</u>	<u>-</u>
	<u>\$ 4,365,161</u>	<u>\$ (1,178,001)</u>

\$1,058,522 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction in NPL for the fiscal year ending August 31, 2026. The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ended June 30</u>	<u>Pension Expense</u>
2026	\$ 359,977
2027	1,504,553
2028	288,563
2029	(226,230)
2030	<u>201,775</u>
Total	<u>\$ 2,128,638</u>

Defined Other Postemployment Benefits Plan:

Plan Description: The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined OPEB plan with a special funding situation. TRS-Care was established in 1986 by the Texas Legislature.

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

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

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

Components of the net OPEB liability of TRS-Care as of August 31, 2024 are as follows:

Total OPEB liability	\$ 35,168,178,563
Less: plan fiduciary net position	<u>(4,816,646,311)</u>
Net OPEB Liability	<u>\$ 30,351,532,252</u>

Net position as a percentage of total OPEB liability	13.70%
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Benefits Provided: TRS-Care provides health insurance coverage to retirees from public and charter schools, regional education service centers, and other educational districts who are members of TRS. 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 TRS. There are no automatic postemployment benefit changes, including automatic COLAs.

The General Appropriations Act passed by the 88th Legislature included funding to maintain TRS-Care premiums at their current level through 2025. Also, the 86th Legislature passed Senate Bill 1682 which requires TRS to establish a contingency reserve in the TRS-Care fund equal to 60 days of expenditures.

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

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

Texas Insurance Code, section 1575.202 establishes the State's contribution rate, which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate, which is 0.65% of pay.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the District. The actual employer contribution rate is prescribed by the Legislature in the GAA. The following table shows contributions to TRS-Care by type of contributor:

The following table shows contributions to TRS-Care by type of contributor:

	Contribution Rates	
	2024	2025
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private finding remitted by employers	1.25%	1.25%

	Measurement	Fiscal Year
	Year 2024	Year 2025
District contributions	\$ 228,397	\$ 226,372
Member contributions	\$ 72,970	\$ 77,870
NECE on-behalf contributions	\$ 286,178	\$ 299,499

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

Actuarial Assumptions: The actuarial valuation was performed as of August 31, 2023. Update procedures were used to roll forward the total OPEB liability to August 31, 2024.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the TRS pension plan, except that the OPEB valuation is more complex. The demographic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2021. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2023 TRS pension actuarial valuation that was rolled forward to August 31, 2024:

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

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

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Additional actuarial methods and assumptions are as follows:

Valuation date	August 31, 2023 rolled forward to August 31, 2024
Actuarial cost method	Individual entry age normal
Inflation	2.30%
Discount rate	3.87% as of August 31, 2024
Aging factors	Based on plan-specific experience
Expenses	Third-party administrative expenses related to the delivery of healthcare benefits are included in the age-adjusted claims costs.
Projected salary increases	2.95% to 8.95%, including inflation
Healthcare trend rates	Medical trend rates: 7.75% (Medicare retirees) and 6.75% (non-Medicare retirees) Prescription drug trend rate: 7.25%. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 11 years.
Election rates	Normal retirement: 62% participation prior to age 65 and 25% participation after age 65. 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc postemployment benefit changes	None

Discount Rate: A single discount rate of 3.87% was used to measure the total OPEB liability. There was a decrease of 0.26% in the discount rate since the previous year. Since the plan is a pay-as-you-go plan, the single discount rate is equal to the prevailing municipal bond rate.

Sensitivity of the Net OPEB Liability: Discount Rate Sensitivity Analysis – The following schedule shows the impact of the net OPEB liability if the discount rate used was 1 percentage point lower than and 1 percentage point higher than the discount rate that was used (3.87%) in measuring the net OPEB liability:

	1% Decrease in Discount Rate (2.87%)	Current Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
District's proportionate share of the net OPEB liability	\$ 9,066,766	\$ 7,631,658	\$ 6,472,069

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

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

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of the net OPEB liability	\$ 6,214,852	\$ 7,631,658	\$ 9,477,897

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB: At August 31, 2025, the District reported a liability of \$7,631,658 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 7,631,658
State's proportionate share that is associated with the District	<u>9,562,364</u>
Total	<u>\$ 17,194,022</u>

The net OPEB liability was measured as of August 31, 2023 and rolled forward to August 31, 2024 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2023 through August 31, 2024.

At August 31, 2024, the District's proportion of the collective net OPEB liability was 0.0251442%, which was an increase of .0019327% as of August 31, 2023.

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

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

There were no changes in benefit terms since the prior measurement date.

The amount of OPEB expense recognized by the District in the reporting period was a credit balance of \$593,976.

For the year ended August 31, 2025, the District recognized OPEB expense of \$1,242,931 and revenue of \$1,242,931 for support provided by the State.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual economic experience	\$ 1,462,733	\$ (3,808,611)
Changes in actuarial assumptions	976,762	(2,490,122)
Difference between projected and actual investment earnings	-	(21,371)
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,846,867	(1,236,587)
Contributions paid to TRS subsequent to the measurement date	<u>226,372</u>	<u>-</u>
	<u>\$ 5,512,734</u>	<u>\$ (7,556,691)</u>

The amount of \$226,372 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction in net OPEB liability for the fiscal year ending August 31, 2026. The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ended August 31</u>	<u>OPEB Expense</u>
2026	\$ (792,621)
2027	(446,972)
2028	(553,979)
2029	(413,090)
2030	(246,309)
Thereafter	<u>182,642</u>
Total	<u>\$ (2,270,329)</u>

Medicare Part D Subsidies: The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2025, 2024, and 2023, the subsidy payments received by TRS-Care on behalf of the District were \$151,913, \$121,212 and \$102,436, respectively.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

Employee Health Care Coverage: During the year ended August 31, 2025, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$325 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third-party administrator is renewable September 1, 2025 and terms of coverage and premium costs are included in the contractual provisions.

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

The District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2024, the Fund carries a discounted reserve of \$50,247,590 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2025, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2024, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation: During the year ended August 31, 2025, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2025, the Fund anticipates that Navasota ISD has no additional liability beyond the contractual obligation for payment of contribution.

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NOTES TO FINANCIAL STATEMENTS
 For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2024, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Auto, Liability, and/or Property Programs: During the year ended August 31, 2025, the District participated in the following TASB Risk Management Fund (the "Fund") programs:

- Auto liability
- Auto physical damage
- General liability
- Legal liability
- Property

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

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2024 are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

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

<u>Member Districts</u>	<u>Amounts</u>
Anderson-Shiro Consolidated Independent School District	\$ 345,813
Iola Independent School District	227,409
Navasota Independent School District	1,216,946
North Zulch Independent School District	126,005
Richards Independent School District	<u>84,003</u>
 Total	 <u><u>\$ 2,000,175</u></u>

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the year ended August 31, 2025

NOTE 4 - OTHER INFORMATION (Continued)

The District participates in an SSA to improve the education of English Language Learner children and youth by helping them learn English and meet challenging state academic content and student academic achievement standards funded with Title III, Part A, English Language Acquisition. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center - Region VI, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the SSA. The fiscal agent is reporting \$32,158 as expenditures incurred on behalf of the District.

REQUIRED SUPPLEMENTARY INFORMATION

NAVASOTA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND - EXHIBIT G-1
 For the year ended August 31, 2025

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget
		Original	Final		
Revenues					
5700	Local and intermediate sources	\$ 19,648,573	\$ 20,384,417	\$ 20,559,760	\$ 175,343
5800	State program revenues	15,143,557	15,143,557	15,531,700	388,143
5900	Federal program revenues	<u>336,984</u>	<u>136,984</u>	<u>143,124</u>	<u>6,140</u>
5020	Total revenues	<u>35,129,114</u>	<u>35,664,958</u>	<u>36,234,584</u>	<u>569,626</u>
Expenditures					
Current					
0011	Instruction	19,107,073	19,446,271	19,361,096	85,175
0012	Instructional resources and media services	71,078	126,078	75,134	50,944
0013	Curriculum/instructional staff development	651,968	671,968	622,978	48,990
0021	Instructional leadership	485,172	485,172	409,074	76,098
0023	School leadership	2,349,357	2,464,357	2,431,856	32,501
0031	Guidance, counseling, and evaluation service	735,147	755,147	702,239	52,908
0032	Social work services	100	2,100	966	1,134
0033	Health services	349,332	425,682	366,532	59,150
0034	Student (pupil) transportation	2,456,863	2,371,863	2,319,939	51,924
0036	Extracurricular activities	1,734,877	1,803,877	1,759,972	43,905
0041	General administration	1,779,692	1,714,692	1,633,125	81,567
0051	Plant maintenance and operations	3,873,507	4,074,069	4,038,580	35,489
0052	Security and monitoring services	274,003	284,003	229,084	54,919
0053	Data processing services	626,535	669,535	613,022	56,513
0061	Community services	366,163	421,163	369,359	51,804
Debt service:					
0071	Principal	185,000	190,000	50,627	139,373
0072	Interest	5,000	10,000	-	10,000
0081	Capital outlay*	-	4,632,921	4,673,822	(40,901)
Intergovernmental:					
0093	Shared services agreement	1,222,980	1,222,980	1,222,980	-
0095	Juvenile justice programs	100,000	59,000	34,224	24,776
0099	Other governmental charges	<u>605,000</u>	<u>605,000</u>	<u>558,049</u>	<u>46,951</u>
6030	Total expenditures	<u>36,978,847</u>	<u>42,435,878</u>	<u>41,472,658</u>	<u>963,220</u>
1100	Deficiency of revenues under expenditures	(1,849,733)	(6,770,920)	(5,238,074)	1,532,846
Other financing sources (uses)					
8911	Transfers (out)	-	(50,963)	(50,962)	1
Special Items					
7919	Impairment gain on fire, net of insurance recovery	-	4,206,639	4,206,639	-
1200	Net change in fund balance	(1,849,733)	(2,615,244)	(1,082,397)	1,532,847
0100	Beginning fund balance	<u>8,592,819</u>	<u>8,592,819</u>	<u>8,592,819</u>	-
3000	Ending fund balance	<u>\$ 6,743,086</u>	<u>\$ 5,977,575</u>	<u>\$ 7,510,422</u>	<u>\$ 1,532,847</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. *Actual expenditures exceed the legal level of control.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) - EXHIBIT G-2
For the year ended August 31, 2025

	Measurement Year									
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
District's proportion of the net pension liability (asset)	0.0188227%	0.0160879%	0.0194975%	0.0161748%	0.0156476%	0.0149918%	0.0150696%	0.0151786%	0.0152522%	0.0171900%
District's proportionate share of the net pension liability (asset)	\$ 11,497,675	\$ 11,050,857	\$ 11,575,165	\$ 4,119,140	\$ 8,380,519	\$ 7,793,190	\$ 8,294,695	\$ 4,853,299	\$ 5,763,579	\$ 6,076,436
State's proportionate share of the net pension liability (asset) associated with the District	<u>12,640,511</u>	<u>13,215,853</u>	<u>11,465,171</u>	<u>6,677,350</u>	<u>14,295,175</u>	<u>12,370,466</u>	<u>12,879,773</u>	<u>7,750,366</u>	<u>9,437,022</u>	<u>8,744,264</u>
Total	<u>\$ 24,138,186</u>	<u>\$ 24,266,710</u>	<u>\$ 23,040,336</u>	<u>\$ 10,796,490</u>	<u>\$ 22,675,694</u>	<u>\$ 20,163,656</u>	<u>\$ 21,174,468</u>	<u>\$ 12,603,665</u>	<u>\$ 15,200,601</u>	<u>\$ 14,820,700</u>
District's covered payroll**	\$ 22,788,873	\$ 18,825,070	\$ 19,972,647	\$ 20,152,569	\$ 19,582,895	\$ 16,991,650	\$ 16,127,412	\$ 15,783,191	\$ 15,718,775	\$ 15,364,966
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	50.45%	58.70%	57.96%	20.44%	42.80%	45.86%	51.43%	30.75%	36.67%	39.55%
Plan fiduciary net position as a percentage of the total pension liability	77.51%	73.15%	75.62%	88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

** As of measurement date

Notes to Required Supplementary Information:

1. *Changes in Assumptions:* There were no changes in the discount rate in the current year.
2. *Changes in Benefits:* There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) - EXHIBIT G-3
 LAST TEN FISCAL YEARS

	Fiscal Year									
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 1,058,522	\$ 1,060,720	\$ 822,902	\$ 758,046	\$ 689,733	\$ 643,982	\$ 523,718	\$ 505,844	\$ 497,466	\$ 484,601
Contributions in relation to the contractually required contribution	<u>1,058,522</u>	<u>1,060,720</u>	<u>822,902</u>	<u>758,046</u>	<u>689,733</u>	<u>643,982</u>	<u>523,718</u>	<u>505,844</u>	<u>497,466</u>	<u>484,601</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 23,959,956	\$ 22,788,873	\$ 18,825,070	\$ 19,972,647	\$ 20,152,569	\$ 19,582,895	\$ 16,991,650	\$ 16,127,412	\$ 15,783,191	\$ 15,718,775
Contributions as a percentage of covered payroll	4.42%	4.65%	4.37%	3.80%	3.42%	3.29%	3.08%	3.14%	3.15%	3.08%

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
 TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE) EXHIBIT G-4
 For the year ended August 31, 2025

	Measurement Year*							
	2024	2023	2022	2021	2020	2019	2018	2017
District's proportion of the collective net OPEB liability (asset)	0.0251442%	0.0232115%	0.0260561%	0.0228021%	0.0228017%	0.0205751%	0.0203674%	0.0203714%
District's proportionate share of the collective net OPEB liability (asset)	\$ 7,631,658	\$ 5,138,635	\$ 6,238,863	\$ 8,795,780	\$ 8,667,963	\$ 9,730,200	\$ 10,169,633	\$ 8,858,746
State's proportionate share of the collective net OPEB liability (asset) associated with the District	<u>9,562,364</u>	<u>6,200,553</u>	<u>7,610,432</u>	<u>11,784,385</u>	<u>11,647,665</u>	<u>12,929,259</u>	<u>13,225,314</u>	<u>11,718,578</u>
Total	<u>\$ 17,194,022</u>	<u>\$ 11,339,188</u>	<u>\$ 13,849,295</u>	<u>\$ 20,580,165</u>	<u>\$ 20,315,628</u>	<u>\$ 22,659,459</u>	<u>\$ 23,394,947</u>	<u>\$ 20,577,324</u>
District's covered payroll**	\$ 22,788,873	\$ 18,825,070	\$ 19,972,647	\$ 20,152,569	\$ 19,582,895	\$ 16,991,650	\$ 16,127,412	\$ 15,783,191
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	33.49%	27.30%	31.24%	43.65%	44.26%	57.26%	63.06%	56.13%
Plan fiduciary net position as a percentage of the total OPEB liability	13.70%	14.94%	11.52%	6.18%	4.99%	2.60%	1.57%	0.91%

* Only eight years' worth of information is currently available.

** As of measurement date

Notes to Required Supplementary Information:

1. *Changes in Assumptions:* The discount rate was changed from 4.13% as of August 31, 2023 to 3.87% as of August 31, 2024, accompanied by revised demographic and economic assumptions based on the TRS experience study.
2. *Changes in Benefits:* There were no changes of benefit terms since the prior measurement date.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES GROUP INSURANCE PROGRAM (TRS-CARE) EXHIBIT G-5
 For the year ended August 31, 2025

	Fiscal Year*							
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Statutorily required contributions	\$ 226,372	\$ 228,397	\$ 200,350	\$ 186,867	\$ 178,052	\$ 172,685	\$ 146,026	\$ 140,273
Contributions in relation to the statutorily required contributions	<u>226,372</u>	<u>228,397</u>	<u>200,350</u>	<u>186,867</u>	<u>178,052</u>	<u>172,685</u>	<u>146,026</u>	<u>140,273</u>
Contribution deficiency (excess)	<u>\$ -</u>							
District's covered payroll	\$ 23,959,956	\$ 22,788,973	\$ 18,825,070	\$ 19,972,647	\$ 20,152,569	\$ 19,582,895	\$ 16,991,650	\$ 16,127,412
Contributions as a percentage of covered payroll	0.94%	0.99%	1.06%	0.94%	0.88%	0.88%	0.86%	0.87%

* Only eight years' worth of information is currently available.

OTHER SUPPLEMENTARY INFORMATION

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1
 August 31, 2025

Data Control Codes	211	240	244	255	263 English Language Acquisition and Enhancement	270 Title V Part B, Subpart 2 Rural School
<u>Codes</u>	<u>Title I, Improving Basic Programs</u>	<u>National School Breakfast/ Lunch Program</u>	<u>Career and Technology- Basic Grant</u>	<u>Title II Training and Recruiting</u>	<u>Enhancement</u>	<u>Rural School</u>
ASSETS						
1110 Cash and cash equivalents	\$ -	\$ 1,053,910	\$ -	\$ -	\$ -	\$ -
1240 Due from other governments	59,758	211,137	-	16,302	2,792	1,070
1300 Inventories	-	50,291	-	-	-	-
1410 Prepaid items	-	-	-	-	-	-
1000 Total assets	<u>\$ 59,758</u>	<u>\$ 1,315,338</u>	<u>\$ -</u>	<u>\$ 16,302</u>	<u>\$ 2,792</u>	<u>\$ 1,070</u>
LIABILITIES						
2110 Accounts payable	\$ -	\$ 160,887	\$ -	\$ -	\$ -	\$ -
2160 Accrued wages payable	-	86,043	-	-	-	-
2170 Due to other funds	59,758	-	-	16,302	2,792	1,070
2300 Unearned revenue	-	-	-	-	-	-
2000 Total liabilities	<u>59,758</u>	<u>246,930</u>	<u>-</u>	<u>16,302</u>	<u>2,792</u>	<u>1,070</u>
FUND BALANCES						
Nonspendable						
3410 Inventories	-	50,291	-	-	-	-
3430 Prepaids	-	-	-	-	-	-
Restricted						
3450 Federal/state fund grant restrictions	-	1,018,117	-	-	-	-
3600 Unassigned	-	-	-	-	-	-
3000 Total fund balances	<u>-</u>	<u>1,068,408</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total liabilities and fund balances	<u>\$ 59,758</u>	<u>\$ 1,315,338</u>	<u>\$ -</u>	<u>\$ 16,302</u>	<u>\$ 2,792</u>	<u>\$ 1,070</u>

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1
 August 31, 2025

Data Control Codes	274	289	313	314	315	385
<u>Codes</u>	<u>GEAR UP</u>	<u>Federally Funded</u>	<u>IDEA - Part B Formula</u>	<u>IDEA - Part B Preschool</u>	<u>IDEA - Part B High Cost</u>	<u>Supplemental Visually Impaired</u>
ASSETS						
1110 Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1240 Due from other governments	6,880	15,580	78,865	3,103	-	-
1300 Inventories	-	-	-	-	-	-
1410 Prepaid items	-	-	-	-	-	-
1000 Total assets	<u>\$ 6,880</u>	<u>\$ 15,580</u>	<u>\$ 78,865</u>	<u>\$ 3,103</u>	<u>\$ -</u>	<u>\$ -</u>
LIABILITIES						
2110 Accounts payable	\$ -	\$ 12,940	\$ 181	\$ -	\$ -	\$ -
2160 Accrued wages payable	-	-	-	-	-	-
2170 Due to other funds	6,880	2,640	78,684	3,103	-	-
2300 Unearned revenue	-	-	-	-	-	-
2000 Total liabilities	<u>6,880</u>	<u>15,580</u>	<u>78,865</u>	<u>3,103</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Nonspendable						
3410 Inventories	-	-	-	-	-	-
3430 Prepays	-	-	-	-	-	-
Restricted						
3450 Federal/state fund grant restrictions	-	-	-	-	-	-
3600 Unassigned	-	-	-	-	-	-
3000 Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total liabilities and fund balances	<u>\$ 6,880</u>	<u>\$ 15,580</u>	<u>\$ 78,865</u>	<u>\$ 3,103</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1
 August 31, 2025

Data Control Codes	410	429	437	499	Total Nonmajor Governmental Funds
<u>Codes</u>	<u>State Textbook</u>	<u>State Funded Programs</u>	<u>Special Education</u>	<u>Education Foundation</u>	<u>Funds</u>
ASSETS					
1110 Cash and cash equivalents	\$ 899	\$ -	\$ 550,441	\$ 24,883	\$ 1,630,133
1240 Due from other governments	-	2,250	-	-	397,737
1300 Inventories	-	-	-	-	50,291
1410 Prepaid items	4,000	-	-	-	4,000
1000 Total assets	<u>\$ 4,899</u>	<u>\$ 2,250</u>	<u>\$ 550,441</u>	<u>\$ 24,883</u>	<u>\$ 2,082,161</u>
LIABILITIES					
2110 Accounts payable	\$ -	\$ 2,250	\$ 12,642	\$ -	\$ 188,900
2160 Accrued wages payable	-	-	16,111	-	102,154
2170 Due to other funds	-	-	-	-	171,229
2300 Unearned revenue	4,746	-	-	-	4,746
2000 Total liabilities	<u>4,746</u>	<u>2,250</u>	<u>28,753</u>	<u>-</u>	<u>467,029</u>
FUND BALANCES					
Nonspendable					
3410 Inventories	-	-	-	-	50,291
3430 Prepaids	4,000	-	-	-	4,000
Restricted					
3450 Federal/state fund grant restrictions	-	-	521,688	24,883	1,564,688
3600 Unassigned	(3,847)	-	-	-	(3,847)
3000 Total fund balances	<u>153</u>	<u>-</u>	<u>521,688</u>	<u>24,883</u>	<u>1,615,132</u>
4000 Total liabilities and fund balances	<u>\$ 4,899</u>	<u>\$ 2,250</u>	<u>\$ 550,441</u>	<u>\$ 24,883</u>	<u>\$ 2,082,161</u>

NAVASOTA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2
For the year ended August 31, 2025

Data Control Codes	211 Title I, Improving Basic Programs	240 National Sch. Breakfast/ Lunch Program	244 Career and Technology- Basic Grant	255 Title II Training and Recruiting	263 English Language Acquisition & Enhancement	270 Title V Part B, Subpart 2 Rural School
Revenues						
5700	Local, intermediate, and out-of-state	\$ -	\$ 273,304	\$ -	\$ -	\$ -
5800	State program revenues	-	17,748	-	-	-
5900	Federal program revenues	<u>894,567</u>	<u>2,437,153</u>	<u>53,874</u>	<u>196,694</u>	<u>139,445</u>
5020	Total revenues	<u>894,567</u>	<u>2,728,205</u>	<u>53,874</u>	<u>196,694</u>	<u>139,445</u>
Expenditures						
Current						
0011	Instruction	691,787	-	-	27,131	52,254
0012	Instructional resources and and media services	157,666	-	-	-	-
0013	Curriculum/instructional staff development	45,114	-	-	169,563	5,852
0021	Instructional leadership	-	-	-	-	-
0023	School leadership	-	-	-	-	-
0031	Guidance, counseling, and evaluation services	-	-	53,874	-	-
0035	Food service	-	2,551,444	-	-	-
0041	General administration	-	-	-	-	-
0051	Plant maintenance and operations	-	70,899	-	-	-
0052	Security and monitoring services	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
Intergovernmental						
0093	Payments related to shared service arrangements	-	-	-	-	-
0095	Payments to juvenile justice programs	-	-	-	-	-
6030	Total expenditures	<u>894,567</u>	<u>2,622,343</u>	<u>53,874</u>	<u>196,694</u>	<u>139,445</u>
1100	Excess (deficiency) of revenues over (under) expenditures	-	105,862	-	-	-
Other financing sources						
7915	Transfers in	-	50,962	-	-	-
1200	Net change in fund balances	-	156,824	-	-	-
0100	Beginning fund balances	-	911,584	-	-	-
3000	Ending fund balances	<u>\$ -</u>	<u>\$ 1,068,408</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2
For the year ended August 31, 2025

Data Control Codes	274	289	313	314	315	385
<u>Codes</u>	<u>GEAR UP</u>	<u>Federally Funded</u>	<u>IDEA - Part B Formula</u>	<u>IDEA - Part B Preschool</u>	<u>IDEA - Part B High Cost</u>	<u>Supplemental Visually Impaired</u>
Revenues						
5700 Local, intermediate, and out-of-state	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5800 State program revenues	-	-	-	-	-	4,032
5900 Federal program revenues	<u>115,200</u>	<u>89,760</u>	<u>1,124,421</u>	<u>19,529</u>	<u>2,601</u>	<u>-</u>
5020 Total revenues	<u>115,200</u>	<u>89,760</u>	<u>1,124,421</u>	<u>19,529</u>	<u>2,601</u>	<u>4,032</u>
Expenditures						
Current						
0011 Instruction	25,457	56,451	297,416	-	-	4,032
0012 Instructional resources and media services	-	-	-	-	-	-
0013 Curriculum/instructional staff development	-	-	-	-	-	-
0021 Instructional leadership	-	-	72,681	-	-	-
0023 School leadership	89,743	26,250	-	-	-	-
0031 Guidance, counseling, and evaluation services	-	3,196	740,132	19,529	-	-
0035 Food service	-	-	-	-	-	-
0041 General administration	-	-	-	-	-	-
0051 Plant maintenance and operations	-	3,863	-	-	-	-
0052 Security and monitoring services	-	-	-	-	-	-
0053 Data processing services	-	-	14,192	-	-	-
Intergovernmental						
0093 Payments related to shared service arrangements	-	-	-	-	-	-
0095 Payments to juvenile justice programs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,601</u>	<u>-</u>
6030 Total expenditures	<u>115,200</u>	<u>89,760</u>	<u>1,124,421</u>	<u>19,529</u>	<u>2,601</u>	<u>4,032</u>
1100 Excess (deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources						
7915 Transfers in	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net change in fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
0100 Beginning fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Ending fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

(Continued)

NAVASOTA INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2
For the year ended August 31, 2025

Data Control Codes	410	429	437	499	Total Nonmajor Governmental Funds
	State Textbook	State Funded Programs	Special Education	Education Foundation	
Revenues					
5700 Local, intermediate, and out-of-state	\$ -	\$ -	\$ 2,099,280	\$ 64,080	\$ 2,436,664
5800 State program revenues	100,208	100,992	-	-	222,980
5900 Federal program revenues	-	-	-	-	5,131,350
5020 Total revenues	<u>100,208</u>	<u>100,992</u>	<u>2,099,280</u>	<u>64,080</u>	<u>7,790,994</u>
Expenditures					
Current					
0011 Instruction	100,208	700	423,598	65,372	1,883,851
0012 Instructional resources and media services	-	83	-	-	157,749
0013 Curriculum/instructional staff development	-	-	-	-	220,529
0021 Instructional leadership	-	-	377,441	-	450,122
0023 School leadership	-	-	-	-	115,993
0031 Guidance, counseling, and evaluation services	-	-	1,125,806	-	1,942,537
0035 Food service	-	-	-	-	2,551,444
0041 General administration	-	-	1,830	-	1,830
0051 Plant maintenance and operations	-	-	57,500	-	132,262
0052 Security and monitoring services	-	100,209	-	-	100,209
0053 Data processing services	-	-	-	-	14,192
Intergovernmental					
0093 Payments related to shared service arrangements	-	-	14,000	-	14,000
0095 Payments to juvenile justice programs	-	-	-	-	2,601
6030 Total expenditures	<u>100,208</u>	<u>100,992</u>	<u>2,000,175</u>	<u>65,372</u>	<u>7,587,319</u>
1100 Excess (deficiency) of revenues over (under) expenditures	-	-	99,105	(1,292)	203,675
Other financing sources					
7915 Transfers in	-	-	-	-	50,962
1200 Net change in fund balances	-	-	99,105	(1,292)	254,637
0100 Beginning fund balances	<u>153</u>	<u>-</u>	<u>422,583</u>	<u>26,175</u>	<u>1,360,495</u>
3000 Ending fund balances	<u>\$ 153</u>	<u>\$ -</u>	<u>\$ 521,688</u>	<u>\$ 24,883</u>	<u>\$ 1,615,132</u>

NAVASOTA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
EXHIBIT J-1
For the year ended August 31, 2025

	1	2	3	10	20	31	32	40	50	99
	Tax Rates		Net Assessed/ Appraised Value For School	Beginning Balance	Current Year's	Maintenance Total	Debt Service Total	Entire Year's	Ending Balance	Total Taxes Refunded Under Section
<u>Last Ten Years</u>	<u>Maintenance</u>	<u>Debt Services</u>	<u>Tax Purposes</u>	<u>09/01/24</u>	<u>Total Levy</u>	<u>Collected</u>	<u>Collected</u>	<u>Adjustments</u>	<u>08/31/25</u>	<u>26.1115(c)</u>
2016 and prior	Various	Various	Various	\$ 297,505	\$ -	\$ 37,431	\$ 4,976	\$ (8,732)	\$ 246,366	
2017	\$ 1.0400	\$ 0.1234	\$ 1,632,469,336	34,685	-	5,121	608	-	28,956	
2018	1.0400	0.1440	1,577,160,726	48,028	-	6,039	836	-	41,153	
2019	1.0400	0.3752	1,656,533,776	69,605	-	9,657	3,484	-	56,465	
2020	0.9700	0.3519	1,799,593,615	95,122	-	12,716	4,613	4,703	82,496	
2021	0.9664	0.3245	1,910,200,790	135,746	-	21,261	7,139	5,795	113,141	
2022	0.9235	0.3245	2,027,997,740	163,792	-	40,390	14,192	7,086	116,296	
2023	0.8546	0.3205	2,483,501,830	411,536	-	115,363	43,263	(4,640)	248,270	
2024	0.6692	0.3161	2,534,944,486	777,043	-	301,307	142,342	(80,736)	252,658	
2025	0.6669	0.3121	2,765,764,185	-	27,083,984	17,978,076	8,414,300	10,080	701,688	
1000 Totals				<u>\$ 2,033,062</u>	<u>\$ 27,083,984</u>	<u>\$ 18,527,359</u>	<u>\$ 8,635,752</u>	<u>\$ (66,444)</u>	<u>\$ 1,887,490</u>	
8000 Tax refunded										<u>\$ 34,219</u>
9000 Tax increment						<u>\$ -</u>				

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM FUND - EXHIBIT J-2
 BUDGETARY COMPARISON SCHEDULE
 For the year ended August 31, 2025

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
Revenues					
5700	Local and intermediate				
5700	sources	\$ 270,500	\$ 339,012	\$ 273,304	\$ (65,708)
5800	State program revenues	10,000	20,000	17,748	(2,252)
5900	Federal program revenues	<u>2,299,382</u>	<u>2,399,382</u>	<u>2,437,153</u>	<u>37,771</u>
5020	Total revenues	<u>2,579,882</u>	<u>2,758,394</u>	<u>2,728,205</u>	<u>(30,189)</u>
Expenditures					
Current					
0035	Food services	2,475,382	2,643,894	2,551,444	92,450
0051	Plant maintenance and				
0051	operations	90,500	90,500	70,899	19,601
Debt Service					
0071	Principal	12,000	20,000	-	20,000
0072	Interest	<u>2,000</u>	<u>4,000</u>	<u>-</u>	<u>4,000</u>
6030	Total expenditures	<u>2,579,882</u>	<u>2,758,394</u>	<u>2,622,343</u>	<u>136,051</u>
1100	Excess of revenues				
1100	over expenditures	<u>-</u>	<u>-</u>	<u>105,862</u>	<u>105,862</u>
Other financing sources					
7915	Transfers in	<u>-</u>	<u>50,963</u>	<u>50,962</u>	<u>(1)</u>
1200	Net change in fund balance	-	50,963	156,824	105,861
0100	Beginning fund balance	<u>911,584</u>	<u>911,584</u>	<u>911,584</u>	<u>-</u>
3000	Ending fund balance	<u>\$ 911,584</u>	<u>\$ 962,547</u>	<u>\$ 1,068,408</u>	<u>\$ 105,861</u>

Notes to Supplementary Information:

- Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NAVASOTA INDEPENDENT SCHOOL DISTRICT
DEBT SERVICE FUND - EXHIBIT J-3
BUDGETARY COMPARISON SCHEDULE
For the year ended August 31, 2025

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
5700	Local and intermediate			
5700	\$ 7,976,193	\$ 8,996,193	\$ 8,994,971	\$ (1,222)
5800	541,564	550,547	550,547	-
5020	<u>8,517,757</u>	<u>9,546,740</u>	<u>9,545,518</u>	<u>(1,222)</u>
Expenditures				
0071	4,447,757	4,807,757	4,795,154	12,603
0072	4,000,000	4,230,000	4,218,989	11,011
0073	<u>70,000</u>	<u>80,000</u>	<u>71,999</u>	<u>8,001</u>
6030	<u>8,517,757</u>	<u>9,117,757</u>	<u>9,086,142</u>	<u>31,615</u>
1100	Excess of revenues			
1100	-	428,983	459,376	30,393
Other financing sources (uses)				
7911	-	2,740,000	2,740,000	-
8949	-	<u>(2,659,996)</u>	<u>(2,659,996)</u>	-
7080	Total other financing			
7080	-	<u>80,004</u>	<u>80,004</u>	-
1200	Net change in fund balance			
1200	-	508,987	539,380	30,393
0100	<u>3,764,425</u>	<u>3,764,425</u>	<u>3,764,425</u>	-
3000	<u>\$ 3,764,425</u>	<u>\$ 4,273,412</u>	<u>\$ 4,303,805</u>	<u>\$ 30,393</u>

Notes to Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 USE OF FUNDS REPORT
 SELECT STATE ALLOTMENT PROGRAMS - EXHIBIT J-4
 As of August 31, 2025

<u>Data Control Codes</u>		<u>Responses</u>
<u>Section A: Compensatory Education Programs</u>		
AP1	Did the District expend any state compensatory education program state allotment funds during the District's fiscal year?	Yes
AP2	Does the District have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the District's fiscal year.	\$ 3,666,561
AP4	List the actual direct program expenditures for state compensatory education programs during the District's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$ 2,028,569
<u>Section B: Bilingual Education Programs</u>		
AP5	Did the District expend any bilingual education program state allotment funds during the District's fiscal year?	Yes
AP6	Does the District have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the District's fiscal year.	\$ 406,560
AP8	List the actual direct program expenditures for bilingual education programs during the District's fiscal year. (PICs 25, 35)	\$ 265,131

FEDERAL AWARDS AND OTHER COMPLIANCE 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 Trustees of
Navasota Independent School District
Navasota, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Navasota Independent School District (the "District") as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 17, 2025.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting ("internal control") 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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.

(Continued)

Report on Compliance and Other Matters

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

Purpose of this Report

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


Crowe LLP

Houston, Texas
December 17, 2025

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Trustees of
Navasota Independent School District
Navasota, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Navasota Independent School District's (the "District") compliance with the types of compliance requirements identified as subject to audit in the OMB Compliance Supplement that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2025.

Basis for Opinion on Each Major Federal Program

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

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

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

(Continued)

Auditor's Responsibilities for the Audit of Compliance

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

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we

- exercise professional judgment and maintain professional skepticism throughout the audit.
- identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control Over Compliance

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.

(Continued)

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.


Crowe LLP

Houston, Texas
December 17, 2025

NAVASOTA INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the year ended August 31, 2025

SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended August 31, 2025

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Noncompliance material to financial statements noted? No

FEDERAL AWARDS

Internal control over major federal programs:

Material weakness(es) identified? No

Significant deficiency(ies) identified? None reported

Type of audit report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulation (CFR) Part 200.516(a)? No

Identification of major programs:

<u>Assistance Listing (AL) Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010A	Title I, Part A
84.027A/84.173A	Special Education Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes

SECTION II - FINANCIAL STATEMENT FINDINGS

None identified.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

None identified.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS – Exhibit K-1
 For the year ended August 31, 2025

(1)	(2)	(2A)	(3)
<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal AL Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<i>Passed Through State Department of Education</i>			
Title I, Part A	84.010A	25610101093904	\$ 894,567
Perkins V: Strengthening	84.048A	25420006093904	53,874
Title II, Part A	84.367A	25694501093904	196,694
Title IV, Part A Subpart 1	84.424A	25680101093904	89,760
Title V, Part B, Subpart 2 - Rural and low income schools	84.358B	25696001093904	139,445
Special Education Cluster			
IDEA B, Formula Grant*	84.027A	256600010939046000	1,124,421
IDEA B, Preschool*	84.173A	256610010939046000	19,529
High Cost Fund*	84.027A	66002406	<u>2,601</u>
Total Special Education Cluster			1,146,551
<i>Passed Through University of Texas College of Education</i>			
Institute for Public School Initiatives			
Gaining early awareness and readiness for undergraduate programs (GEAR UP)	84.334A	P334A180067-22	115,200
<i>Passed Through Education Service Center - Region VI</i>			
Title III, Part A, English language acquisition and language enhancement	84.365A	25671001236950	<u>58,106</u>
Total U.S. Department of Education			<u>2,694,197</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster			
<i>Passed Through State Department of Education</i>			
School Breakfast Program*	10.553	806780706	569,268
National School Lunch*	10.555	806780706	<u>1,691,235</u>
Total Child Nutrition Cluster			2,260,503
<i>Passed Through State Department of Agriculture</i>			
USDA Commodities	10.565	806780706	<u>176,650</u>
Total U.S. Department of Agriculture			<u>2,437,153</u>
Total expenditures of federal awards			<u>\$ 5,131,350</u>
		Federal revenue per SEFA	\$ 5,131,350
		SHARS	<u>143,124</u>
		C-2 Federal revenue	<u>\$ 5,274,474</u>

* Indicates clustered program under OMB Compliance Supplement.

The accompanying notes are an integral part of this schedule.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended August 31, 2025

NOTE 1 – BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal grant activity the District. The information in the SEFA is presented in accordance with the requirements of Title 2 U. S. *Code of Federal Regulations* ("CFR") Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These 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. Negative amounts shown on the SEFA, if any, represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3 – INDIRECT COST RATE

The District has elected not to use the 10% de minimus indirect cost rate allowed under the Uniform Guidance.

NAVASOTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO
 SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1
 As of August 31, 2025

<u>Data Control Codes</u>		<u>Responses</u>
SF1	Was there an unmodified opinion in the annual financial report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF3	Did the District make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other governmental agencies?	Yes
SF4	Was the District issued a warrant hold?	No
SF5	Did the annual financial report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the annual financial report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds and/or substantial doubt about the school district's ability to continue as a going concern?	No
SF7	Did the District post the required financial information on its website in accordance with Governmental Code, Local Government Code, Texas Education Code, Texas Administrative Code, and other statutes, laws, and rules that were in effect at the District's fiscal year end?	Yes
SF8	Did the Board members discuss the District's property values at a Board meeting within 120 days before the District adopted its budget?	Yes
SF9	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$ 5,348,634

APPENDIX D

FORM OF BOND COUNSEL'S OPINION



IN REGARD to the authorization and issuance of the “Navasota Independent School District Unlimited Tax School Building Bonds, Series 2026” (the *Bonds*), dated March 15, 2026, in the aggregate principal amount of \$28,175,000, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Navasota Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in the years 2027 through 2046, inclusive and 2051, unless optionally redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

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

Legal Opinion of Cantu Harden Montoya LLP, San Antonio, Texas, in connection with the authorization and issuance of NAVASOTA INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

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

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals; however, such interest is taken into account in determining the “adjusted financial statement income” (as defined in section 56A of the Code) of “applicable corporations” (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2026.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Cantu Harden Montoya LLP

APPENDIX E

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

The PSF supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be “permanent,” and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds

from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund was established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions, and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Corporation’s Annual Comprehensive Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Texas School Land Board’s (the “SLB”) land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the annual comprehensive report of the State of Texas. The Annual Report includes the Message From the Chief Executive Officer of the PSF Corporation (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2024, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the United States Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2024, is derived from the audited

financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2024, and for a description of the financial results of the PSF for the year ended August 31, 2024, the most recent year for which audited financial information regarding the Fund is available. The 2024 Annual Report speaks only as of its date and the PSF Corporation has not obligated itself to update the 2024 Annual Report or any other Annual Report. The PSF Corporation posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation's Investment Policy Statement (the "IPS"), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the "Web Site Materials") on the PSF Corporation's web site at <https://texaspsf.org> and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund's holdings of securities specified in Section 13(f), including exchange-traded (e.g., NYSE) or NASDAQ-quoted stocks, equity options and warrants, shares of closed-end investment companies and certain convertible debt securities, are available from the SEC at www.sec.gov/edgar. A list of the Fund's equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation's web site and filed with the MSRB. Such list excludes holdings in the Fund's securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

Management and Administration of the Fund

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

The Total Return Constitutional Amendment requires that PSF distributions to the ASF be determined using a "total-return-based" approach that provides that the total amount distributed from the Fund to the ASF: (1) in each year of a State fiscal biennium must be an amount that is not more than 6% of the average of the market value of the Fund, excluding real property (the "Distribution Rate"), on the last day of each of the sixteen State fiscal quarters preceding the Regular Session of the Legislature that begins before that State fiscal biennium, in accordance with

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

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

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

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

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

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

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

PSF Corporation Strategic Asset Allocation

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

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

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

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

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

Comparative Investment Schedule – PSF(CORP)

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

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

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

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2024

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

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

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

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

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

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

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

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

The School District Bond Guarantee Program

The School District Bond Guarantee Program requires an application be made by a school district to the Education Commissioner for a guarantee of its bonds. If the conditions for the School District Bond Guarantee Program are satisfied, the guarantee becomes effective upon approval of the bonds

by the Attorney General and remains in effect until the guaranteed bonds are paid or defeased, by a refunding or otherwise.

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

The CDBGP Rules provide that an open-enrollment charter holder applying for charter district designation and a guarantee of its bonds under the Charter District Bond Guarantee Program satisfy

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

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

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

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

Since July 1991, when the SBOE amended the Guarantee Program Rules to broaden the range of bonds that are eligible for guarantee under the Guarantee Program to encompass most Texas school district bonds, the principal amount of bonds guaranteed under the Guarantee Program has increased

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

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

Charter District Risk Factors

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of funding purposes, including for lease or purchase payments for instructional facilities. Since State funding for charter facilities is limited, charter schools generally issue revenue bonds to fund facility construction and acquisition, or fund facilities from cash flows of the school. Some charter districts have issued non-

guaranteed debt in addition to debt guaranteed under the Charter District Bond Guarantee Program, and such non-guaranteed debt is likely to be secured by a deed of trust covering all or part of the charter district's facilities. In March 2017, the TEA began requiring charter districts to provide the TEA with a lien against charter district property as a condition to receiving a guarantee under the Charter District Bond Guarantee Program. However, charter district bonds issued and guaranteed under the Charter District Bond Guarantee Program prior to the implementation of the new requirement did not have the benefit of a security interest in real property, although other existing debts of such charter districts that are not guaranteed under the Charter District Bond Guarantee Program may be secured by real property that could be foreclosed on in the event of a bond default.

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

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

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

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

Permanent School Fund Guaranteed Bonds

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

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

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

available to the Charter District Bond Guarantee Program. As of January 31, 2025, the amount of outstanding bond guarantees represented 76.33% of the Capacity Limit (which is currently the State Capacity Limit). January 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

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

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

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

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

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

PSF Returns Fiscal Year Ended 8-31-2024¹

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

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

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

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

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

Other Events and Disclosures

State ethics laws govern the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the

TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

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

PSF Continuing Disclosure Undertaking

As of March 1, 2023, the TEA's undertaking pursuant to Rule 15c2-12 (the "TEA Undertaking") pertaining to the PSF and the Guarantee Program, is codified at 19 TAC 33.8, which relates to the Guarantee Program and is available at [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 "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 and on different bases of accounting.

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

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

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

Event Notices

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

material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption, or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

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

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

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

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

Compliance with Prior Undertakings

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

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.

