

Ratings: Fitch: "A+" / "AAA"
S&P: "A" / "AAA"

(See "RATINGS", "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"
and "APPENDIX C – "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

OFFICIAL STATEMENT

Dated: April 8, 2026

NEW ISSUE: BOOK-ENTRY-ONLY

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

\$93,910,000

PALESTINE INDEPENDENT SCHOOL DISTRICT

(Anderson County, Texas)

UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2026

Dated Date: May 1, 2026

Due: August 15 and February 15, as shown on page ii

(Interest will accrue from the Date of Delivery)

The Palestine Independent School District (the "District") is issuing \$93,910,000 Unlimited Tax School Building and Refunding Bonds, Series 2026 (the "Bonds") in accordance with the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, an election held in the District on November 4, 2025 (the "Election"), and an order (the "Bond Order") passed by the Board of Trustees of the District (the "Board") on February 12, 2026, in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who has approved a "Pricing Certificate" which contains the final terms of sale and completes the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order").

The Bonds constitute direct obligations of the District and are payable as to principal and interest from the proceeds of a continuing ad valorem tax levied annually, without legal limit as to rate or amount, against all taxable property located within the District. The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined) which will automatically become effective when the Attorney General of Texas approves the Bonds (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).

Interest on the Bonds will accrue from the date they are initially delivered to the underwriters identified below (the "Underwriters") and will be payable on February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption with the exception of the bond maturing on August 15, 2026 which will be paid with interest upon maturity. Interest 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 denominations of \$5,000 in principal amount or integral multiples thereof within a maturity.

The District intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of DTC to discontinue the use of such system. The principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by BOKF, NA, Dallas, Texas, as the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds maturing on and after February 15, 2037 are subject to optional redemption prior to maturity, in whole or in part, on February 15, 2036, or any date thereafter, at a redemption price of par plus accrued interest to the date of redemption as further described herein (see "THE BONDS – General Description" and "– Redemption Provisions – Optional Redemption"). The Bonds maturing on February 15 in the years 2050 and 2053 (the "Term Bonds") are subject to mandatory sinking fund redemption prior to their stated maturity and shall be redeemed in part at the principal amount thereof plus accrued interest to the date of redemption in the principal amount on February 15, in each of the years as set forth herein (see "THE BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption").

Proceeds from the sale of the Bonds will be used to provide funds sufficient to (i) construct, renovate, improve, acquire, expand and equip school buildings in the District, including the purchase of necessary sites and the purchase of new school buses, (ii) refund a portion of the District's outstanding bonds (the "Refunded Bonds"), and (iii) pay costs of issuance related to the Bonds and the Refunding Bonds (see "THE BONDS – Authorization and Purpose" and "SCHEDULE I – Schedule of Bonds to be Refunded"). The refunding is being undertaken to lower the District's debt service and will result in a present value savings to the District.

CUSIP PREFIX: 696344

MATURITY SCHEDULE & 9 DIGIT CUSIP

See Schedule on Page ii

The Bonds are offered when, as and if issued, and accepted by the Underwriters, subject to the approval of legality by the Attorney General of the State of Texas and FBT Gibbons LLP, Houston, Texas, Co-Bond Counsel and Tax Counsel and Powell Law Group, LLP, Austin, Texas, Co-Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton Rose Fulbright US LLP, Dallas, Texas. The Bonds are expected to be available for initial delivery through the services of DTC on or about May 7, 2026.

HILLTOP SECURITIES

FROST BANK

RAYMOND JAMES

MATURITY SCHEDULE

\$93,910,000
UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS,
SERIES 2026

\$70,270,000 Serial Bonds

Maturity Date	Principal Amount	Interest Rate	Initial Yield^(B)	CUSIP Suffix^(A)	Maturity Date	Principal Amount	Interest Rate	Initial Yield^(B)	CUSIP Suffix^(A)
8/15/2026	\$800,000	5.000%	2.470%	LU2	2/15/2037	\$4,060,000	5.000%	3.360% ^(C)	MF4
2/15/2027	1,865,000	5.000%	2.450%	LV0	2/15/2038	4,190,000	5.000%	3.440% ^(C)	MG2
2/15/2028	2,755,000	5.000%	2.500%	LW8	2/15/2039	4,275,000	5.000%	3.560% ^(C)	MH0
2/15/2029	2,805,000	5.000%	2.560%	LX6	2/15/2040	2,860,000	5.000%	3.650% ^(C)	MJ6
2/15/2030	3,060,000	5.000%	2.670%	LY4	2/15/2041	3,005,000	5.000%	3.730% ^(C)	MK3
2/15/2031	2,895,000	5.000%	2.770%	LZ1	2/15/2042	3,160,000	5.000%	3.810% ^(C)	ML1
2/15/2032	3,160,000	5.000%	2.860%	MA5	2/15/2043	3,320,000	5.000%	3.930% ^(C)	MM9
2/15/2033	3,325,000	5.000%	2.960%	MB3	2/15/2044	3,490,000	5.000%	4.010% ^(C)	MN7
2/15/2034	3,495,000	5.000%	3.090%	MC1	2/15/2045	3,235,000	5.000%	4.070% ^(C)	MP2
2/15/2035	3,675,000	5.000%	3.160%	MD9	2/15/2046	3,400,000	5.000%	4.150% ^(C)	MQ0
2/15/2036	3,865,000	5.000%	3.260%	ME7	2/15/2047	3,575,000	5.000%	4.270% ^(C)	MR8

(Interest to Accrue from Date of Delivery)

\$23,640,000 Term Bonds

\$11,720,000 4.250% Term Bonds due February 15, 2050, Priced to Yield 4.540%, CUSIP Suffix MS6^(A)

\$11,920,000 4.375% Term Bonds due February 15, 2053, Priced to Yield 4.560%, CUSIP Suffix MT4^(A)

Optional Redemption ... The Bonds maturing on and after February 15, 2037 are subject to optional redemption prior to maturity, in whole or in part, on February 15, 2036, or any date thereafter, at a redemption price of par plus accrued interest to the date of redemption as further described herein (see “THE BONDS - General Description” and “Redemption Provisions – Optional Redemption”).

Mandatory Redemption... The Bonds maturing on February 15 in the years 2050 and 2053 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity and shall be redeemed in part at the principal amount thereof plus accrued interest to the date of redemption in the principal amount on February 15 in each of the years as set forth herein (see “THE BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption”).

^(A) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the purchasers of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Municipal Advisor, or the Underwriters are responsible for the selection or correctness of the CUSIP numbers set forth herein.

^(B) The initial reoffering yield represents the initial offering yield to the public, which were determined by the Underwriters. Portions of the Bonds may be sold by the Underwriters at prices other than those shown above.

^(C) Yield shown is yield to first call date of February 15, 2036.

PALESTINE INDEPENDENT SCHOOL DISTRICT

ELECTED OFFICIALS

<u>Name</u>	<u>Place</u>	<u>Term Expires</u>	<u>Occupation</u>
Dr. Michael Garcia, President	Place 2	2027	Physician, Pediatric Associates
Jeffrey Schwab, Vice President	Place 3	2028	Commercial Loan Officer, VeraBank
Shereece Jogie, Member	Place 1	2027	Daycare Director, Evangelistic Temple
Kurt Herrington, Member	Place 4	2028	President, Herrington/Land of Memory Funeral Home and Cemetery Palestine
Davi Killion Ingram, Member	Place 5	2028	Owner, Killion Auto Collision
Eddy Hutchinson, Member	Place 6	2029	Business Owner
Michael Bennett, Member	Place 7	2029	Independent Financial Advisor

CERTAIN DISTRICT OFFICIALS

<u>Name</u>	<u>Position</u>
Jason Marshall	Superintendent
David Atkeisson	Chief Financial Officer

CONSULTANTS AND ADVISORS

Powell Law Group Austin, Texas	Co-Bond Counsel
FBT Gibbons LLP Houston, Texas	Co-Bond Counsel/Tax Counsel
RBC Capital Markets, LLC Dallas, Texas	Municipal Advisor
Pattillo, Brown & Hill, L.L.P. Waco, Texas	Independent Auditor

FOR ADDITIONAL INFORMATION PLEASE CONTACT:

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Phone: (903) 731-8004

Matt Boles
Managing Director
RBC Capital Markets, LLC
200 Crescent Court, Suite 1500
Dallas, Texas 75204
Phone: (214) 989-1660

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement, which includes the cover page, Schedule I and the Appendices hereto, does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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

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

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

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, New York, New York (“DTC”) or its Book-Entry-Only system described under “BOOK-ENTRY-ONLY-SYSTEM” or the affairs of the TEA described under “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, as such information has been provided by the DTC and by the TEA, respectively.

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 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 any 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.

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

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 purpose.

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The cover page hereof, the section entitled "Selected Data from the Official Statement," this Table of Contents, Schedule I, and the Appendices A, B, C, D and E attached hereto are part of this Official Statement.

SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data 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 page from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer	Palestine Independent School District (the “District”) is a political subdivision of the State of Texas (the “State”) located in Anderson County, Texas. 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. For more information regarding the District, see “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” and “APPENDIX B – GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY.”
The Bonds	The District’s Unlimited Tax School Building and Refunding Bonds, Series 2026 (the “Bonds”) shall mature on the dates and in the amounts set forth on page ii of this Official Statement (see “THE BONDS – General Description”).
Authority for Issuance and Use of Proceeds	The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, an election held in the District on November 4, 2025 (the “Election”), and an order (the “Bond Order”) passed by the Board of Trustees of the District (the “Board”) on February 12, 2026, in which the Board delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who has approved a “Pricing Certificate” which contains the final terms of sale and completes the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS – Authorization and Purpose”).
Use of Proceeds	Proceeds from the sale of the Bonds will be used to provide funds sufficient to (i) construct, renovate, improve, acquire, expand and equip school buildings in the District, including the purchase of necessary sites and the purchase of new school buses, (ii) refund a portion of the District’s outstanding bonds (the “Refunded Bonds”), and (iii) pay costs of issuance related to the Bonds and the Refunding Bonds (see “THE BONDS – Authorization and Purpose” and “SCHEDULE I – Schedule of Bonds to be Refunded”). The refunding is being undertaken to lower the District’s debt service and will result in a present value savings to the District.
Payment of Interest	Interest on the Bonds will accrue from the date they are initially delivered (the “Date of Delivery”) to the Underwriters and will be payable on February 15 and August 15 of each year, commencing February 15, 2027, until maturity or prior redemption with the exception of the August 15, 2026 maturity which will pay interest at maturity (see “THE BONDS – General Description”).
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see “REGISTRATION, TRANSFER AND EXCHANGE – Paying Agent/Registrar” herein). Initially, the District intends to use the Book-Entry-Only System of The Depository Trust Company, New York, New York (“DTC”) (see “BOOK-ENTRY – ONLY SYSTEM” herein).
Security	The Bonds will constitute direct obligations of the District, payable as to principal and interest from a continuing annual ad valorem tax levied annually against all taxable property located within the District, without legal limitation as to rate or amount. Additionally, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of Texas (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “THE BONDS – Security” herein). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas.
Redemption Provisions	<p><i>Optional Redemption...</i>The Bonds maturing on and after February 15, 2037 are subject to optional redemption prior to maturity, in whole or in part, on February 15, 2036, or any date thereafter, at a redemption price of par plus accrued interest to the date of redemption as further described herein (see “THE BONDS – Redemption Provisions – Optional Redemption”).</p> <p><i>Mandatory Redemption...</i>The Bonds maturing on February 15 in the years 2050 and 2053 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to their stated maturity and shall be redeemed in part at the principal amount thereof plus accrued interest to the date of redemption in the principal amount on February 15, in each of the years as set forth herein (see “THE BONDS – Redemption Provisions – Mandatory Sinking Fund Redemption”).</p>

Ratings	<p>Fitch Ratings (“Fitch”) and S&P Global Ratings (“S&P”) have assigned municipal bond ratings of “AAA” and “AAA”, respectively, to the Bonds based upon the Permanent School Fund Guarantee. Fitch and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas “AAA” and “AAA” (see “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “RATINGS”).</p> <p>The District’s underlying rating for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) are “A+” and “A” by Fitch and S&P, respectively (see “RATINGS”).</p>
Tax Matters	<p>In the opinion of FBT Gibbons LLP, Houston, Texas, Tax Counsel, under existing statutes, regulations, published rulings and court decisions, interest on the Bonds (i) is excludable from gross income of the owners thereof pursuant to Section 103 of the Code, and (ii) is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals; however, such interest on the Bonds may be taken into account for the purpose of computing the federal alternative minimum tax imposed on certain corporations. See “TAX MATTERS” herein and “APPENDIX D – FORMS OF CO-BOND COUNSEL’S OPINION AND TAX COUNSEL’S OPINION” attached hereto.</p>
Book-Entry-Only System	<p>The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 principal amount or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM”).</p>
Continuing Disclosure of Information	<p>Pursuant to the Order, the District is obligated to provide certain updated financial information and operating data annually, and timely notice of specified events to the Municipal Securities Rulemaking Board (“MSRB”). Such information will be available to the public without charge from the MSRB at www.emma.msrb.org (see “CONTINUING DISCLOSURE OF INFORMATION”). Also see “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” for a description of the undertaking of the Texas Education Agency to provide certain information on a continuing basis.</p>
Payment Record	<p>The District has never defaulted on the payment of its bonded indebtedness.</p>
Legal Opinions	<p>The 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 FBT Gibbons LLP, Houston, Texas, Co-Bond Counsel and Tax Counsel, and Powell Law Group, LLP, Austin, Texas, Co-Bond Counsel (see “APPENDIX D – FORMS OF CO-BOND COUNSEL’S OPINION AND TAX COUNSEL’S OPINION” herein).</p>

OFFICIAL STATEMENT

\$93,910,000

PALESTINE INDEPENDENT SCHOOL DISTRICT (Anderson County, Texas)

UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2026

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I and Appendices A and B, has been prepared by the Palestine Independent School District located in Anderson County, Texas (the “District”), in connection with the offering by the District of its Unlimited Tax School Building and Refunding Bonds, Series 2026 (the “Bonds”) identified on the cover page hereof.

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.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. A copy of the final Official Statement will be submitted to the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking” and “CONTINUING DISCLOSURE OF INFORMATION” for a description of the undertakings of the Texas Education Agency and the District, respectively, to provide certain information on a continuing basis.

THE BONDS

Authorization and Purpose

The Bonds are being issued in accordance with the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapters 1207 and 1371, Texas Government Code, as amended, an election held in the District on November 4, 2025 (the “Election”), and an order (the “Bond Order”) passed by the Board of Trustees of the District (the “Board”) on February 12, 2026, in which the Board delegated pricing of the Bonds and certain other matters to a “Pricing Officer” who has approved a “Pricing Certificate” which contains the final terms of sale and completes the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the “Order”) (see “THE BONDS – Authorization and Purpose”).

Proceeds from the sale of the Bonds will be used to provide funds sufficient to (i) construct, renovate, improve, acquire, expand and equip school buildings in the District, including the purchase of necessary sites and the purchase of new school buses, (ii) refund a portion of the District’s outstanding bonds (the “Refunded Bonds”), and (iii) pay costs of issuance related to the Bonds and the Refunding Bonds (see “THE BONDS – Authorization and Purpose” and “SCHEDULE I – Schedule of Bonds to be Refunded”). The refunding is being undertaken to lower the District’s debt service and will result in a present value savings to the District.

Refunded Bonds

A description and identification of the Refunded Bonds appears in Schedule I attached hereto. The Refunded Bonds and the interest due thereon are to be paid on the interest payment dates and the scheduled redemption date from funds to be deposited with BOKF, NA, Dallas Texas (the “Escrow Agent”) pursuant to an Escrow Agreement (the “Escrow Agreement”) between the District and the Escrow Agent.

The Order provides that from the proceeds of the sale of the Bonds to the Underwriters shown on the cover page of this Official Statement (the “Underwriters”), the District will deposit with the Escrow Agent an amount which, together with the Escrowed Securities (defined below) purchased with a portion of the Bond proceeds and the interest to be earned on such Escrowed Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the “Escrow Fund”) and used to purchase some or all of the following types of obligations: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Pricing Officer adopts or approves the Pricing Certificate, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that, on the date the Pricing Officer approves the Pricing Certificate, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. Money held in the Escrow Fund will not be available to pay debt service on the Bonds.

Robert Thomas CPA, LLC (the “Verification Agent”) will verify at the time of delivery of the Bonds to the Underwriters thereof the mathematical accuracy of the schedules that demonstrate the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, in the Escrow Fund, will be sufficient to pay, the principal of and interest on the Refunded Bonds on their redemption dates. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the Bonds (see “VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS”).

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the order authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that as a result of such defeasance, and in reliance upon the report of the Verification Agent, firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds will have been made and therefore the Refunded Obligations will be deemed fully paid and no longer outstanding except for the purpose of receiving payments from the Escrowed Securities and cash held for such purpose by the Escrow Agent (see “VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS”).

General Description

The Bonds will be dated May 1, 2026 and will mature on the dates and in the principal amounts shown on page ii hereof. The Bonds will each be issued as fully registered obligations in principal denominations of \$5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the date of their initial delivery to the underwriters identified on the cover page hereof (the “Underwriters”) at the interest rates shown on page ii hereof and such interest shall be payable to the registered owners thereof on February 15, 2027 and semiannually thereafter on August 15 and February 15 in each year until maturity or prior redemption with the exception of the August 15, 2026 maturity that will be paid with interest at maturity. Interest accruing on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months. The paying agent and transfer agent (the “Paying Agent/Registrar”) for the Bonds is initially BOKF, NA, Dallas, Texas.

Initially, the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the Book-Entry-Only System described below. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will distribute the amounts paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” below for a more complete description of such system.

In the event the Book-Entry-Only System is discontinued, printed certificates will be issued to the owners of the Bonds and thereafter interest on the Bonds shall be payable to the registered owner whose name appears on the bond registration books of the Paying Agent/Registrar at the close of business on the “Record Date” (hereinafter defined) and such accrued interest will be paid by (i) check sent United States mail, first class, postage prepaid, to the address of the registered owner appearing on such registration books of the Paying Agent/Registrar or (ii) such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The Bonds will be payable only upon presentation of such Bonds at the designated office of the Paying Agent/Registrar upon maturity or prior redemption.

Redemption Provisions

Optional Redemption. The Bonds maturing on and after February 15, 2037, are subject to redemption prior to maturity, at the option of the District, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2036, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds within a stated maturity are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof, to be redeemed.

Mandatory Sinking Fund Redemption. The Bonds maturing on February 15 in the years 2050 and 2053 (the “Term Bonds”), are subject to mandatory sinking fund redemption, in part, prior to their stated maturity at the redemption price of par and accrued interest to the date of redemption on the dates and in the principal amounts as follows:

<u>Term Bonds due February 15, 2050</u>		<u>Term Bonds due February 15, 2053</u>	
<u>Mandatory</u>	<u>Principal</u>	<u>Mandatory</u>	<u>Principal</u>
<u>Redemption Date</u>	<u>Amount</u>	<u>Redemption Date</u>	<u>Amount</u>
2/15/2048	\$3,740,000	2/15/2051	\$4,255,000
2/15/2049	3,905,000	2/15/2052	3,750,000
2/15/2050*	4,075,000	2/15/2053*	3,915,000

* Stated Maturity.

The Paying Agent/Registrar shall select by lot or other customary method that results in a random selection the Term Bonds within the applicable stated maturity to be redeemed from moneys 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 mandatory sinking fund redemption shall be paid on the date of its stated maturity or upon optional redemption.

The principal amount of Term Bonds of 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 any Term Bond of like stated maturity which, at least 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; (2) shall have been purchased and canceled by the Paying Agent/Registrar, at the request of the District, at a price not exceeding the principal amount of such Term Bond plus accrued interest to the date of purchase; or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds for Redemption

If less than all of the Bonds within a stated maturity are to be redeemed, the District shall determine the principal amount and maturities to be redeemed and shall direct the Paying Agent/Registrar to select by lot or other customary method that results in a random selection, the Bonds or portions thereof, to be redeemed.

Notice of Redemption

Notice of Redemption

At least 30 days prior to the date fixed for any such redemption, the District shall cause a written notice of such redemption to be deposited in the United States mail, postage prepaid, addressed to each registered owner of each Bond to be redeemed at the address shown on the Registration Books at the close of business on the business day next preceding the date of mailing such notice.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN NOTWITHSTANDING WHETHER ONE OR MORE OF THE REGISTERED OWNERS OF SUCH BONDS FAILED TO RECEIVE SUCH NOTICE. UPON THE GIVING OF THE NOTICE OF REDEMPTION AND THE DEPOSIT OF THE FUNDS NECESSARY TO REDEEM SUCH BONDS, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE IRRESPECTIVE OF WHETHER SUCH BONDS ARE SURRENDERED FOR PAYMENT.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Order have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption may, at the option of the District, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the District will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

DTC Notices

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption of Bonds, 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 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").

Security

The Bonds are direct obligations of the District and are payable as to principal and interest from a continuing annual ad valorem tax levied annually on all taxable property within the District, without legal limitation as to rate or amount, as provided in the Order. 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 PERMANENT SCHOOL FUND GUARANTEE PROGRAM," "STATE AND LOCAL FUNDING OF SCHOOL

DISTRICTS IN TEXAS,” “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” and “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).

Permanent School Fund Guarantee

In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education (the “Education Commissioner”), for the guarantee of the Bonds under the Guarantee Program for School District Bonds (Chapter 45, Subchapter C, of the Texas Education Code). Subject to meeting certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”, the payment when due of principal of, and interest on, the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas in accordance with the terms of the Guarantee Program for School District Bonds. In the event of a payment default by the District, registered owners of the Bonds will receive all payments due from the corpus of the Permanent School Fund.

In the event the District defeases any of the Bonds, the payment of such defeased Bonds will cease to be guaranteed by the Permanent School Fund Guarantee (see “THE BONDS – Defeasance of Bonds”).

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 opinions of FBT Gibbons LLP, Houston, Texas, Co-Bond Counsel and Tax Counsel and Powell Law Group, LLP, Austin, Texas, Co-Bond Counsel (legal opinion printed on or attached to the Bonds) (see “LEGAL MATTERS” and “APPENDIX D – FORMS OF CO-BOND COUNSEL’S OPINION AND TAX’S COUNSEL OPINION” herein).

Payment Record

The District has never defaulted with respect to the payment of its bonded indebtedness.

Defeasance of Bonds

The Order provides for the defeasance of the Bonds when payment of the principal amount plus accrued interest on the Bonds, to their due date (whether such due date be by reason of maturity or otherwise), is provided by irrevocably depositing with a paying agent or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities (defined herein) scheduled to mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of an amount sufficient to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent/registrar for the Bonds, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Order provides that “Defeasance Securities” means any securities and obligations now or hereafter authorized by Texas law that are eligible to discharge obligations such as the Bonds. Current Texas law permits defeasance with the following types of securities (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Board authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the Board authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

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

be included in any redemption notices that it authorizes. Also, the Permanent School Fund Guarantee will cease to apply to the Bonds after their defeasance.

Amendments to the Order

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

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

Sources and Uses of Funds

The proceeds from the sale of the Bond, together with other lawfully available funds of the District, if necessary, will be applied approximately as follows:

Sources:

Principal Amount of the Bonds	\$93,910,000.00
Net Original Issue Premium	<u>6,114,124.45</u>
Total Sources of Funds	<u>\$100,024,124.45</u>

Uses:

Deposit to Project Fund	\$60,000,000.00
Deposit to Escrow Fund	39,098,267.04
Costs of Issuance and Underwriters’ Discount	<u>925,857.41</u>
Total Uses of Funds	<u>\$100,024,124.45</u>

REGISTERED OWNERS’ REMEDIES

The Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal or interest on the Bonds when due or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Order provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions, as well as enforce rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus may be sought 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 remedy of mandamus is controlled by equitable principles, so it rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court 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. Chapter 1371, Texas Government Code, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the Bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, as permitted by Chapter 1371, Texas Government Code. As a result, bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the

tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Co-Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only registered owner of the Bonds will be Cede & Co., as DTC’s nominee. See “BOOK-ENTRY-ONLY SYSTEM” herein for a description of the duties of DTC with regard to ownership of Bonds.

See “APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein 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.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, interest and redemption payments on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District, the Municipal Advisor and the Underwriters believe the source of such information to be reliable, but none of the District, the Municipal Advisor or the Underwriters takes any responsibility for the accuracy or completeness thereof.

The District, the Municipal Advisor, and the Underwriters cannot and do 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 (as hereinafter defined), 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 DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security will be issued for each maturity of the Bonds, as set forth on page ii hereof, 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, 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 registered 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a rating of “AA+” from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants’ records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, 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 Paying Agent/Registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant 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 Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with 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, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

BOKF, NA, Dallas Texas, has been named to serve as initial Paying Agent/Registrar for the Bonds. In the Order the District retains the right to replace the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a competent and legally qualified bank, trust company, financial institution or other agency duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds. Upon any

change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Future Registration

In the event the Book-Entry-Only System is discontinued, printed Bond certificates will be delivered to the owners of the Bonds and thereafter the Bonds may be transferred, registered and assigned on the registration books 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 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond 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. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three (3) business days after the receipt of the Bonds 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. New Bonds registered and delivered in an exchange or transfer shall be in authorized denominations and for a like kind and aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds.

Record Date for Interest Payment

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar shall be required make any transfer or exchange (i) with respect to any Bond, during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date, provided, however, such limitation on transferability shall not be applicable to an exchange by the Registered Owner of the uncalled balance of a Bond.

Replacement Bonds

If any Bond is damaged, mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar of satisfactory evidence to the effect that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. 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. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Session" for a discussion of certain legislation affecting ad valorem taxation.

Valuation of Taxable Property

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

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the “10% Homestead Cap”). See Tables 1 and 8 in “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” for the reduction in taxable valuation attributable to the 10% Homestead Cap.

Through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the “Subjected Property”) whose appraised values are not more than \$5.32 million dollars (the “maximum property value”) to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20% 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 (“Productivity Value”). The same land may not be qualified as both agricultural and open-space land. See Tables 1 and 8 in “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” for the reduction in taxable valuation attributable to Productivity Value

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates (see “AD VALOREM PROPERTY TAXATION – District and Taxpayer Remedies”).

State Mandated Homestead Exemptions

State law grants, with respect to taxes levied for general elementary and secondary public school purposes, (1) a \$140,000 exemption of the appraised value of all residence homesteads (increased from \$100,000 to \$140,000 effective from and after the 2025 tax year; see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Session” herein), (2) an additional \$60,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled (increased from \$10,000 to \$60,000 effective from and after the 2025 tax year; see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Session” herein), 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. See Tables 1 and 8 in “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” for the reduction in taxable valuation attributable to state mandated homestead exemptions.

Local Option Homestead Exemptions

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

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

Personal Property

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

Legislation passed by the Legislature during the 89th Regular Session and approved by the voters provides a person an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit. Such exemption is applicable from and after the 2026 tax year.

Freeport and Goods-in-Transit Exemption

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

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged By a Disaster

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

purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35, 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”).

Tax Limitation Agreements

The Texas Economic Development Act (formerly Chapter 313, Texas Tax Code, as amended (“Chapter 313”)) previously allowed school districts to grant limitations on appraised property values to entities to encourage economic development within the school district. Generally, during the ten-year term of a tax limitation agreement under Chapter 313, 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.” The 87th Texas Legislature did not vote to extend this program, which expired by its terms effective December 31, 2022.

Tax Abatement Agreements

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

In the 88th Legislative Session, House Bill 5 (“HB 5” or “The Texas Jobs, Energy, Technology, and Innovation Act”) was adopted to create an economic development program, subject to state oversight, which would attract jobs and investment to Texas through school district property tax abatement agreements with businesses. HB5 was codified as Chapter 403, Subchapter T, Texas Government Code (“Chapter 403”) and had an effective date of January 1, 2024. Under Chapter 403, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. Chapter 403 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project’s construction period. **Taxable valuation for purposes of the debt 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. For a discussion of how the various exemptions described above are applied by the District, see “THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT” herein.

District and Taxpayer Remedies

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$62,883,169 for the 2026 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate”). 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 PROPERTY TAXATION – Temporary Exemption for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

District’s Rights in the Event of Tax Delinquencies

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

Except with respect to taxpayers who are 65 years of age or older, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property.

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in Anderson County. The Appraisal District is governed by a board of directors, which is comprised of six (6) directors appointed by voters of the governing bodies of various political subdivisions in Anderson County and three (3) directors elected by popular vote. The District’s taxes are collected by the Anderson County Tax Assessor-Collector.

The District grants a state mandated \$140,000 general residence homestead exemption*.

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

The District grants a state mandated residence exemption for disabled veterans.

The District has not granted any part of the local option, additional exemption of up to 20% of the market value of residence homesteads.

The District has not granted a local option, additional exemption for disabled veterans above the amount of the state-mandated exemption.

The District does not tax non-business personal property.

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

The District grants a Freeport Property exemption.

The District has not taken action to continue taxing “Goods-in-Transit.”

The District is currently not a participant in any tax increment reinvestment zone.

The District is currently not a participant in any tax abatement or tax limitation agreements.

*See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Session” herein for a discussion of an increase in the general State mandated homestead exemption from \$100,000 to \$140,000 and an increase in the State mandated homestead exemption of persons sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000.

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

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

After July, the penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, an additional penalty of 20% may be assessed on July 1 in order to defray attorney collection expenses.

Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 (or when billed, whichever is later) of the same year, and generally become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due February 1 of each year and the final due on August 1. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

Lawmakers decide if laws pass, and judges decide if those laws pass muster. But our lenient standard of review in this policy-laden area counsels modesty. The judicial role is not to second-guess whether our system is optimal,

but whether it is constitutional. Our Byzantine school funding “system” is undeniably imperfect, with immense room for improvement. But it satisfies minimum constitutional requirements.

Possible Effects of Litigation and 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”).

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

2025 Legislative Sessions

The regular session of the 89th Texas Legislature 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 of Texas (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.

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) effective January 1, 2025, the State mandated general homestead exemption from \$100,000 to \$140,000, (2) effective January 1, 2025, the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) effective January 1, 2026, the exemption for tangible personal property used in the production of income from the current \$2,500 to \$125,000. Voters approved constitutional amendments authorizing the new exemptions 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 providing districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation passed by the Legislature created an Education Savings Account (“ESA”)

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

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

Local Funding for School Districts

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

State Compression Percentage. The State Compression Percentage (the "SCP") is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The SCP is the lesser of three alternative calculations: (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 State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2026, the SCP is set at 63.22%.

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

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

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

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

School districts may levy an Enrichment Tax Rate at a level of their choice, subject to the limitations described under "TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate"; however to levy any of the Enrichment Tax Rate in a given year, a school district must levy a Tier One Tax Rate equal to the school district's MCR in such year. Additionally, a school district's levy of

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

State Funding for School Districts

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

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

The current public school 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 State Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the State Legislature.

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

The Basic Allotment for school districts with a Tier One Tax Rate equal to the school district’s MCR, is \$6,160 plus the guaranteed yield increment adjustment (the “GYIA”) for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than the school district’s MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55.

The Basic Allotment is supplemented for all school districts by various weights to account for differences among school districts and their student populations. Beginning in the 2026-27 school year, special education funding is provided through a service-intensity model, with the Commissioner establishing eight tiers of intensity and at least four service groups to determine funding levels based on the type and intensity of services students receive, rather than categorical placement. Additional allotments also support students who: (i) are diagnosed with dyslexia or a related disorder, (ii) are economically disadvantaged, or (iii) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further the State’s goal of increasing the number of students who attain a postsecondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation and retention in disadvantaged or rural school districts. A school district’s total Tier One funding, divided by the district’s Basic Allotment is a school district’s measure of students in “Weighted Average Daily Attendance” (“WADA”), which serves to calculate Tier Two funding.

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

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

Existing Debt Allotment, Instructional Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State 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 State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State 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 State 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 State Legislature for the 2026-2027 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2026-2027 State fiscal biennium on new bonds issued by school districts in the 2026-2027 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent the bonds of a school district are eligible for hold harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption (see "State Funding For School Districts – Tax Rate and Funding Equity" below).

A school district may also qualify for a NIFA allotment, which provides assistance to school districts for operational expenses associated with opening new instructional facilities or a renovated portion of an instructional facility to be used for the first time to provide high-cost and undersubscribed career and technology education programs, as determined by the Education Commissioner. In the 89th Regular Session, the Legislature appropriated funds in the amount of \$150,000,000 for each fiscal year of the 2026-2027 State fiscal biennium for NIFA allotments.

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

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

Local Revenue Level in Excess of Entitlement

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

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

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six 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 2025-26 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the permitted wealth equalization options. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, must be reduced by exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted level in future school years, it will be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding

debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy 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 an M&O tax rate pursuant to the approval of the voters of the District at an election held on October 3, 1967, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (now codified as Section 45.003, Texas Education Code, as amended).

The maximum M&O tax rate per \$100 of taxable assessed value that may be adopted by a school district is the sum of \$0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State and is subject to recalculation annually. For any year, the highest possible MCR for a school district is \$0.93 (see "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").

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

Public Hearing and Voter-Approval Tax Rate

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

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

Voter-Approval Tax Rate on or prior to the seventy-first (71st) day before the next occurring November uniform election date, will result in the school district adopting a tax rate equal to or less than its Voter-Approval Tax Rate by the later of September 30 or the sixtieth (60th) day after receipt of the certified appraisal roll. "No-new-revenue tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

EMPLOYEES BENEFIT PLAN

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

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

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2019 through 2025.

Contributors to the plan include members, employers, and the State of Texas (the "State") as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools, and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act. The contribution rates for 2024 and 2025 are as follows: Active Employee 8.25%, the State 8.25% and Employers 8.25%. The following are the contribution amounts made in 2024: member contributions \$2,202,865, employer contributions \$1,126,129 and State contributions \$1,613,647.

The District also contributes to a retiree health care through 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 TRS. TRS Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. In addition to the TRS retirement plan, the District participates in the State health insurance plan to provide health care coverage for its employees.

For a discussion of the TRS retirement plan, TRS Care and the District's medical benefit plan, see Notes F, G, and H to the audited financial statements of the District that are attached hereto as "APPENDIX E – AUDITED FINANCIAL STATEMENT FOR THE YEAR ENDED AUGUST 31, 2025".

In June 2012, Government Accounting Standards Board (GASB) Statement No. 68 (Accounting and Financial Reporting for Pensions) was issued to improve accounting and financial reporting by state and local governments regarding 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. This means that reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government--wide financial statements. Such reporting began with the District's fiscal year ending August 31, 2015. GASB Statement No. 68 applies only to pension benefits and does not apply to Other Post-Employment Benefits (OPEB) or TRS-Care related liabilities.

As a result of its participation in the TRS and having no other post-retirement benefit plans, the District has no obligations for other post-employment benefits within the meaning of Governmental Accounting Standards Board Statement 45.

Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by Texas law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better the 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.

RATINGS

Fitch Ratings ("Fitch") and S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P") have assigned municipal bond ratings of "AAA" and "AAA", respectively, to the Bonds based upon the Permanent School Fund Guarantee. Fitch and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA" and "AAA" (see "APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM"). The District's underlying ratings for the Bonds (without consideration of the Permanent School Fund Guarantee or other credit enhancement) are "A+" and "A" by Fitch and S&P respectively.

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

In addition, due to the ongoing uncertainty regarding the economy and debt of the United States of America, including, without limitation, general economic conditions and political developments that may affect the financial condition of the United States government, the United States debt limit, and bond and credit ratings of the United States and its instrumentalities, the ratings of obligations issued by state and local governments, such as the Bonds, could be adversely affected.

LEGAL MATTERS

The District will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinions of Co-Bond Counsel, with respect to the Bonds issued in compliance with the provisions of the Order. The forms of Co-Bond Counsel's opinion are attached hereto as APPENDIX D.

Although each of the Co-Bond Counsel firms represent the Underwriters from time to time in matters unrelated to the issuance of the Bonds, each Co-Bond Counsel was engaged by, and only represents, the District. Except as noted below, the Co-Bond Counsels did not take part in the preparation of the Official Statement, and each such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in their capacity as Co-Bond Counsel, such firms have reviewed the information appearing under the captions "THE BONDS" (except under the subcaptions "Permanent School Fund Guarantee," "Payment Record," and "Sources and Uses of Funds"), "REGISTRATION, TRANSFER AND EXCHANGE," "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS" (first paragraph only), "LEGAL MATTERS" (except for the last sentence of the second paragraph thereof), "TAX MATTERS," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings") and such firms are of the opinion that the information relating to the Bonds and legal matters contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. Tax Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Tax Counsel, such firm has reviewed the information under the caption "TAX MATTERS" in the Preliminary Official Statement and the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such caption is an accurate description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished. The legal fees to be paid Co-Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinions of Co-Bond Counsel and Tax Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Norton, Rose Fulbright US LLP, Dallas, Texas.

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

TAX MATTERS

Tax Exemption

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

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

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

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

In addition, original issue discount that accrues in each year to an owner of a Tax-Exempt OID Bond is included in the calculation of the distribution requirements of certain regulated investment companies and may result in some of the ancillary federal income tax consequences discussed above. Consequently, owners of any Tax-Exempt OID Bond should be aware that the accrual of original issue discount in each year may result in an corporate alternative minimum tax liability, if applicable, additional distribution requirements or other ancillary federal income tax consequences although the owner of such Tax-Exempt OID Bond has not received cash attributable to such original issue discount in such year.

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

Tax Accounting Treatment of Premium Bonds

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

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

State, Local and Foreign Taxes

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

Information Reporting and Backup Withholding

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

Future and Proposed Legislation

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce 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), 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 “RATINGS”). 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.

INVESTMENT POLICIES

Investments

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

Legal Investments

Under State law, the District is authorized to make investments meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA"), which currently include: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which 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 is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Under State law, the District may 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 of 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 has not contracted with, and has no present intention of contracting with, any such investment management firm or the Texas Securities Board to provide such services.

Investment Policies

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that 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 the 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.

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

Additional Provisions

Under State law, the District is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity 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 District’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the District and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the District’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days after when agreement is delivered 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.

Current Investments

As of January 31, 2026, the District’s investable funds were invested in the following investment instruments:

<u>Investment Instrument</u>	<u>Book Value</u>	<u>Percentage</u>
Interest-Bearing Bank Accounts	\$11,528,497	61.93%
Investment Pools ^(A)	<u>7,085,987</u>	<u>38.07%</u>
Total	<u>\$18,614,484</u>	<u>100.00%</u>

^(A) The District invests in TexPool, LOGIC, Texas Class, Texas Range, Texas Daily, and TexSTAR investment pools, which operate pursuant to Chapter 2256 of the Texas Government Code, as amended, as money market equivalents, in a manner consistent with the SEC’s Rule 2a-7 under the Investment Company Act of 1940.

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 C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix C is incorporated herein and made a part hereof for all purposes.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission 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 Securities and Exchange Commission, nor has the Securities and Exchange Commission 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 acts 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 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement while it remains obligated to advance funds to pay the Bonds in accordance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (“Rule 15c2-12” or the “Rule”). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the “MSRB”). Information will be available free of charge via the Electronic Municipal Market Access (“EMMA”) system at www.emma.msrb.org.

See “APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” for a description of the TEA’s continuing disclosure undertaking to provide certain updated financial information and operating data annually with respect to the Permanent School Fund and the State, as the case may be, and to provide timely notice of certain specified events related to the guarantee to the MSRB.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement in “APPENDIX A – FINANCIAL INFORMATION REGARDING THE DISTRICT” (Tables 1-16) and in APPENDIX E. The District will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in or after 2026 and, if then available, audited financial statements of the District. If audited financial statements are not available when the information is provided, the District will provide audited financial statements when and if they become available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX

E or such other accounting principles as the District may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule.

The District's current fiscal year is August 31. Accordingly, updated information included in the above referenced tables must be provided by the last day of February in each year, and audited financial statements (or unaudited financial statements if the audited financial statements are not yet available) must be provided by August 31 of each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Certain Events

The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds, to the MSRB in a timely manner (but not in excess of ten business days after the 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 of the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS 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/registrars or the change of a name of a paying agent/registrars, if material, (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a 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 a Financial Obligation of the District, any of which reflect financial difficulties. 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".

For these purposes, (A) any event described in the subsection (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, (B) as used in subsections (15) and (16), "Financial Obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule, and (C) the District intends the words used in paragraphs (15) and (16) and the definition of Financial Obligation to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

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

This continuing disclosure agreement may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final

jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District 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 Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

LITIGATION

The District is not a party to any litigation or other proceeding pending or to its knowledge, threatened, in any court, agency or other administrative body (either state or federal) which, if decided adversely to the District, would have a material adverse effect on the financial condition or operations of the District.

At the time of the initial delivery of the Bonds, the District will provide the Underwriters with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

WEATHER EVENTS

The District is located in north Texas. Land located in this area is susceptible to high winds, tornados, fires and arid conditions. If a future weather event significantly damages all or part of the properties comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenue and/or necessitate an increase in the District’s tax rate. Under certain conditions, Texas law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as a tornado, flooding or extreme drought and upon gubernatorial or presidential declaration of disaster. There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will carry flood or the appropriate, applicable other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds or that insurance proceeds will be used to rebuild or repay any damaged improvements within the District or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

CYBERSECURITY

Computer networks and data transmission and collection are vital to the operations of the District. Information technology and infrastructure of the District may be subject to attacks by outside or internal hackers and may be subject to breach by employee error, negligence or malfeasance. An attack or breach could compromise systems and the information stored thereon, result in the loss of confidential or proprietary data and disrupt the operations of the District. To mitigate these risks, the District continuously endeavors to improve the range of control for digital information operations, enhancements to the authentication process, and additional measures toward improving system protection/security posture, including required training for District staff and administration.

MUNICIPAL ADVISOR

In its role as Municipal Advisor, RBC Capital Markets, LLC has relied on the District for certain information concerning the District and the Bonds. The Municipal Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement. The fee of the Municipal Advisor for services with respect to the Bonds is contingent upon the issuance and sale of the Bonds. In the normal course of business, the Municipal Advisor may also from time to time receive a fee to conduct a competitive bidding process regarding the investment of certain proceeds of the Bonds, upon the request of the District.

UNDERWRITING

The Underwriters have agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to the initial offering prices to the public, as shown on page ii, less an underwriting discount of \$481,826.43. The Underwriters’ obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. Subject to certain hold-the-offering-price restrictions in the purchase agreement related to the Bonds that are of limited duration, 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 sentences 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 sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the District and to persons and entities with relationships with 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, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market advice or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The Verification Agent, a firm of independent certified public accountants, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

The Verification Agent, relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, the Verification Agent, has relied on any information provided to it by the District retained advisors, consultants or legal counsel. The Verification Agent was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

The verification report will be relied upon by Co-Bond Counsel in rendering their opinions with respect to the defeasance of the Refunded Bonds.

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.

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered by the District to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and the Order contained in this Official Statement are made subject to all of the provisions of such statutes, documents, and the Order. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

MISCELLANEOUS

The Bond Order delegated to the Pricing Officer the authority to approve 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.

This Official Statement has been approved by the Pricing Officer of the District for distribution by the Underwriters in accordance with the provisions of the Rule.

/s/ David Atkeisson

Authorized Officer

**SCHEDULE I
SCHEDULE OF REFUNDED BONDS**

<u>Original Dated Date</u>	<u>Original Principal Amount</u>	<u>Principal Amount Outstanding</u>	<u>Maturities Being Refunded</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Being Refunded</u>	<u>Redemption Date</u>
<u>Unlimited Tax Refunding Bonds, Series 2016</u>						
03/15/2016	\$ 51,830,000	\$ 38,690,000	02/15/2027	\$ 2,260,000	\$ 2,260,000	08/04/2026
			02/15/2028	2,380,000	2,380,000	08/04/2026
			02/15/2029	2,505,000	2,505,000	08/04/2026
			02/15/2030	2,620,000	2,620,000	08/04/2026
			02/15/2031	2,720,000	2,720,000	08/04/2026
			02/15/2032	2,835,000	2,835,000	08/04/2026
			02/15/2033	2,955,000	2,955,000	08/04/2026
			02/15/2034	3,070,000	3,070,000	08/04/2026
			02/15/2035	3,200,000	3,200,000	08/04/2026
			02/15/2036	3,325,000	3,325,000	08/04/2026
			02/15/2037	3,465,000	3,465,000	08/04/2026
			02/15/2038	3,605,000	3,605,000	08/04/2026
			02/15/2039	3,750,000	3,750,000	08/04/2026
Total Refunded Bonds				<u>\$ 38,690,000</u>	<u>\$ 38,690,000</u>	

APPENDIX A

FINANCIAL INFORMATION REGARDING THE DISTRICT

**FINANCIAL INFORMATION REGARDING
THE PALESTINE INDEPENDENT SCHOOL DISTRICT**

**Table 1
ASSESSED VALUATION^(A)**

2025/26 Total Assessed Valuation.....	\$	2,687,487,532
2025/26 Taxable Assessed Valuation.....	\$	1,490,554,472
<u>Exemption</u>		<u>Total</u>
Residential Homestead Exemption.	\$	529,714,696 ^(B)
Residential Cap/23.231 Cap.....		96,372,960
Over 65/Disabled Person.....		64,709,508 ^(B)
Disabled Veteran.....		16,799,275
Productivity Loss.....		482,527,572
Freeport.....		6,328,063
Other.....		480,986
Total (44.54% of Total Assessed Valuation).....	<u>\$</u>	<u>1,196,933,060</u>

^(A) Source: Anderson County Appraisal District ("Appraisal District") and State Property Tax Reports. Values reflect certified values net of exemptions. Includes value of property which is "frozen" at lower values for homesteads of taxpayers 65 or older, their surviving spouse and disables taxpayers. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

^(B) The passage of a Texas constitutional amendment on November 4, 2025 increased the homestead exemption from \$100,000 to \$140,000 and the over 65 exemption from \$10,000 to \$60,000.

**Table 2
UNLIMITED TAX DEBT OUTSTANDING^(A)**

Unlimited Tax Bonds Outstanding (as of April 1, 2026).....	\$	38,690,000
Less: The Refunded Bonds.....		38,690,000
Plus: The Bonds.....		93,910,000
Less: Interest & Sinking Fund Balance (as of August 31, 2025).....		6,978,850
NET UNLIMITED TAX SUPPORTED DEBT.....	<u>\$</u>	<u>86,931,150</u>
 Ratio Net Debt to Taxable Assessed Valuation		 5.83%

Estimated 2026 Population ^(B)	19,427	Per Capita Taxable Assessed Valuation	\$76,726
2025/26 Enrollment	3,151	Per Capita Total Assessed Valuation	\$138,338
Area (square miles)	221	Per Capita Net Debt	\$4,475

^(A) Excludes debt secured by the District's M&O tax.

^(B) Source: Municipal Advisory Council of Texas.

Table 3
ESTIMATED OVERLAPPING DEBT STATEMENT

<u>Taxing Body</u>	<u>Gross Amount^(A)</u>	<u>As of</u>	<u>% Overlap</u>	<u>\$ Overlap</u>
Anderson County	\$ 15,415,000	02/28/2026	30.24%	\$ 4,661,496
Palestine, City of	61,557,000	02/28/2026	74.36%	45,773,785
Total Net Overlapping Debt	\$ 76,972,000			\$ 50,435,281
Palestine ISD	\$ 93,910,000 ^(B)	04/01/2026	100.00%	93,910,000 ^(B)
Total Direct and Overlapping Debt				<u>\$ 144,345,281</u>
Ratio Direct and Overlapping Debt to Total Assessed Valuation				5.37%
Ratio Direct and Overlapping Debt to Taxable Assessed Valuation				9.68%
Per Capita Direct and Overlapping Debt				\$7,430

^(A) Source: Municipal Advisory Council of Texas.

^(B) Excludes debt secured by the District's M&O tax. Excludes the Refunded Bonds. Includes the Bonds

**Table 4
PROPERTY TAX RATES AND COLLECTIONS**

Tax Year	Taxable Assessed Valuation^(A)	Tax Rate	Percent Collections^(B)		Fiscal Year Ended
			Current	Total^(A)	
2020	\$ 1,187,128,824	\$1.4047	98.04%	100.17%	08/31/21
2021	1,254,949,147	1.3468	98.23%	99.66%	08/31/22
2022	1,394,810,170	1.2675	97.73%	98.93%	08/31/23
2023	1,478,159,035	1.0973	96.54%	98.19%	08/31/24
2024	1,559,258,253	1.0742	<u>95.84%</u>	<u>97.63%</u>	08/31/25
	Five Year Average.....		<u>97.28%</u>	<u>98.92%</u>	
2025	\$ 1,490,554,472	\$1.0378	93.16% ^(C)	93.16% ^(C)	08/31/26

^(A)Values reflect certified values net of exemptions. Includes value of property which is "frozen" at lower values for homesteads of taxpayers 65 or older, their surviving spouse and disables taxpayers. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records

^(B) Source: The District's Audited Financial Statements. Total Collections excludes penalties and interest.

^(C) Partial tax collections as of January 31, 2026.

**Table 5
TAX RATE DISTRIBUTION**

	<u>2025/56</u>	<u>2024/25</u>	<u>2023/24</u>	<u>2022/23</u>	<u>2021/22</u>
Local Maintenance	\$0.7705	\$0.8042	\$0.8273	\$0.9575	\$1.0268
Interest & Sinking Fund	<u>0.2673</u>	<u>0.2700</u>	<u>0.2700</u>	<u>0.3100</u>	<u>0.3200</u>
Total	<u>\$1.0378</u>	<u>\$1.0742</u>	<u>\$1.0973</u>	<u>\$1.2675</u>	<u>\$1.3468</u>

Source: District's Audited Financial Statements and District Records.

**Table 6
VALUATION AND FUNDED DEBT HISTORY**

Fiscal Year End	Taxable Assessed Valuation^(A)	Ratio of Change	Principal Amount of Funded Debt Outstanding	Ratio of Debt to T.A.V.
8-31				
2022	\$1,254,949,147	5.71%	\$ 46,700,000	3.72%
2023	1,394,810,170	11.14%	44,845,000	3.22%
2024	1,478,159,035	5.98%	42,895,000	2.90%
2025	1,559,258,253	5.49%	40,845,000	2.62%
2026	1,490,554,472	-4.41%	93,110,000 ^(B)	6.25%

^(A) Values reflect certified values net of exemptions. Includes value of property which is "frozen" at lower values for homesteads of taxpayers 65 or older, their surviving spouse and disabled taxpayers. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

^(B) Projected for fiscal year end. Excludes the Refunded Bonds. Includes the Bonds.

**Table 7
HISTORICAL TOP TEN TAXPAYERS**

PRINCIPAL TAXPAYERS AND THEIR 2025 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V.</u>
Walmart Stores Div Store	Retail	\$ 29,897,976	2.01%
Union Pacific Railroad Co.	Railroad	29,700,912	1.99%
MPT of Palestine-Lima LLC	Healthcare	24,376,735	1.64%
Oncor Electric Delivery Co. LLC	Electric Utility	22,445,500	1.51%
Sanderson Farms Inc.	Agriculture/Poultry	21,508,640	1.44%
Atmos Energy/Mid-Texas Distribution	Oil & Gas	15,571,555	1.04%
Walmart Stores East LP	Retail	13,043,165	0.88%
Overlook Lifestyle Apt Homes	Apartments	10,628,294	0.71%
Spectrum Gulf Coast, LLC	Communications	10,266,294	0.69%
Energy Transfer Fuel LP	Oil & Gas	10,257,769	0.69%
Total.....		\$ 187,696,840	12.59%

PRINCIPAL TAXPAYERS AND THEIR 2024 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V.</u>
Walmart Stores Div Store	Retail	\$ 39,045,858	2.50%
Union Pacific Railroad Co.	Railroad	28,412,124	1.82%
Oncor Electric Delivery Co. LLC	Electric Utility	25,164,160	1.61%
MPT of Palestine-Lima LLC	Healthcare	24,027,761	1.54%
Sanderson Farms Inc.	Agriculture/Poultry	21,626,499	1.39%
Atmos Energy/Mid-Texas Distribution	Oil & Gas	13,288,922	0.85%
5J Trucking LLC	Trucking Distribution	12,324,822	0.79%
Walmart Stores East LP	Retail	11,194,675	0.72%
Overlook Lifestyle Apt Homes	Apartments	10,628,557	0.68%
Energy Transfer Fuel LP	Oil & Gas	10,040,519	0.64%
Total.....		\$ 195,753,897	12.55%

PRINCIPAL TAXPAYERS AND THEIR 2023 TAXABLE ASSESSED VALUATIONS

<u>Name of Taxpayer</u>	<u>Type of Business</u>	<u>Taxable</u>	
		<u>Assessed Valuation</u>	<u>% T.A.V.</u>
Walmart Stores Div Store	Retail	\$ 42,395,612	2.87%
MPT of Palestine-Lima LLC	Healthcare	25,525,139	1.73%
Union Pacific Railroad Co.	Railroad	23,900,595	1.62%
Oncor Electric Delivery Co. LLC	Electric Utility	21,571,875	1.46%
Sanderson Farms Inc.	Agriculture/Poultry	20,961,130	1.42%
Lowes of Palestine #1892	Retail/Home Improvement	13,792,925	0.93%
Atmos Energy/Mid-Texas Distribution	Oil & Gas	11,961,323	0.81%
Walmart Stores East LP	Retail	11,194,675	0.76%
Energy Transfer Fuel LP	Oil & Gas	11,158,464	0.75%
Overlook Lifestyle Apt Homes	Apartments	10,628,557	0.72%
Total.....		\$ 193,090,295	13.06%

Source: Anderson County Appraisal District and State Property Tax Reports.

**Table 8
CLASSIFICATION OF ASSESSED VALUATION BY USE CATEGORY**

Property Use Category	Total Tax Roll for Fiscal Years				
	2025/26	2024/25	2023/24	2022/23	2021/22
Real and Personal Property					
Single-Family Residential	\$ 804,958,545	\$ 781,195,344	\$ 757,112,473	\$ 595,382,175	\$ 498,732,405
Multi-Family Residential	50,527,252	38,920,997	39,281,001	38,301,557	29,734,892
Vacant Lots/Tracts	16,875,142	17,617,756	16,730,685	14,491,145	9,370,649
Acreage (Land Only)	496,166,117	536,452,594	546,560,554	309,963,120	279,520,577
Farm and Ranch Improvements	583,542,054	577,576,059	546,853,765	403,768,944	307,146,237
Commercial and Industrial	416,801,307	424,258,240	412,076,396	343,230,464	318,555,369
Oil, Gas & Other Minerals	1,758,682	1,971,846	2,333,675	2,004,566	1,537,554
Inventory	115,008	147,080	147,080	143,551	203,660
Tangible Personal Property					
Commercial and Industrial	183,719,343	241,397,524	190,690,876	180,605,410	144,271,531
Mobile Homes/Other	21,752,647	20,084,799	19,807,488	17,511,596	15,501,617
Real & Tangible Personal Property					
Utilities	100,199,311	88,156,636	84,129,559	77,715,350	70,934,837
Special Inventory	11,072,124	10,583,268	10,836,707	11,397,802	9,141,173
Total Real & Tang. Per. Prop.	\$ 2,687,487,532	\$ 2,738,362,143	\$ 2,626,560,259	\$ 1,994,532,866	\$ 1,684,667,687
Less: Exemptions					
Residential Homestead	\$ 529,714,696	\$ 410,951,858	\$ 388,903,747	\$ 174,290,340	\$ 110,273,905
Res Cap Loss/23.231 Cap	96,372,960	144,691,472	186,614,515	76,637,878	6,732,719
Over 65/Disabled Person	64,709,508	15,933,759	14,392,659	35,471,360	21,177,997
Disabled/Deceased Veteran	16,799,275	20,912,363	16,209,273	3,264,753	16,434,000
Productivity Loss	482,527,572	521,860,485	531,768,103	297,160,453	266,609,034
Freeport	6,328,063	31,974	10,454,140	12,852,507	8,445,538
Other	480,986	64,721,979	58,787	45,405	45,347
Total Exemptions	\$ 1,196,933,060	\$ 1,179,103,890	\$ 1,148,401,224	\$ 599,722,696	\$ 429,718,540
Taxable Assessed Valuation	\$ 1,490,554,472	\$ 1,559,258,253	\$ 1,478,159,035	\$ 1,394,810,170	\$ 1,254,949,147

Source: Anderson County Appraisal District and State Property Tax Reports.

PERCENTAGE TOTAL ASSESSED VALUATION BY CATEGORY

Property Use Category	Percent of Total Tax Roll for Fiscal Years				
	2025/26	2024/25	2023/24	2022/23	2021/22
Real Property					
Single-Family Residential	29.95%	28.53%	28.83%	29.85%	29.60%
Multi-Family Residential	1.88%	1.42%	1.50%	1.92%	1.77%
Vacant Lots/Tracts	0.63%	0.64%	0.64%	0.73%	0.56%
Acreage (Land Only)	18.46%	19.59%	20.81%	15.54%	16.59%
Farm and Ranch Improvements	21.71%	21.09%	20.82%	20.24%	18.23%
Commercial and Industrial	15.51%	15.49%	15.69%	17.21%	18.91%
Oil, Gas & Other Minerals	0.07%	0.07%	0.09%	0.10%	0.09%
Inventory	0.00%	0.01%	0.01%	0.01%	0.01%
Tangible Personal Property					
Business	6.84%	8.82%	7.26%	9.06%	8.56%
Other	0.81%	0.73%	0.75%	0.88%	0.92%
Real & Tangible Personal Property					
Utilities	3.73%	3.22%	3.20%	3.90%	4.21%
Special Inventory	0.41%	0.39%	0.41%	0.57%	0.54%
Total	100.00%	100.00%	100.00%	100.00%	100.00%

Table 9
OUTSTANDING UNLIMITED TAX DEBT SERVICE^(A)

Fiscal Year Ending 8/31	Outstanding Debt Requirements		Less: The Refunded Bonds	Plus: The Bonds		Total Debt Service	Percent of Principal Retired of Total Debt Service
	Principal	Interest	Debt Service	Principal	Interest		
2026	\$ 2,155,000.00	\$ 1,672,925.00	\$ 809,525.00	\$ 800,000.00	\$ 10,888.89	\$ 3,829,288.89	
2027	2,260,000.00	1,562,550.00	3,822,550.00	1,865,000.00	5,669,596.67	7,534,596.67	
2028	2,380,000.00	1,446,550.00	3,826,550.00	2,755,000.00	4,330,975.00	7,085,975.00	
2029	2,505,000.00	1,324,425.00	3,829,425.00	2,805,000.00	4,191,975.00	6,996,975.00	
2030	2,620,000.00	1,209,400.00	3,829,400.00	3,060,000.00	4,045,350.00	7,105,350.00	13.99%
2031	2,720,000.00	1,102,600.00	3,822,600.00	2,895,000.00	3,896,475.00	6,791,475.00	
2032	2,835,000.00	991,500.00	3,826,500.00	3,160,000.00	3,745,100.00	6,905,100.00	
2033	2,955,000.00	875,700.00	3,830,700.00	3,325,000.00	3,582,975.00	6,907,975.00	
2034	3,070,000.00	755,200.00	3,825,200.00	3,495,000.00	3,412,475.00	6,907,475.00	
2035	3,200,000.00	629,800.00	3,829,800.00	3,675,000.00	3,233,225.00	6,908,225.00	31.22%
2036	3,325,000.00	499,300.00	3,824,300.00	3,865,000.00	3,044,725.00	6,909,725.00	
2037	3,465,000.00	363,500.00	3,828,500.00	4,060,000.00	2,846,600.00	6,906,600.00	
2038	3,605,000.00	222,100.00	3,827,100.00	4,190,000.00	2,640,350.00	6,830,350.00	
2039	3,750,000.00	75,000.00	3,825,000.00	4,275,000.00	2,428,725.00	6,703,725.00	
2040	0.00	0.00	0.00	2,860,000.00	2,250,350.00	5,110,350.00	51.26%
2041	0.00	0.00	0.00	3,005,000.00	2,103,725.00	5,108,725.00	
2042	0.00	0.00	0.00	3,160,000.00	1,949,600.00	5,109,600.00	
2043	0.00	0.00	0.00	3,320,000.00	1,787,600.00	5,107,600.00	
2044	0.00	0.00	0.00	3,490,000.00	1,617,350.00	5,107,350.00	
2045	0.00	0.00	0.00	3,235,000.00	1,449,225.00	4,684,225.00	68.13%
2046	0.00	0.00	0.00	3,400,000.00	1,283,350.00	4,683,350.00	
2047	0.00	0.00	0.00	3,575,000.00	1,108,975.00	4,683,975.00	
2048	0.00	0.00	0.00	3,740,000.00	940,125.00	4,680,125.00	
2049	0.00	0.00	0.00	3,905,000.00	777,668.75	4,682,668.75	
2050	0.00	0.00	0.00	4,075,000.00	608,093.75	4,683,093.75	87.59%
2051	0.00	0.00	0.00	4,255,000.00	428,421.88	4,683,421.88	
2052	0.00	0.00	0.00	3,750,000.00	253,312.51	4,003,312.51	
2053	0.00	0.00	0.00	3,915,000.00	85,640.63	4,000,640.63	100.00%
TOTAL	\$ 40,845,000.00	\$ 12,730,550.00	\$ 50,557,150.00	\$ 93,910,000.00	\$ 63,722,873.08	\$ 160,651,273.08	

^(A) Excludes debt secured by the District's Maintenance & Operations tax revenue; see Table 12.

Table 10
TAX ADEQUACY WITH RESPECT TO THE DISTRICT'S OUTSTANDING
UNLIMITED TAX DEBT SERVICE REQUIREMENTS

Projected Maximum Principal and Interest Requirements, FYE August 31, 2027.....	\$	7,534,597
\$0.5255 Tax Rate at 97.5% Collections Produces.....	\$	7,637,042 ^(A)

^(A) Based on 2025/26 Taxable Assessed Valuation of \$1,490,554,472. Values are subject to change throughout the year as contested values are resolved and the Anderson County Appraisal District updates records. Tax rate calculation does not include funds projected to be received from State aid for debt service reimbursement for changes to property tax law. The District anticipates meeting its promised maximum \$0.10 I&S tax rate increase in fiscal year 2027. Preliminary, subject to change.

Table 11
AUTHORIZED BUT UNISSUED BONDS

Purpose	Date Authorized	Amount Authorized	Amount Issued	Remaining Balance
School Building and Security	4-Nov-25	\$ 60,000,000	\$ 60,000,000 ^(A)	\$ - ^(A)

^(A) Amount issued includes both principal and premium deposited into the District's construction fund and applied against the amount of authorization. The District has no other authorized but unissued bonds outstanding and does not currently have plans for another bond election in the next few years.

Table 12
OUTSTANDING LIMITED MAINTENANCE AND OPERATIONS TAX DEBT SERVICE

The District has the following debt outstanding from the sale of its Qualified School Construction Maintenance Tax Notes, Taxable Series 2014 (Direct-Pay Subsidy) (the "QSC Notes") issued to pay costs incurred in connection with the maintenance, repairs, rehabilitation or replacement of building systems of existing school properties. Debt service requirements are as follows:

Fiscal Year Ending 8/31	Outstanding Debt Requirements			Total Requirements
	Principal^(A)	Interest^(B)	Less Subsidy Payment^(B)	
2026	\$ 535,000.00	\$ 295,127.40	\$ (278,305.14)	\$ 551,822.26
2027	535,000.00	295,127.40	(278,305.14)	551,822.26
2028	535,000.00	295,127.40	(278,305.14)	551,822.26
2029	<u>570,000.00</u>	<u>295,127.40</u>	<u>(278,305.14)</u>	<u>586,822.26</u>
TOTAL	<u>\$ 2,175,000.00</u>	<u>\$ 1,180,509.60</u>	<u>\$ (1,113,220.55)</u>	<u>\$ 2,242,289.05</u>

^(A) Principal reflects the remaining sinking fund payments on the District's QSC Notes. The original principal amount of \$6,420,000 will be paid at maturity on August 15, 2029, from accumulated deposits within the sinking fund for the QSC Notes.

^(B) The projected Subsidy Payments reflect automatic reductions in federal spending due to the federal Balanced Budget and Emergency Deficit Control Act of 1985, as amended. The automatic reductions have included a cut in the subsidy payments made to issuers of qualified school construction obligations and such reductions are subject to change annually. For FY2026, the cut is a 5.7% reduction in the subsidy payments made to all issuers of qualified school construction obligations. Such percentage has been applied through final maturity to estimate future subsidy payments.

Table 13
CAPITAL LEASES

The District has no capital lease obligations as of August 31, 2025.

Table 14
COMBINED GENERAL FUND BALANCE SHEET

	Fiscal Years Ended August 31,				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets					
Cash and cash equivalents	\$ 4,141,874	\$ 3,679,486	\$ 6,312,112	\$ 7,231,072	\$ 6,355,706
Property taxes receivable, net	1,323,714	1,193,440	1,054,048	1,002,984	1,004,148
Due from other governments	2,251,373	3,744,440	693,632	1,881,538	1,627,283
Due from other funds	2,272,233	2,529,639	3,143,818	1,565,422	4,360,047
Other receivables	-	22,585	73,087	-	-
Inventories	18,093	13,197	13,384	11,760	9,551
Prepaid items	29,000	29,000	29,000	29,000	29,000
Total Assets	<u>\$ 10,036,287</u>	<u>\$ 11,211,787</u>	<u>\$ 11,319,081</u>	<u>\$ 11,721,776</u>	<u>\$ 13,385,735</u>
Liabilities					
Accounts payable	\$ 306,005	\$ 94,243	\$ 79,594	\$ 33,537	\$ 21,395
Accrued wages payable	1,787,152	1,723,013	1,743,568	1,667,316	2,025,476
Due to other funds	907,405	7,405	7,405	74,221	7,405
Unearned revenue	-	-	-	639,940	336,416
Total Liabilities	<u>\$ 3,000,562</u>	<u>\$ 1,824,661</u>	<u>\$ 1,830,567</u>	<u>\$ 2,415,014</u>	<u>\$ 2,390,692</u>
Deferred Inflows of Resources					
Unavailable revenue - property taxes	\$ 1,268,108	\$ 1,154,042	\$ 1,014,650	\$ 963,536	\$ 950,117
Total Deferred Inflows	<u>\$ 1,268,108</u>	<u>\$ 1,154,042</u>	<u>\$ 1,014,650</u>	<u>\$ 963,536</u>	<u>\$ 950,117</u>
Fund Balances					
Nonspendable fund balance					
Inventories	\$ 18,093	\$ 13,197	\$ 13,834	\$ 11,760	\$ 9,551
Prepaid items	29,000	29,000	29,000	29,000	29,000
Committed fund balance					
Construction	-	-	-	-	-
Unassigned fund balance	5,720,524	8,190,887	8,431,480	8,302,416	10,006,405
Total Fund Balances	<u>\$ 5,767,617</u>	<u>\$ 8,233,084</u>	<u>\$ 8,474,314</u>	<u>\$ 8,343,176</u>	<u>\$ 10,044,956</u>
Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 10,036,287</u>	<u>\$ 11,211,787</u>	<u>\$ 11,319,531</u>	<u>\$ 11,721,726</u>	<u>\$ 13,385,765</u>

Source: District's Audited Financial Statements and District records.

Table 15
STATEMENT OF GENERAL FUND REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

	Fiscal Years Ended August 31,				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Revenues					
Local and intermediate sources	\$ 13,056,249	\$ 12,993,005	\$ 14,767,968	\$ 13,853,691	\$ 13,226,916
State program revenues	25,457,508	27,004,651	23,271,351	23,602,916	23,436,091
Federal program revenues	416,020	389,254	1,173,095	839,081	1,104,864
Total Revenues	<u>\$ 38,929,777</u>	<u>\$ 40,386,910</u>	<u>\$ 39,212,414</u>	<u>\$ 38,295,688</u>	<u>\$ 37,767,871</u>
Expenditures					
Instruction	\$ 21,205,935	\$ 21,813,483	\$ 19,332,375	\$ 18,670,223	\$ 20,248,490
Instructional resources & media	131,886	136,992	139,994	164,228	185,896
Curriculum & staff development	531,265	400,108	387,271	431,198	291,110
Instructional leadership	910,467	921,998	630,866	796,384	662,879
School leadership	2,277,504	2,120,063	1,586,225	2,314,565	852,180
Guidance, counseling & evaluation	1,714,288	1,568,687	1,136,553	1,272,495	1,250,111
Social work services	160,487	133,238	10,537	132,462	149,791
Health services	301,749	269,025	239,625	237,058	234,560
Pupil transportation	1,973,818	2,589,494	2,418,126	1,821,082	1,182,341
Food service	196,126	3,241	497	4	7,204
Extracurricular activities	1,810,703	2,000,353	2,023,275	1,423,373	1,499,623
General administration	1,752,037	1,546,762	1,523,698	1,450,572	1,541,783
Plant maintenance & operations	5,455,855	4,308,447	5,925,946	5,236,902	4,169,592
Security and monitoring	1,062,173	917,080	685,104	579,426	371,594
Data processing	1,118,654	1,125,860	1,291,709	920,701	1,025,004
Community services	115,026	101,662	13,352	7,183	9,519
Debt service	296,228	296,403	298,127	298,127	298,127
Facilities acquisition & constr.	-	-	1,104,552	29,306	-
Intergovernmental	381,043	375,244	333,444	325,755	315,790
Total Expenditures	<u>\$ 41,395,244</u>	<u>\$ 40,628,140</u>	<u>\$ 39,081,276</u>	<u>\$ 36,111,044</u>	<u>\$ 34,295,594</u>
Excess (deficiency) of revenues & over (under) expenditures	\$ (2,465,467)	\$ (241,230)	\$ 131,138	\$ 2,184,644	\$ 3,472,277
Other financing sources (uses)					
Transfers in	\$ -	\$ -	\$ -	\$ 87,752	\$ -
Transfers out	-	-	-	(3,974,176)	(4,739,438)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,886,424)</u>	<u>\$ (4,739,438)</u>
Net changes in fund balance	\$ (2,465,467)	\$ (241,230)	\$ 131,138	\$ (1,701,780)	\$ (1,267,161)
Fund Balance, beginning	<u>8,233,084</u>	<u>8,474,314</u>	<u>8,343,176</u>	<u>10,044,956</u>	<u>11,312,117</u>
Fund Balance, ending	<u>\$ 5,767,617</u>	<u>\$ 8,233,084</u>	<u>\$ 8,474,314</u>	<u>\$ 8,343,176</u>	<u>\$ 10,044,956</u>

Source: District's Audited Financial Statements and District records.

Table 16
STATEMENT OF ACTIVITIES^(A)

	Fiscal Years Ending August 31,				
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Program Revenues					
Charges for Services	\$ 995,459	\$ 955,674	\$ 1,059,895	\$ 919,132	\$ 784,986
Operating Grants and Contributions	9,112,826	10,501,794	14,610,684	10,499,123	12,643,168
Total Program Revenues	\$ 10,108,285	\$ 11,457,468	\$ 15,670,579	\$ 11,418,255	\$ 13,428,154
General Revenues					
Property Taxes	\$ 15,728,067	\$ 15,383,104	\$ 16,940,269	\$ 16,398,947	\$ 16,259,546
State Aid - formula grants	23,346,129	24,915,085	21,557,707	21,888,639	21,422,659
Grants & Contributions not Restricted	-	-	-	-	31,880
Investment Earnings	539,934	641,306	478,414	38,791	72,781
Other	1,288,544	1,530,726	1,921,356	1,306,126	1,841,116
Total General Revenues	\$ 40,902,674	\$ 42,470,221	\$ 40,897,746	\$ 39,632,503	\$ 39,627,982
Total Revenues.....	\$ 51,010,959	\$ 53,927,689	\$ 56,568,325	\$ 51,050,758	\$ 53,056,136
Expenses					
Instruction	\$ 22,190,915	\$ 24,625,840	\$ 24,518,285	\$ 21,555,281	\$ 23,753,256
Instructional resources & media	500,465	510,663	559,908	558,874	597,636
Curriculum & staff development	1,242,857	1,484,138	1,487,109	1,099,634	1,325,089
Instructional leadership	1,507,423	1,758,380	1,751,498	1,541,993	1,493,382
School leadership	2,095,554	2,089,780	2,493,964	2,508,562	2,674,937
Guidance, counseling & evaluation	2,307,150	2,357,941	2,337,455	2,123,788	2,100,049
Social work services	153,466	129,316	77,400	125,044	195,524
Health services	282,721	258,378	234,253	221,625	244,515
Pupil transportation	2,185,468	2,519,716	2,336,470	2,014,904	1,635,092
Food services	3,690,645	3,757,544	2,941,688	2,424,689	2,525,288
Extracurricular activities	2,604,876	2,925,186	2,959,627	2,208,185	2,183,849
General administration	1,795,455	1,583,381	1,593,531	1,436,504	1,645,477
Plant maintenance & operations	6,066,496	4,810,906	6,033,642	5,637,509	4,351,418
Security and monitoring	1,048,360	1,062,806	1,263,560	678,244	493,903
Data processing	1,116,317	1,108,396	1,278,740	956,194	1,050,300
Community services	575,692	633,032	617,552	368,552	376,098
Debt service	2,097,958	2,198,347	2,295,204	2,385,899	2,472,209
Intergovernmental	381,043	375,244	333,444	325,755	315,790
Total Expenses.....	\$ 51,842,861	\$ 54,188,994	\$ 55,113,330	\$ 48,171,236	\$ 49,433,812
Increase (decrease) in net assets	\$ (831,902)	\$ (261,305)	\$ 1,454,995	\$ 2,879,522	\$ 3,622,324
Net Position, beginning	(1,937,227)	(1,675,922)	(3,130,917)	(6,010,439)	(9,632,763)
Prior period adjustment	-	-	-	-	-
Net Position, ending	\$ (2,769,129)	\$ (1,937,227)	\$ (1,675,922)	\$ (3,130,917)	\$ (6,010,439)

Source: District's Audited Financial Statements and District records.

^(A) Audited financial operations for all governmental activities in accordance with GASB Statement No. 34.

APPENDIX B
GENERAL INFORMATION REGARDING
THE DISTRICT AND ITS ECONOMY

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

Palestine Independent School District (the “District”) consists of approximately 221 square miles. The District is in Anderson County, Texas (the “County”) and includes the City of Palestine, which is located at the intersection of U.S. Highways 79, 84, and 287. The County is an east Texas county located between the Trinity and Neches Rivers with an economy based on agriculture, manufacturing, mineral production and tourism. Anderson County has a 2025 estimated population of 60,303, up from the 2020 census population of 57,922. The City of Palestine has a 2025 estimated population of 19,583, up from the 2020 census population of 18,538. The District is located approximately 95 miles southeast of Dallas, Texas and approximately 135 miles north of Houston, Texas. The District has a current student enrollment of 3,151.

The District is governed by a seven-member Board of Trustees. All of the Trustees are elected at large and serve without compensation.

Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board; other District officials are employed as a result of action by the Superintendent and the Board.

DISTRICT ENROLLMENT INFORMATION

Scholastic Enrollment History

<u>Fiscal Year</u>	<u>Actual Enrollment</u>	<u>Increase/(Decrease)</u>	
		<u>Number</u>	<u>Percentage</u>
2015/16	3,385	32	0.95%
2016/17	3,455	70	2.07%
2017/18	3,414	-41	-1.19%
2018/19	3,393	-21	-0.62%
2019/20	3,436	43	1.27%
2020/21	3,400	-36	-1.05%
2021/22	3,361	-39	-1.15%
2022/23	3,297	-64	-1.90%
2023/24	3,247	-50	-1.52%
2024/25	3,186	-61	-1.88%
2025/26 ^(A)	3,151	-35	-1.10%

^(A) As of February 27, 2026.
Source: District Records.

Projected Student Enrollment

<u>Fiscal Year</u>	<u>Projected Enrollment</u>	<u>Increase/(Decrease)</u>	
		<u>Number</u>	<u>Percentage</u>
2026/27	3,150	-1	0.03%
2027/28	3,145	-5	0.16%
2028/29	3,145	0	0.00%
2029/30	3,145	0	0.00%
2030/31	3,145	0	0.00%

Source: District Records.

Student Enrollment by Grades

<u>Year</u>	<u>EE</u>	<u>PK</u>	<u>K</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>7</u>	<u>8</u>	<u>9</u>	<u>10</u>	<u>11</u>	<u>12</u>	<u>Total</u>
2015/16	4	187	245	262	267	278	247	235	254	243	236	278	238	236	175	3,385
2016/17	6	191	268	248	266	251	269	252	239	252	241	274	250	230	218	3,455
2017/18	0	191	246	258	229	259	22	266	243	251	253	270	263	222	211	3,414
2018/19	5	173	245	249	240	222	253	245	258	257	262	295	237	245	207	3,393
2019/20	4	259	260	258	215	237	212	256	231	259	258	287	265	211	224	3,436
2020/21	3	217	232	259	236	203	237	227	261	242	267	273	262	272	209	3,400
2021/22	0	228	245	39	231	237	207	218	214	266	236	312	245	255	228	3,361
2022/23	0	221	215	250	222	225	237	22	214	226	267	277	267	241	213	3,297
2023/24	2	215	216	225	244	216	221	233	219	218	222	282	253	265	216	3,247
2024/25	1	214	190	210	208	234	206	224	240	225	231	258	266	251	228	3,186
2025/26 ^(A)	1	218	201	193	214	209	231	218	234	256	231	249	242	236	218	3,151

* As of February 27, 2026.

Source: District Records.

EMPLOYMENT OF THE DISTRICT

	<u>2025/26</u>
Teachers	235
Administrators and Other Professional Staff	72
Teachers Aids and Secretaries	166
Auxiliary Employees	<u>66</u>
Total Number of Employees	539

The District employs a staff of approximately 539. Beginning with the 2025/26 school year, entry level teachers without advanced degrees earn \$44,000 annually. Teachers with advanced degrees and longevity can earn annual salaries starting at \$44,500 and increasing. All teachers receive life and health insurance benefits worth approximately \$325 monthly.

Source: District records.

PRESENT SCHOOL FACILITIES

<u>Name of Facility</u>	<u>Grades Served</u>	<u>Present Enrollment</u> ^(A)	<u>Planned Capacity</u> ^(B)	<u>Under Capacity</u>
Palestine High School	9-12	945	1,000	55
Palestine Middle School	7-8	487	750	263
Story Elementary School	4-6	683	1,000	317
Southside Primary School	2-3	423	750	327
Northside Early Childhood Center	K-1	394	750	356
Washington Early Childhood Center	EE-PK	<u>219</u>	<u>250</u>	<u>31</u>
Total		<u>3,151</u>	<u>4,500</u>	<u>1,349</u>

^(A) As of February 1, 2026.

^(B) Includes portable buildings.

Source: District Records.

THE COUNTY

Comparative Unemployment Rates

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025^(A)</u>
Anderson County	5.8%	4.0%	4.1%	4.4%	4.0%
State of Texas	5.6%	3.9%	4.0%	4.1%	3.9%
United States of America	5.3%	3.6%	3.6%	4.0%	4.3%

^(A) December 2025 monthly read for Anderson County and the State of Texas; annual data for the United States.
Source: Labor Market Information Department, Texas Workforce Commission.

Major Employers

Major employers within the City of Palestine include the following.

<u>Company</u>	<u>Type of Business</u>	<u>Estimated No. of Employees</u>
Wayne-Sanderson Farms	Food Production	1,130
Walmart Distribution Center #6036	Distribution	865
Walmart Distribution Center #66005	Distribution	430
Palestine ISD	Public Education	585
Palestine Regional Medical Center	Healthcare	510
Walmart Supercenter #345	Retail Sales	365
Westwood ISD	Public Education	280
Anderson County	Government/County	250
City of Palestine	Government/City	200
Eagle Railcar Services	Railcar Repair & Maintenance	170
Lowe's Home Improvement	Retail	130
Legacy at Town Creek	Senior Living	125
Christus Trinity Clinic	Healthcare	110
MKS Services	Oil & Gas	100
Kroger's	Retail Sales	100
Kim's Convenience Stores	Retails Convenience Stores	100
Tampico	Beverage Manufacturing	90
Brookshire's	Retail Sales	80
Greenbriar Nursing Home	Elder Care	70
Pentecom	Data Conversion & Storage	60
Palestine Healthcare Center	Healthcare	55
Best Block	Concrete Block Mfg	50
Ben E. Keith Co.	Beverage Distribution	45
National Scientific Balloon Base	Scientific Research	45
Trinity Valley Community College	Community College	42

Source: Palestine Economic Development Corporation.

APPENDIX C

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

APPENDIX C

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

The regular session of the 89th Texas Legislature (the “Legislature”) convened on January 14, 2025, and concluded on June 2, 2025. The Legislature meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call one or more special sessions, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor called a first special session, which began on July 21, 2025, and ended on August 15, 2025. The Governor called a second special session, which began on August 15, 2025, and ended on September 4, 2025 (the regular session together with the special sessions may hereinafter be referred to as the “89th Legislative Session”). The TEA, the State Board of Education (the “SBOE”), and the Texas Permanent School Fund Corporation (the “PSF Corporation”) are in the process of monitoring the implementation of legislation signed by the Governor and make no representation regarding any actions taken by the Legislature in the 89th Legislative Session that may materially impact themselves, the Guarantee Program, the Act, and Texas school finance in general.

History and Purpose

The PSF supports the State’s public school system in two major ways: distributions to the constitutionally established Available School Fund (the “ASF”), as described below, and the guarantee of school district and charter district issued bonds through the Guarantee Program. The PSF was created in 1845 and received its first significant funding with a \$2,000,000 appropriation by the Legislature in 1854 expressly for the benefit of the public schools of Texas, with the sole purpose of assisting in the funding of public education for present and future generations. The Constitution of 1876 described that the PSF would be “permanent,” and stipulated that certain lands and all proceeds from the sale of these lands should also constitute the PSF. Additional acts later gave more public domain land and rights to the PSF. In 1953, the U.S. Congress passed the Submerged Lands Act that relinquished to coastal states all rights of the U.S. navigable waters within state boundaries. If the State, by law, had set a larger boundary prior to or at the time of admission to the Union, or if the boundary had been approved by Congress, then the larger boundary applied. After three years of litigation (1957-1960), the U.S. Supreme Court on May 31, 1960, affirmed Texas’ historic three marine leagues (10.35 miles) seaward boundary. Texas proved its submerged lands property rights to three leagues into the Gulf of Mexico by citing historic laws and treaties dating back to 1836. All lands lying within that limit belong to the PSF. The proceeds from the sale and the mineral-related rental of these lands, including bonuses, delay rentals and royalty payments, become the corpus of the Fund. Prior to the approval by the voters of the State of an amendment to the constitutional provision under which the Fund was established and administered, which occurred on September 13, 2003 (the “Total Return Constitutional Amendment”), and which is further described below, only the income produced by the PSF could be used to complement taxes in financing public education, which primarily consisted of income from securities, capital gains from securities transactions, and royalties from the sale of oil and natural gas. The Total Return Constitutional Amendment provides that interest and dividends produced by Fund investments will be additional revenue to the PSF.

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

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

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

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

Audited financial information for the PSF is provided annually through the PSF Corporation’s Annual Comprehensive Financial Report (the “Annual Report”), which is filed with the Municipal Securities Rulemaking Board (“MSRB”). The Texas School Land Board’s (the “SLB”) land and real assets investment operations, which are part of the PSF as described below, are also included in the annual financial report of the Texas General Land Office (the “GLO”) that is included in the annual comprehensive report of the State of Texas. The Annual Report includes the Message From the Chief Executive Officer of the PSF Corporation (the “Message”) and the Management’s Discussion and Analysis (“MD&A”). The Annual Report for the year ended August 31, 2025, as filed with the MSRB in accordance with the PSF undertaking and agreement made in accordance with Rule 15c2-12 (“Rule 15c2-12”) of the United States Securities and Exchange Commission (the “SEC”), as described below, is hereby incorporated by reference into this disclosure. Information included herein for the year ended August 31, 2025, is derived from the audited financial statements of the PSF, which are included in the Annual Report as it is filed and posted. Reference is made to the Annual Report for the complete Message and MD&A for the year ended August 31, 2025, and for a description of the financial results of the PSF for the year ended August 31, 2025, the most recent year for which audited financial information regarding the Fund is available. The 2025 Annual Report speaks only as of its date and the PSF Corporation has not obligated itself to update the 2025 Annual Report or any other Annual Report. The PSF Corporation posts (i) each Annual Report, which includes statistical data regarding the Fund as of the close of each fiscal year, (ii) the most recent disclosure for the Guarantee Program, (iii) the PSF Corporation’s Investment Policy Statement (the “IPS”), and (iv) monthly updates with respect to the capacity of the Guarantee Program (collectively, the “Web Site Materials”) on the PSF Corporation’s web site at <https://texaspsf.org> and with the MSRB at www.emma.msrb.org. Such monthly updates regarding the Guarantee Program are also incorporated herein and made a part hereof for all purposes. In addition to the Web Site Materials, the Fund is required to make quarterly filings with the SEC under Section 13(f) of the Securities Exchange Act of 1934. Such filings, which consist of a list of the Fund’s holdings of securities as required by Section 13(f), are available from the SEC at www.sec.gov/edgar. A list of the Fund’s equity and fixed income holdings as of August 31 of each year is posted to the PSF Corporation’s web site and filed with the MSRB. Such list excludes holdings in the Fund’s securities lending program. Such list, as filed, is incorporated herein and made a part hereof for all purposes.

Management and Administration of the Fund

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

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

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

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

Annual Distributions to the Available School Fund⁽¹⁾

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

⁽¹⁾ In millions of dollars. Source: Annual Report for year ended August 31, 2025.

⁽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>
SBOE Distribution Rate ⁽¹⁾	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 and allows for the use of derivatives and other leverage. The IPS provides that the Fund’s investment objectives are as follows:

- Generate continuous distributions for the benefit of public schools in Texas;
- Maintain purchasing power, after spending, inflation, and student population growth, in order to maintain intergenerational equity with respect to distributions;
- Provide a maximum level of return consistent with prudent risk levels, while maintaining sufficient liquidity needed to support distributions and BGP obligations; and
- Strive to maintain a AAA credit rating, as assigned by a Nationally Recognized Securities Rating Organization.

The table below sets forth the current strategic asset allocation of the Fund that was adopted, effective January 1, 2026 (which is subject to change from time to time):

The table below sets forth the current strategic asset allocation of the Fund that was adopted, effective January 1, 2026 (which is subject to change from time to time):

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

⁽¹⁾ Range reflect threshold approved by the Board. Subtracted results will not go below zero.

The table below sets forth the comparative investments of the PSF for the fiscal years ending August 31, 2024 and 2025, as set forth in the Annual Report for the 2025 fiscal year. As of January 1, 2023, the assets of the PSF(SBOE) and the PSF(SLB) were generally combined (referred to herein as the PSF(CORP)) for investment management and accounting purposes.

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Comparative Investment Schedule – PSF(CORP)

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

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

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

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

Investment Schedule - PSF(SLB)⁽¹⁾

Fair Value (in millions) August 31, 2025

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

⁽¹⁾ Unaudited figures from Table 5 in the FY 2025 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

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

⁽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 investment or operational limitations impacted by Texas law or legislative appropriation. The Guarantee Program could also be impacted by changes in State or federal law or regulations or the implementation of new accounting standards.

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The School District Bond Guarantee Program

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

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

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

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

Generally, the regulations that govern the School District Bond Guarantee Program (the "SDBGP Rules") limit guarantees to certain types of notes and bonds, including, with respect to refunding bonds issued by school districts, a requirement that the bonds produce debt service savings. The SDBGP Rules include certain accreditation criteria for districts applying for a guarantee of their bonds, and limit guarantees to districts that have less than the amount of annual debt service per average daily attendance that represents the 90th percentile of annual debt service per average daily attendance for all school districts, but such limitation will not apply to school districts that have enrollment growth of at least 25% over the previous five school years. The SDBGP Rules are codified in the Texas Administrative Code at 19 TAC section 33.6 and are available at <https://tea.texas.gov/finance-and-grants/state-funding/facilities-funding-and-standards/bond-guarantee-program>.

The Charter District Bond Guarantee Program

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

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

Pursuant to the CDBGP Rules, the Education Commissioner annually determines the ratio of charter district students to total public school students, for the 2026 fiscal year, the ratio is 8.17%. At February 23, 2026, there were 182 active open-enrollment charter schools in the State and there were 1,027 charter school campuses authorized under such charters, though as of such date, 41 of such campuses are not currently serving students for various reasons; therefore, there are 986 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see “Capacity Limits for the Guarantee Program.” The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

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

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

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

As of December 31, 2025, the estimated State Capacity Limit is \$181,696,286,251, which is lower than the IRS Limit, making the State Capacity Limit the current Capacity Limit for the Fund.

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of

outstanding guaranteed bonds issued by charter districts. At December 31, 2025, the Charter District Reserve Fund contained \$153,914,605, which represented approximately 2.61% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations

Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
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⁾	47,047,688,784	62,766,382,537
2024 ⁽²⁾	50,832,583,937	66,549,781,438

⁽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, 2025, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.3 million, and \$830.7 million, respectively, and market values of approximately \$4,872.7 million, \$279.8 million, \$153.1 million, and \$989.2 million, respectively.

Permanent School Fund Guaranteed Bonds

At 8/31	Principal Amount ⁽¹⁾
2021	\$95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603
2025	143,940,955,098 ⁽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, 2025 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$230,761,751,555, of which \$86,820,796,457 represents interest to be paid. As shown in the table above, at August 31, 2025, there were \$143,940,955,098 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$181,696,286,251 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2025, 7.86% of the Guarantee Program’s capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2025, the amount of outstanding bond guarantees represented 79.16% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended 8/31	School District Bonds		Charter District Bonds		Totals	
	No. of Issues	Principal Amount (\$)	No. of Issues	Principal Amount (\$)	No. of Issues	Principal Amount (\$)
2021	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682
2024	3,330	121,046,871,603	103	4,769,110,000	3,433	125,815,981,603
2025 ⁽²⁾	3,444	138,140,381,098	113	5,800,574,000	3,557	143,940,955,098

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

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

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

The following discussion is derived from the Annual Report for the year ended August 31, 2025, including the Message from the Chief Executive Officer of the Fund, the Management’s Discussion and Analysis, and other schedules contained therein. Reference is made to the Annual Report, as filed with the MSRB, for the complete Message and MD&A. Investment assets managed by the PSF Corporation are referred to throughout this MD&A as the PSF(CORP). The Fund’s non-financial real assets are managed by the SLB and these assets are referred to throughout as the PSF(SLB) assets.

At the end of fiscal year 2025, the PSF(CORP) net position was \$60.6 billion. During the year, the PSF(CORP) continued updating and implementing the long-term strategic asset allocation, diversifying the investment mix to strengthen the Fund. The asset allocation aims to pursue the objectives of the Fund at an acceptable risk level. The PSF(CORP) is invested in global markets and liquid and illiquid assets experience volatility commensurate with the related indices. The PSF(CORP) is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted, and implemented to make the cost structure more effective and efficient. The PSF(CORP) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2025, net of fees, were 8.20%, 7.95%, and 7.40%, respectively (total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund’s investments). See “Comparative Investment Schedule - PSF(CORP)” for the PSF(CORP) holdings as of August 31, 2025.

Effective February 1, 2024, Texas PSF transitioned into a new strategic asset allocation. The new allocation of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as discussed herein. Alternative assets now include private credit¹, absolute return, private equity, real estate, natural resources, and infrastructure. For a description of the accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2025 Annual Report which is included by reference herein.

PSF Returns Fiscal Year Ended 8-31-2025⁽¹⁾

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

⁽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, 2025.

⁽²⁾Benchmarks are as set forth in the Annual Report for year ended August 31, 2025.

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, mineral and royalty interest, and real property holdings. For more information regarding the investments of the PSF(SLB), please see the 2025 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.

The Fund directly supports the public school system in the State by distributing a predetermined percentage of its asset value to the ASF. In fiscal year 2025, \$2.2 billion was distributed to the ASF, \$600 million of which was distributed by the PSF(CORP) on behalf of the SLB.

Other Events and Disclosures

State ethics laws govern the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education

¹ The Private Credit asset class was renamed Private Debt, beginning in October 2024.

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

PSF Continuing Disclosure Undertaking

As of March 1, 2023, the TEA's undertaking pursuant to Rule 15c2-12 (the "TEA Undertaking") pertaining to the PSF and the Guarantee Program, is codified at 19 TAC 33.8, which relates to the Guarantee Program and is available at [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 different bases of accounting.

The PSF Corporation reports as a special-purpose government engaged in business-type activities and reports to the State of Texas as a discretely presented component unit accounted for on an economic resources measurement focus and the accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the accrual basis of accounting, all revenues reported

are recognized in the period they are earned or when the PSF Corporation has a right to receive them. Expenses are recognized in the period they are incurred, and the subsequent amortization of any deferred outflows. Additionally, costs related to capital assets are capitalized and subsequently depreciated over the useful life of the assets. Both current and long-term assets and liabilities are presented in the statement of net position.

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

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

Event Notices

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

Availability of Information

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

Limitations and Amendments

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

its usefulness to a decision to invest in or sell bonds at any future date. The TEA and the PSF Corporation disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the TEA and the PSF Corporation to comply with its agreement.

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

APPENDIX D

**FORMS OF CO-BOND COUNSEL'S OPINIONS
AND TAX COUNSEL'S OPINION**



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_____, 2026

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

PALESTINE INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING AND REFUNDING BONDS, SERIES 2026, dated May 1, 2026, in the principal amount of \$93,910,000 and maturing on August 15, 2026 and on February 15 in the years 2027 through 2047, inclusive, and in the years 2050 and 2053. The Bonds are issuable in fully-registered form only, in denominations of \$5,000 of the principal amount or integral multiples thereof, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds, in the bond order (the “*Bond Order*”) adopted by the Board of Trustees of the District authorizing their issuance and delegating the pricing of the Bonds and certain other matters to a “Pricing Officer” who approved and executed a Pricing Certificate, which completed the sale of the Bonds (the “*Pricing Certificate*” and, together with the Bond Order, the “*Order*”). Capitalized terms used herein and not otherwise defined shall have the meanings so assigned in the Order.

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

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the

Bonds. Our role in connection with the District's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

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

(A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District, enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions, and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with existing law; and

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

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

Respectfully submitted,



_____, 2026

WE HAVE ACTED AS SPECIAL TAX COUNSEL (“*Special Tax Counsel*”) to the PALESTINE INDEPENDENT SCHOOL DISTRICT (the “*District*”) in connection with the issuance by the District of its Unlimited Tax School Building and Refunding Bonds, Series 2026 in the aggregate principal amount of \$93,910,000 (the “*Bonds*”). The Bonds are authorized pursuant to an election held November 4, 2025, and a bond order Authorizing the Issuance of Palestine Independent School District Unlimited Tax School Building and Refunding Bonds, Series 2026, adopted on February 12, 2026, by the Board of Trustees of the District (the “*Bond Order*”) and Delegating the Pricing of the Bonds and certain other matters to a “Pricing Officer” who approved and executed a Pricing Certificate, which completed the sale of the Bonds (the “*Pricing Certificate*” and, together with the Bond Order, the “*Order*”).

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

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

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

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

WE NOTE THAT the Bonds have not been designated as “qualified tax-exempt obligations” under Section 265 of the Code.

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

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

Respectfully submitted,

FBT Gibbons LLP

APPENDIX E

**AUDITED FINANCIAL STATEMENT
FOR THE YEAR ENDED AUGUST 31, 2025**

INDEPENDENT AUDITOR'S REPORT

Board of Trustees of
Palestine Independent School District
Palestine, Texas

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

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 Palestine Independent School District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

OFFICE LOCATIONS

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

Auditor's Responsibility 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 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 Palestine Independent School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Palestine Independent School District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Palestine Independent School District’s basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, required TEA schedules 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 12, 2026, on our consideration of the Palestine Independent School District’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of 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 Palestine Independent School District’s internal control over financial reporting and compliance.

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

Waco, Texas
February 12, 2026

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Palestine Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2025. We encourage readers to consider the information presented here in conjunction with the financial statements.

FINANCIAL HIGHLIGHTS

- The liabilities and deferred inflows of resources of the District exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by (\$2,769,129) (*net position - deficit*). Of this amount, (\$21,286,294) (*unrestricted net position - deficit*) may be used to meet the District's ongoing obligations.
- As of the close of the fiscal year, the District's governmental funds reported combined ending fund balances of \$15,761,466, a decrease of \$1,185,152 in comparison with the prior year. \$5,634,144 is available for spending at the District's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,720,524, or 14% of total General Fund expenditures.

USING THIS ANNUAL FINANCIAL REPORT

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

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. The remaining statements, the fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

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

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

Proprietary Funds - The District maintains one type of proprietary fund. An internal service fund is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses an internal service fund to account for the management of its retained risks for worker's compensation. This service has been included within governmental activities in the government-wide financial statements.

The internal service fund is included in a single column on the proprietary fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

Net position of the District's governmental activities decreased from (\$1,937,227) to (\$2,769,129) as shown in Table 1. Unrestricted net position was (\$21,286,294) at August 31, 2025 as shown in Table 1.

Unrestricted net position reflects a deficit primarily as a result of the District's proportionate shares of the TRS pension and OPEB liabilities presented in accordance with GASB 68 and GASB 75, respectively. The total district liability is reported in the governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the TRS-Care plan is funded on a pay-as-you-go basis. The District has made all contractually required contributions as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors.

The District's total revenues decreased by \$2,916,730, primarily as the result of a decrease in federal grant funding.

The cost of all governmental activities this year as shown in the Statement of Activities was \$51,842,861 compared to \$54,188,994 last year. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was \$15,728,067 because some of the costs were paid by other government and organizations that subsidized certain programs with grants and contributions.

TABLE 1
CONDENSED SCHEDULE OF NET POSITION

	Governmental Activities	
	2025	2024
Assets:		
Current and other assets	\$ 20,920,625	\$ 21,719,767
Capital assets	<u>51,365,284</u>	<u>54,775,332</u>
Total assets	<u>72,285,909</u>	<u>76,495,099</u>
Deferred Outflows of Resources:		
Deferred charge for refunding	4,681,208	5,015,580
Teacher Retirement System	<u>9,315,182</u>	<u>12,440,355</u>
Total deferred outflows of resources	<u>13,996,390</u>	<u>17,455,935</u>
Liabilities:		
Long-term liabilities	72,848,650	80,699,183
Other liabilities	<u>2,514,023</u>	<u>2,331,662</u>
Total liabilities	<u>75,362,673</u>	<u>83,030,845</u>
Deferred Inflows of Resources:		
Teacher Retirement System	<u>13,688,755</u>	<u>12,857,416</u>
Net position:		
Net investment in capital assets	8,736,361	9,589,343
Restricted	9,780,804	8,478,094
Unrestricted	<u>(21,286,294)</u>	<u>(20,004,664)</u>
Total net position	<u>\$ (2,769,129)</u>	<u>\$ (1,937,227)</u>

TABLE 2
CONDENSED SCHEDULE OF CHANGES IN NET POSITION

	Governmental Activities	
	2025	2024
REVENUES		
Program revenues:		
Charges for services	\$ 995,459	\$ 955,674
Operating grants and contributions	9,112,826	10,501,794
General revenues:		
Maintenance and operations taxes	11,780,514	11,591,433
Debt service taxes	3,947,553	3,791,671
State aid - formula grants	23,346,129	24,915,085
Investment earnings	539,934	641,306
Miscellaneous local & intermediate revenue	<u>1,288,544</u>	<u>1,530,726</u>
Total revenues	<u>51,010,959</u>	<u>53,927,689</u>
EXPENSES		
Instruction	22,190,915	24,625,840
Instructional resources and media services	500,465	510,663
Curriculum and staff development	1,242,857	1,484,138
Instructional leadership	1,507,423	1,758,380
School leadership	2,095,554	2,089,780
Guidance, counseling, and evaluation services	2,307,150	2,357,941
Social work services	153,466	129,316
Health services	282,721	258,378
Student (pupil) transportation	2,185,468	2,519,716
Food service	3,690,645	3,757,544
Extracurricular activities	2,604,876	2,925,186
General administration	1,795,455	1,583,381
Facilities maintenance and operations	6,066,496	4,810,906
Security and monitoring services	1,048,360	1,062,806
Data processing services	1,116,317	1,108,396
Community services	575,692	633,032
Debt service - interest on long-term debt	2,096,658	2,196,872
Debt service - bond issuance cost and fees	1,300	1,475
Other intergovernmental charges	<u>381,043</u>	<u>375,244</u>
Total expenses	<u>51,842,861</u>	<u>54,188,994</u>
Increase/(Decrease) in net position	(831,902)	(261,305)
NET POSITION, BEGINNING	<u>(1,937,227)</u>	<u>(1,675,922)</u>
NET POSITION, ENDING	<u>\$ (2,769,129)</u>	<u>\$ (1,937,227)</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented on the balance sheet in the annual financial report) reported a combined fund balance of \$15,761,466, which is less than last year's total of \$16,946,618. This decrease occurred primarily as a result of decreases in state allotment revenue.

Over the course of the year, the Board of Trustees revised the District's budget several times. Budget amendments were made which involved moving funds from departments/programs that did not need all appropriated resources to programs with additional needs.

The District's General Fund balance of \$5,767,617 reported in the financials differs from the General Fund's budgetary fund balance of \$8,233,084 reported in the budgetary comparison schedule. This accompanied an overall decrease in fund balance of \$2,465,467 in the General Fund.

CAPITAL ASSETS AND LONG-TERM LIABILITIES

Capital Assets

As of August 31, 2025, the District had \$51,365,284 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. Significant capital additions during the year included the purchase of 2 new Ford trucks totaling \$130,474. Additional detailed information about the District's capital assets is presented in the notes to the financial statements.

Long-Term Liabilities

As of August 31, 2025, the District had total long-term debt outstanding which totaled \$51,555,131. This is a decrease of \$5,508,990 from August 31, 2024. The main reason for the decrease was regular debt service payments during the year.

The District also reported a net pension liability of \$12,349,860 and a net OPEB liability of \$8,943,659 as presented in accordance with GASB 68 and GASB 75, respectively.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's property valuation increased slightly compared to the prior year. Local property tax rates were restricted by state statute in HB 1 of the 79th State Legislature, without local elections, to \$1.04 for maintenance and operation. When this statute was enacted, the state funding formula was changed to provide state funds to replace the lost local property tax revenue. This change and other legislative changes in funding could impact the District's financial operations including cash flows. In the special legislative session of the 82nd State Legislature, state funding calculations were again changed resulting in a decrease of state funds. Subsequent legislative action has left funding mechanisms mostly unchanged.

Changes in the student population will continue to affect state funding. Property values have leveled as has the student population, resulting in steady state funding. Gains or losses in appraised values will not change the total revenue received by the District under the current state funding formula; they will simply cause a shift between state and local funding with the total revenue remaining the same. Because the District has had a tax rate ratification election and is now operating with the maximum tax rate for maintenance and operations, the only source of additional state revenue is additional students. Barring legislative action, the student population will continue to be the biggest factor in the District's financial position in future years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Palestine Independent School District, 1007 E. Park Avenue, Palestine, TX 75801.

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BASIC FINANCIAL STATEMENTS

PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

AUGUST 31, 2025

Control Codes		Governmental Activities
ASSETS		
1110	Cash and cash equivalents	\$ 15,385,043
1220	Property taxes receivable (delinquent)	1,854,829
1230	Allowance for uncollectible taxes	(92,741)
1240	Due from other governments	3,718,781
1290	Other receivables	7,620
1300	Inventories	18,093
1410	Prepayments	29,000
	Capital assets:	
1510	Land	2,472,007
1520	Buildings, net	46,834,984
1530	Furniture and equipment, net	<u>2,058,293</u>
1000	Total assets	<u>72,285,909</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred charge for refunding	4,681,208
1705	Deferred outflows related to NPL	3,994,203
1706	Deferred outflows related to OPEB	<u>5,320,979</u>
1700	Total deferred outflows of resources	<u>13,996,390</u>
LIABILITIES		
2110	Accounts payable	566,138
2140	Interest payable	87,910
2160	Accrued wages payable	1,787,152
2300	Unearned revenue	72,823
	Noncurrent liabilities:	
2501	Due within one year	2,155,000
2502	Due in more than one year	49,400,131
2540	Net pension liability	12,349,860
2545	Net OPEB liability	<u>8,943,659</u>
2000	Total liabilities	<u>75,362,673</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflows related to NPL	2,756,470
2606	Deferred inflows related to OPEB	<u>10,932,285</u>
2600	Total deferred inflows of resources	<u>13,688,755</u>
NET POSITION		
3200	Net investment in capital assets	8,736,361
3820	Restricted for federal and state programs	1,621,756
3850	Restricted for debt service	8,159,048
3900	Unrestricted	<u>(21,286,294)</u>
3000	Total net position	<u>\$ (2,769,129)</u>

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

PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT B-1

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	Functions/Programs	1	Program Revenues	Net (Expense) Revenue and Changes in Net Position	Revenue and
		Expenses	3	4	6
			Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary government:					
Governmental activities:					
11	Instruction	\$ 22,190,915	\$ 38,450	\$ 3,634,845	\$ (18,517,620)
12	Instructional resources and media services	500,465	-	3,911	(496,554)
13	Curriculum and staff development	1,242,857	-	330,336	(912,521)
21	Instructional leadership	1,507,423	-	326,711	(1,180,712)
23	School leadership	2,095,554	-	58,939	(2,036,615)
31	Guidance, counseling, and evaluation services	2,307,150	-	688,981	(1,618,169)
32	Social work services	153,466	-	2,848	(150,618)
33	Health services	282,721	-	26,866	(255,855)
34	Student (pupil) transportation	2,185,468	-	60,525	(2,124,943)
35	Food service	3,690,645	118,551	2,998,553	(573,541)
36	Extracurricular activities	2,604,876	838,458	21,505	(1,744,913)
41	General administration	1,795,455	-	25,647	(1,769,808)
51	Facilities maintenance and operations	6,066,496	-	55,977	(6,010,519)
52	Security and monitoring services	1,048,360	-	38,906	(1,009,454)
53	Data processing services	1,116,317	-	19,036	(1,097,281)
61	Community services	575,692	-	68,639	(507,053)
72	Debt Service - interest on long-term debt	2,096,658	-	750,601	(1,346,057)
73	Debt Service - bond issuance costs and fees	1,300	-	-	(1,300)
99	Other intergovernmental charges	<u>381,043</u>	<u>-</u>	<u>-</u>	<u>(381,043)</u>
	[TP] Total primary government	<u>\$ 51,842,861</u>	<u>\$ 995,459</u>	<u>\$ 9,112,826</u>	<u>\$ (41,734,576)</u>
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				11,780,514
DT	Property taxes, levied for debt service				3,947,553
SF	State aid - formula grants				23,346,129
IE	Investment earnings				539,934
MI	Miscellaneous local and intermediate revenue				<u>1,288,544</u>
TR	Total general revenues				<u>40,902,674</u>
CN	Change in net position				(831,902)
NB	Net position, beginning				<u>(1,937,227)</u>
NE	Net position, ending				<u>\$ (2,769,129)</u>

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

PALESTINE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

AUGUST 31, 2025

Data Control Codes		10 General Fund	50 Debt Service	60 Capital Projects
ASSETS				
1110	Cash and cash equivalents	\$ 4,141,874	\$ 6,952,980	\$ 1,759,668
1220	Property taxes - delinquent	1,393,383	461,446	-
1230	Allowance for uncollectible taxes	(69,669)	(23,072)	-
1240	Due from other governments	2,251,373	-	-
1260	Due from other funds	2,272,233	7,405	-
1290	Other receivables	-	-	-
1300	Inventories	18,093	-	-
1410	Prepaid items	29,000	-	-
1000	Total assets	<u>10,036,287</u>	<u>7,398,759</u>	<u>1,759,668</u>
LIABILITIES				
2110	Accounts payable	306,005	-	6,800
2160	Accrued wages payable	1,787,152	-	-
2170	Due to other funds	907,405	-	746,262
2300	Unearned revenue	-	-	-
2000	Total liabilities	<u>3,000,562</u>	<u>-</u>	<u>753,062</u>
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable revenue - property taxes	<u>1,268,108</u>	<u>419,909</u>	<u>-</u>
2600	Total deferred inflows of resources	<u>1,268,108</u>	<u>419,909</u>	<u>-</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410	Inventories	18,093	-	-
3430	Prepaid items	29,000	-	-
Restricted Fund Balance:				
3450	Federal or state funds grant restriction	-	-	-
3480	Retirement of long-term debt	-	6,978,850	-
3490	Other restricted fund balance	-	-	-
Committed Fund Balance:				
3510	Construction	-	-	1,006,606
3545	Campus activity	-	-	-
3600	Unassigned fund balance	<u>5,720,524</u>	<u>-</u>	<u>-</u>
3000	Total fund balances	<u>5,767,617</u>	<u>6,978,850</u>	<u>1,006,606</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 10,036,287</u>	<u>\$ 7,398,759</u>	<u>\$ 1,759,668</u>

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

ONMF Other Funds	Total Governmental Funds
\$ 2,311,403	\$ 15,165,925
-	1,854,829
-	(92,741)
1,467,408	3,718,781
-	2,279,638
7,620	7,620
-	18,093
-	29,000
<u>3,786,431</u>	<u>22,981,145</u>
179,244	492,049
-	1,787,152
1,525,971	3,179,638
<u>72,823</u>	<u>72,823</u>
<u>1,778,038</u>	<u>5,531,662</u>
-	<u>1,688,017</u>
-	<u>1,688,017</u>
-	18,093
-	29,000
1,621,756	1,621,756
-	6,978,850
37,397	37,397
-	1,006,606
435,620	435,620
(86,380)	5,634,144
<u>2,008,393</u>	<u>15,761,466</u>
<u>\$ 3,786,431</u>	<u>\$ 22,981,145</u>

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PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-2

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

AUGUST 31, 2025

Total fund balances - governmental funds	\$ 15,761,466
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	51,365,284
2 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. Losses on refunding of bonds and the premium on issuance of bonds payable are netted against the long-term liabilities in the statement of net position.	(46,961,833)
3 Included in the items related to debt is the recognition of the District's proportion share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$3,994,203, a deferred resource inflow in the amount of \$2,756,470, and a net pension liability in the amount of \$12,349,860. This resulted in a decrease in net position.	(11,112,127)
4 Included in the items related to debt is the recognition of the District's proportion share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$5,320,979, a deferred resource inflow in the amount of \$10,932,285, and a net OPEB liability in the amount of \$8,943,659. This resulted in a decrease in net position.	(14,554,965)
5 Net position of the internal service fund is shown as part of the proprietary funds rather than the governmental funds, but is included in governmental activities on the statement of net position.	1,045,029
6 Uncollected property taxes and penalties and interest are reported as deferred inflows in the governmental funds balance sheet, but are recognized as revenue in the statement of activities.	<u>1,688,017</u>
29 Net position of governmental activities	<u>\$ (2,769,129)</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		10 <u>General</u>	50 Debt Service	60 Capital Projects
REVENUES				
5700	Local and intermediate sources	\$ 13,056,249	\$ 4,214,560	\$ 4,683
5800	State program revenues	25,457,508	750,601	-
5900	Federal program revenues	<u>416,020</u>	<u>-</u>	<u>-</u>
5020	Total revenues	<u>38,929,777</u>	<u>4,965,161</u>	<u>4,683</u>
EXPENDITURES				
Current:				
0011	Instruction	21,205,935	-	-
0012	Instructional resources and media services	131,886	-	-
0013	Curriculum and instructional staff development	531,265	-	-
0021	Instructional leadership	910,467	-	-
0023	School leadership	2,277,504	-	-
0031	Guidance, counseling, and evaluation services	1,714,288	-	-
0032	Social work services	160,487	-	-
0033	Health services	301,749	-	-
0034	Student (pupil) transportation	1,973,818	-	-
0035	Food service	196,126	-	-
0036	Extracurricular activities	1,810,703	-	-
0041	General administration	1,752,037	-	-
0051	Facilities maintenance and operations	5,455,855	-	-
0052	Security and monitoring services	1,062,173	-	-
0053	Data processing services	1,118,654	-	-
0061	Community services	115,026	-	-
Debt Service:				
0071	Principal on long-term debt	-	2,050,000	-
0072	Interest on long-term debt	295,128	1,778,052	-
0073	Bond issuance costs and fees	1,100	200	-
Intergovernmental:				
0099	Other intergovernmental	<u>381,043</u>	<u>-</u>	<u>-</u>
6030	Total expenditures	<u>41,395,244</u>	<u>3,828,252</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	(2,465,467)	1,136,909	4,683
0100	FUND BALANCE, BEGINNING, AS PREVIOUSLY REPORTED	8,233,084	5,841,941	1,001,923
ADJUSTMENTS				
Change within the financial reporting entity - formerly a major fund*				
		<u>-</u>	<u>-</u>	<u>-</u>
0100	FUND BALANCES, BEGINNING, AS RESTATED	<u>8,233,084</u>	<u>5,841,941</u>	<u>1,001,923</u>
3000	FUND BALANCES, ENDING	<u>\$ 5,767,617</u>	<u>\$ 6,978,850</u>	<u>\$ 1,006,606</u>

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

OMF Other State Grants*	ONMF Other Funds	Total Governmental Funds
	\$ 1,083,187	\$ 18,358,679
	1,635,684	27,843,793
	<u>5,509,694</u>	<u>5,925,714</u>
	<u>8,228,565</u>	<u>52,128,186</u>
	2,250,740	23,456,675
	-	131,886
	364,315	895,580
	313,143	1,223,610
	6,379	2,283,883
	508,729	2,223,017
	69	160,556
	4,273	306,022
	15,420	1,989,238
	3,023,678	3,219,804
	155,857	1,966,560
	119,431	1,871,468
	752,453	6,208,308
	28,449	1,090,622
	44,514	1,163,168
	502,392	617,418
	-	2,050,000
	-	2,073,180
	-	1,300
	-	<u>381,043</u>
	<u>8,089,842</u>	<u>53,313,338</u>
	138,723	(1,185,152)
(79,351)	1,949,021	16,946,618
<u>79,351</u>	<u>(79,351)</u>	<u>-</u>
<u>-</u>	<u>1,869,670</u>	<u>16,946,618</u>
<u>\$ -</u>	<u>\$ 2,008,393</u>	<u>\$ 15,761,466</u>

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PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-4

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

FOR THE YEAR ENDED AUGUST 31, 2025

Net change in fund balances - total governmental funds	\$ (1,185,152)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful life as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(3,410,048)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	154,161
The District uses an internal service fund to charge the cost of self-insurance to appropriate functions in other funds. The net income of the internal service fund is reported as a part of governmental activities, which serves to increase net position.	45,032
The issuance of long-term debt 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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items.	2,667,678
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$1,126,129. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$1,139,689. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$464,741. The net result is a decrease in the change in net position.	(478,301)
GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$259,794. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$267,662. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense increased the change in net position by \$1,382,596. The net result is an increase in the change in net position.	<u>1,374,728</u>
Change in net position of governmental activities	<u>\$ (831,902)</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT D-1

STATEMENT OF NET POSITION
PROPRIETARY FUND

AUGUST 31, 2025

	<u>Governmental Activities Internal Service Fund</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 219,118
Due from other funds	<u>900,000</u>
 Total assets	 <u>1,119,118</u>
 LIABILITIES	
Current liabilities:	
Accounts payable	<u>74,089</u>
 Total liabilities	 <u>74,089</u>
 NET POSITION	
Restricted for other purposes	<u>1,045,029</u>
 Total net position	 <u>\$ 1,045,029</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT D-2

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2025

	<u>Governmental Activities Internal Service Fund</u>
OPERATING REVENUES:	
Local and intermediate sources	\$ 94,914
Total operating revenues	<u>94,914</u>
OPERATING EXPENSES:	
Insurance and bonding costs	<u>89,046</u>
Total operating expenses	<u>89,046</u>
Operating income (loss)	<u>5,868</u>
NONOPERATING REVENUES (EXPENSES):	
Earnings from temporary deposits and investments	<u>39,164</u>
Total nonoperating revenues (expenses)	<u>39,164</u>
CHANGE IN NET POSITION	45,032
NET POSITION, BEGINNING	<u>999,997</u>
NET POSITION, ENDING	<u>\$ 1,045,029</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT D-3

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND

FOR THE YEAR ENDED AUGUST 31, 2025

	Governmental Activities
	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from user charges	\$ 94,914
Cash payments for insurance claims	<u>(1,030,980)</u>
Net cash provided by operating activities	<u>(936,066)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest and dividends on investments	<u>39,164</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(896,902)
CASH AND CASH EQUIVALENTS, BEGINNING	<u>1,116,020</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>219,118</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	
Operating income (loss)	<u>5,868</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in due from other funds	(900,000)
Decrease in accounts payable	<u>(41,934)</u>
Net cash provided (used) by operating activities	<u>\$ (936,066)</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT E-1

STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

AUGUST 31, 2025

	<u>Private-Purpose Trust Fund</u>	<u>Custodial Fund</u>
ASSETS		
Cash and cash equivalents	\$ 18,889	\$ 118,340
Total assets	<u>18,889</u>	<u>118,340</u>
LIABILITIES		
Total liabilities	<u>-</u>	<u>-</u>
NET POSITION		
Restricted for:		
Scholarships	18,889	-
Student groups	<u>-</u>	<u>118,340</u>
Total net position	<u>\$ 18,889</u>	<u>\$ 118,340</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT E-2

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2025

	<u>Private-Purpose Trust Fund</u>	<u>Custodial Fund</u>
ADDITIONS		
Collections from student groups	\$ -	\$ 257,573
Total additions	<u>-</u>	<u>257,573</u>
DEDUCTIONS		
Payments on-behalf of student groups	<u>-</u>	<u>251,636</u>
Total deductions	<u>-</u>	<u>251,636</u>
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	-	5,937
NET POSITION, BEGINNING	<u>18,889</u>	<u>112,403</u>
NET POSITION, ENDING	<u>\$ 18,889</u>	<u>\$ 118,340</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE BASIC FINANCIAL STATEMENTS

AUGUST 31, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Palestine Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide").

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB").

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* include programs supported by taxes, state foundation and intergovernmental revenue. The fund equity is segregated into the following categories invested in capital assets net of related debt, restricted net position, and unrestricted net position. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

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 and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible 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 services expenditures, as well as expenditures related to 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 is reported as other financing sources.

Property taxes, state foundation funds and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount 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.

The proprietary fund is accounted for using the economic resources measurement focus and the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and expenses in the accounting period in which they are incurred. Under this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The fiduciary funds have no measurement focus but utilize the accrual basis of accounting for reporting assets, liabilities, additions and deductions.

The District reports the following major governmental funds:

The General Fund – The General Fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.

The Debt Service Fund – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

The Capital Projects Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Proprietary Funds:

Internal Service Fund – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is the self-insurance activity of the workers' compensation fund.

Fiduciary Funds:

Private Purpose Trust Fund – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Palestine Education Foundation Fund.

Custodial Fund – The District accounts for resources held for others in a custodial capacity in Custodial Funds. The District's Custodial Fund is the Student Activities Fund.

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

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

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments such as certificates of deposits, money market funds, local government investment pools, Treasury bills, and commercial paper that have a maturity from time of purchase of three months or less.

2. Inventories

The District records purchases of supplies as expenditures. Inventory on the balance sheet is recorded at cost and represents supplies and materials purchased for the subsequent school year. Food service commodities are recorded at fair market value as supplied by the Texas Department of Human Services.

3. Prepayments

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include land, building, furniture and equipment are reported in the governmental activities column in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition cost, which is the price that would be paid to acquire the asset with equivalent service potential at the acquisition date.

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

Buildings, furniture, and equipment of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	15-50
Vehicles	5-10
Furniture and equipment	3-15

Land and construction in progress are not depreciated.

5. Compensated Absences

The District provides vacation, personal, and sick leave benefits to its employees in accordance with established policies. Employees may accumulate earned but unused balances for each category of leave; however, all balances lapse upon termination of employment.

The District accounts for leave balances using the last-in, first-out (LIFO) flow assumption, under which leave used is applied against the most recently earned leave. Based on historical experience, employees consistently earn more leave each fiscal year than is utilized. Accordingly, no liability for compensated absences is reported in the accompanying financial statements.

6. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as current year debt service expenditures.

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

7. 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.

8. Other Post-Employment Benefits

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

9. Deferred outflows/inflows of resources

Deferred outflows and inflows of resources are reported in the financial statements as described below:

A deferred outflow of resources is a consumption of a government's net assets (a decrease in assets in excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The District had the following deferred outflows of resources:

- Deferred outflows of resources for refunding - 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.
- Deferred outflows of resources for pension - Reported in the government-wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability, the results of differences between expected and actual experience, and changes in actuarial assumptions. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year.
- Deferred outflows of resources for OPEB - Reported in the government-wide financial statement of net position, this deferred outflow results from OPEB plan contributions made after the measurement date of the net pension liability, the differences between projected and actual investment earnings, and changes in proportion and difference between the employer's contributions and the proportionate share of contributions. The deferred outflows related to OPEB resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the next fiscal year.

A deferred inflow of resources is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The District had three items that qualify for reporting in this category:

- Deferred inflow of resources for unavailable revenues - Reported only in the governmental funds balance sheet, for unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of revenues in the period that the amounts become available. During the current year, the District recorded deferred inflow of resources as unavailable revenues - property taxes with the General Fund and Debt Service Fund respectively.
- Deferred inflow of resources for pensions - Reported in the government-wide financial statement of net position, these deferred inflows result from differences between expected and actual economic experience, changes in actuarial assumptions, differences between projected and actual investment earnings, as well as changes in proportion and difference between the employer's contributions and the proportionate share of contributions.
- Deferred inflow of resources for OPEB - Reported in the government-wide financial statement of net position, these deferred inflows result from differences between expected and actual economic experience and changes in actuarial assumptions.

10. Fund Balance Classification

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

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year. It also includes the long-term amount of loans and notes receivable.
- **Restricted:** This classification includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
- **Committed:** This classification includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for specific purposes but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

11. 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.

12. Net Position

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

13. 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.

14. 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 located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which it was imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes not paid by August 31 are subject to penalty and interest charges plus delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible taxes are periodically reviewed and written off by the District as provided by specific statutory authority from the Texas Legislature.

15. Data Control Codes

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

16. Estimates

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

17. Encumbrance Accounting

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrance accounting is utilized to ensure effective budgetary control and accountability. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each fiscal year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments. There were no outstanding encumbrances at the end of the fiscal year.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Deficit Equity

At August 31, 2025, the District has a deficit unrestricted net position of (\$21,286,294) in the Government-Wide Statement of Net Position. This deficit is due to the combined effects of recognizing the net pension liability required by GASB 68 and the net other post-employment benefits liability required by GASB 75. Additionally, the State Textbook and Other State Grants Funds reported deficit fund balances of (\$73,058) and (\$13,322), respectively. This resulted from timing differences between expenditures and reimbursements.

B. Expenditures Exceeding Appropriations

Expenditures exceeded appropriations in the following funds and functions for the year ended August 31, 2025:

General		
Instruction	\$	131,836
Curriculum and instructional staff development		188,850
Instructional leadership		31,541
School leadership		241,129
Guidance, counseling, and evaluation services		217,349
Health services		58,866
Student (pupil) transportation		138,656
Food services		195,325
Extracurricular activities		64,520
General administration		504,835
Facilities maintenance and operations		1,172,412
Security and monitoring services		197,217
Data processing services		266,211
Community services		36,012
Interest on long-term debt		294,628
National Breakfast and Lunch Program		
Food services		494,488
Debt Service		
Bond issuance costs and fees		200

These overages were funded with existing fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar - weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject to are:

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, the contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2025 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

Cash and deposits of the District include all amounts deposited at the District's depository bank, including demand deposits and certificates of deposit. As of year-end the District's cash deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Custodial Credit Risk - Investments

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. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

Interest Rate Risk

Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.

Concentration of Credit Risk

Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

Investment Pools

The District's investment pools at August 31, 2025, are shown below:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (Days)</u>
BNY Mellon Bond Escrow	\$ 4,245,000	N/A
Texas Range	5,455,137	51
TexSTAR	976,458	44
Texas CLASS	382,264	44
LOGIC	<u>151,500</u>	51
Total	<u>\$ 11,210,359</u>	

For the purposes of the statement of cash flows for proprietary fund types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

The investment pools used by the District are organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pools are Public Funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investments.

The District's investment in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable net asset value of \$1.00. The book value of the position in the pools is the same as the number of the shares in each pool; the fair value of a share should approximately equal the book value of a share.

In accordance with state law and the District's investment policy, investments in investment pools must be rated at least AAA or have an equivalent rating, and obligations of states, agencies, counties and cities must be rated at least A or its equivalent. As of August 31, 2025, the District's investments in investment pools met or exceeded the ratings criteria.

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

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2025 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

	<u>General Fund</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
State entitlements	\$ 2,251,373	\$ -	\$ 2,251,373
Other state grants	-	505,666	505,666
Federal grants	-	<u>961,742</u>	<u>961,742</u>
Total	<u>\$ 2,251,373</u>	<u>\$ 1,467,408</u>	<u>\$ 3,718,781</u>

C. Interfund Balances and Transfers

Interfund balances at August 31, 2025 consisted of the following individual fund receivables and payables:

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General	Debt service	\$ 7,405
General	Internal Service Fund	900,000
Capital projects	General	746,262
Nonmajor governmental	General	<u>1,525,971</u>
	Total	<u>\$ 3,179,638</u>

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

There were no interfund transfers for the year ended August 31, 2025.

D. Capital Assets

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

	Beginning Balance 09/01/24	Increases	Decreases	Ending Balance 08/31/25
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 2,472,007	\$ -	\$ -	\$ 2,472,007
Total capital assets, not being depreciated	<u>2,472,007</u>	<u>-</u>	<u>-</u>	<u>2,472,007</u>
Capital assets, being depreciated:				
Buildings and improvements	113,175,078	-	-	113,175,078
Furniture and equipment	<u>10,243,976</u>	<u>249,133</u>	<u>-</u>	<u>10,493,109</u>
Total capital assets, being depreciated	<u>123,419,054</u>	<u>249,133</u>	<u>-</u>	<u>123,668,187</u>
Less accumulated depreciation for:				
Buildings and improvements	(63,228,424)	(3,111,670)	-	(66,340,094)
Furniture and equipment	<u>(7,887,305)</u>	<u>(547,511)</u>	<u>-</u>	<u>(8,434,816)</u>
Total accumulated depreciation	<u>(71,115,729)</u>	<u>(3,659,181)</u>	<u>-</u>	<u>(74,774,910)</u>
Total capital assets, being depreciated, net	<u>52,303,325</u>	<u>(3,410,048)</u>	<u>-</u>	<u>48,893,277</u>
Governmental activities capital assets, net	<u>\$ 54,775,332</u>	<u>\$ (3,410,048)</u>	<u>\$ -</u>	<u>\$ 51,365,284</u>

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

Governmental activities:		
Instruction		\$ 506,639
Instruction Resources		378,315
Curriculum Development		378,315
Instructional Leadership		378,315
Guidance and Counseling		252,212
Student Transportation		283,939
Food Services		536,439
Co-Curricular		712,827
General Administration		34,377
Maintenance		156,883
Security & Monitoring Services		<u>40,920</u>
Total depreciation expense - governmental activities		<u>\$ 3,659,181</u>

E. Long-term Debt

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

	Balance 9/1/2024	Additions	Reductions	Balance 8/31/2025	Amounts Due in One Year
Bonds payable	\$ 42,895,000	\$ -	\$ 2,050,000	\$ 40,845,000	\$ 2,155,000
Bond premium	4,596,569	-	306,438	4,290,131	-
Tax notes	<u>6,420,000</u>	<u>-</u>	<u>-</u>	<u>6,420,000</u>	<u>-</u>
Totals	<u>\$ 53,911,569</u>	<u>\$ -</u>	<u>\$ 2,356,438</u>	<u>\$ 51,555,131</u>	<u>\$ 2,155,000</u>

Bonds Payable

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

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 08/31/25
Unlimited Tax Refunding Bonds Series 2016	2.0% to 5.0%	\$ 51,830,000	\$ 1,778,050	\$ 40,845,000

Debt service requirements are as follows:

Year Ending August 31,	General Obligations		Total Requirements
	Principal	Interest	
2026	\$ 2,155,000	\$ 1,672,925	\$ 3,827,925
2027	2,260,000	1,562,550	3,822,550
2028	2,380,000	1,446,550	3,826,550
2029	2,505,000	1,324,425	3,829,425
2030	2,620,000	1,209,400	3,829,400
2031-2035	14,780,000	4,354,800	19,134,800
2036-2039	14,145,000	1,159,900	15,304,900
Total	\$ 40,845,000	\$ 12,730,550	\$ 53,575,550

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2025. The District's outstanding bonds payable contain a provision that in the event of default, the outstanding amounts will be paid from the corpus of the Texas Permanent School Fund.

Tax Notes

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from long-term loans are shown in the financial statements as Other Financing Sources and principal and interest payments are shown as debt service expenditures in the General Fund. A Qualified School Construction Maintenance Tax Notes, Series 2014, loan of \$6,420,000 was issued on May 1, 2014 for the purpose of repairing, renovating and equipping school facilities of the District as authorized by Texas Education code Section 45.108, as amended. The loan is to be repaid in semi-annual payments beginning February 15, 2015. The interest rate is 4.597% which will be repaid by direct federal subsidy. The entire principal amount of \$6,420,000 will be repaid on August 15, 2029 from the accumulated sinking fund.

A summary of loans payable for the year ended August 31, 2025 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding 08/31/25
Qualified School Construction Maintenance Tax Notes, Series 2014	4.597%	\$ 6,420,000	\$ 295,128	\$ 6,420,000

Debt service requirements are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2026	\$ -	\$ 295,127	\$ 295,127
2027	-	295,127	295,127
2028	-	295,127	295,127
2029	6,420,000	295,127	6,715,127
Total	\$ 6,420,000	\$ 1,180,508	\$ 7,600,508

Sinking Fund deposits required to be paid for the Qualified School Construction Maintenance Tax Note, Series 2014, are as follows:

Year Ending August 31,	Sinking Fund Deposits
2026	\$ 535,000
2027	535,000
2028	535,000
2029	570,000
Total	<u>\$ 2,175,000</u>

F. Defined Benefit Pension Plan

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

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

Pension Plan Fiduciary Net Position. Detail information about the Teacher Retirement System’s fiduciary net position is available in a separately issued Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the TRS website at www.trs.texas.gov/learning-resources/publications; by writing to TRS at attention Finance Division, PO BOX 149676, Austin, TX, 78714-0185; or by calling 1-(800)-223-8778.

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member’s age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member’s age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above. Accordingly, the 2023 Texas Legislature passed Senate Bill (SB) 10 and House Joint Resolution (HJR) 2 provide eligible retirees with a one-time stipend and an ad hoc cost-of-living-adjustment (COLA).

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

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

Cost-of-Living Adjustment. 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 the system's actuary.

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

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

	Contribution Rates	
	2024	2025
Active Employee	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
Current fiscal year employer contributions		\$ 1,126,129
Current fiscal year member contributions		2,202,865
2024 measurement year NECE on-behalf contributions		1,613,647

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

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

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

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

- All public schools, charter schools, and regional educational service centers must contribute 2 percent of the member's salary beginning in fiscal year 2024.

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

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 Investment Rate of Return	7.00%
Inflation	2.3%
Salary Increases Including Inflation	2.95% to 8.95%
Ad hoc Post Employment Benefit Changes	None

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

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

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

The long-term rate of return on pension plan investments is 7.00%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2024 are summarized below:

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

- 1) Absolute Return includes Credit Sensitive Investments.
- 2) Target allocations are based on the FY2023 policy model.
- 3) Capital Market Assumptions come from Aon Hewitt (as of 06/30/2024).
- 4) The volatility drag results from the conversion between arithmetic and geometric mean returns.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (7.00%) in measuring the Net Pension Liability.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Proportionate share of the net pension liability:	\$ 19,725,856	\$ 12,349,860	\$ 6,238,323

Change of Assumptions Since the Prior Measurement Date. The actuarial assumptions and methods are the same as used in the determination of the prior year's Net Pension Liability.

Changes in Benefit Provisions Since Prior Measurement Date. The 2023 Texas Legislature passed Senate Bill 10 (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House Joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1.645 billion for one-time stipends and \$3.355 billion for COLAs. This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2025, the District reported a liability of \$12,349,860 for its proportionate share of the TRS’s net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$	12,349,860
State's proportionate share that is associated with the District		<u>17,491,055</u>
Total	\$	<u><u>29,840,915</u></u>

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

At August 31, 2024, the employer’s proportion of the collective net pension liability was 0.0202177729%, which was a decrease of 0.0059230086% from its proportion measured as of August 31, 2023.

For the year ended August 31, 2025, the District recognized pension expense of \$3,694,903 and revenue of \$2,090,473 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 680,707	\$ 96,422
Changes in actuarial assumptions	637,650	85,487
Difference between projected and actual investment earnings	75,071	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,474,646	2,574,561
Contributions paid to TRS subsequent to the measurement date	<u>1,126,129</u>	<u>-</u>
Total as of fiscal year-end	<u><u>\$ 3,994,203</u></u>	<u><u>\$ 2,756,470</u></u>

\$1,126,129 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending August 31, 2026. Other amounts of the employer's balances of deferred outflows and inflows of resources related pensions will be recognized in pension expenses as follows:

Fiscal year ended August 31,	Pension Expense Amount
2026	\$ (30,426)
2027	1,258,763
2028	(73,195)
2029	(732,008)
2030	(311,530)

G. Defined Other Post-Employment Benefit Plans

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

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

OPEB Plan Fiduciary Net Position. Detailed information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the TRS website at www.trs.texas.gov/learning-resources/publications; by writing to TRS at PO BOX 149676, Austin, TX 78714-0185; or by calling 1-(800)-223-8778.

Benefits Provided. TRS-Care provides health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are member of the TRS pension plan. Optional dependent coverage is available for an additional fee.

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

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

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

* or surviving spouse

Contributions. Contribution rates for TRS-Care are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the State, active employees, and school districts based upon public school district 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. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2024	2025
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 259,794
Current fiscal year member contributions		173,561
2024 measurement year NECE on-behalf contributions		335,377

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

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 pension plan, except that the OPEB valuation is more complex. All the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2021.

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

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	
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 the Society of Actuaries' 2013 Study "Health Care Costs - From Birth to Death".
Expenses	Third-Party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	2.95% to 8.95%, including inflation
Healthcare Trend Rates	The initial medical trend rate was 6.75 percent for non-Medicare retirees. For Medicare retirees, trend rates are higher in the first two years due to anticipated growth but thereafter match those of non-Medicare retirees. The initial prescription drug trend rate was 7.25 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 percent over a period of 11 years.
Election Rates	Normal Retirement - 62 percent participation rate prior to age 65 and 25 percent participation rate after age 65. Pre-65 retirees - 30 percent of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc Post Employment Benefit Changes	None

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

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

The source of the municipal bond rate is the Fixed Income Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in the Bond Buyer's "20-Bond GO Index", as of August 31, 2024.

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

	1% Decrease in Discount Rate (2.87%)	Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
Proportionate share of net OPEB liability	\$ 10,625,484	\$ 8,943,659	\$ 7,584,718

Healthcare Cost Trend Rates Sensitivity Analysis. The following schedule shows the impact of Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the assumed healthcare cost trend rate used.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 7,283,282	\$ 8,943,659	\$ 11,107,295

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2025, the District reported a liability of \$8,943,659 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 8,943,659
State's proportionate share that is associated with the District	11,206,283
Total	<u>\$ 20,149,942</u>

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

At the August 31, 2024 measurement date, the District's proportion of the collective net OPEB liability was 0.0294669096%, which was a decrease of 0.0075289801% from its proportion measured as of August 31, 2023.

The following were changes to the actuarial assumptions or other inputs that affected the measurement of the total OPEB liability (TOL) since the prior measurement period:

- The discount rate changed from 4.13 percent as of August 31, 2023 to 3.87 percent as of August 31, 2024, accompanied by revised demographic and economic assumptions based on the TRS experience study.
- The tables used to model the impact of aging on the underlying claims were revised.

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

For the year ended August 31, 2025, the District recognized OPEB expenses of (\$2,571,544) and revenue of (\$1,456,610) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 1,714,199	\$ 4,463,370
Changes in actuarial assumptions	1,144,683	2,918,212
Differences between projected and actual investment earnings	-	25,045
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,202,303	3,525,658
Contributions paid to OPEB subsequent to the measurement date	259,794	-
Total as of fiscal year-end	<u>\$ 5,320,979</u>	<u>\$ 10,932,285</u>

\$259,794 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ending August 31, 2026. Other amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended August 31,	OPEB Expense
2026	\$ (1,347,729)
2027	(942,661)
2028	(1,001,819)
2029	(826,219)
2030	(575,671)
Thereafter	(1,177,001)

H. Health Care

During the year ended August 31, 2025, employees of the Palestine Independent School District were covered by the state sponsored health insurance plan. The District paid premiums of \$325 per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Aetna. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare is renewable September 1 of each year, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available for the most recent year and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

I. Medicare Part D – On-behalf Payments

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$141,951, \$137,672 and \$224,332 were recognized for the years ended August 31, 2023, 2024, and 2025, respectively, as equal revenues and expenditures.

J. Self-Insured Workers' Compensation

During the year ended August 31, 2025, the Palestine Independent School District was a participant in the Texas Public Schools Workers' Compensation Project (School Comp) self-insurance fund as authorized by Section 504.011 (3) of the Texas Workers' Compensation Act and Texas Government Code Ch. 791, the Interlocal Cooperation Act.

The primary responsibility for funding the project claims shall rest with the members who will fund claim payments within an individual self-insured retention and within a shared self-insured retention. Financial responsibility for the project claims shall be allocated for the project year. Each member will fund the cost of each of its claim occurrences up to a limit equivalent to thirty percent of its standard funding for the project year in which the claim occurred. Members will share responsibility for funding the cost of every claim occurrence exceeding thirty percent of standard funding of the member where the claim occurred. Such funding shall be on a pro rata basis relative to each member's standard funding for the project year in which the claim occurred. A member's claim funding responsibilities attributable to claims arising in any one project year shall cease when its out-of-pocket expenditures equal to its total standard funding. Excess workers' compensation stop loss coverage was provided by Safety National Casualty Company.

During the fiscal year, the District incurred claims and related expenses totaling \$89,046.

K. Commitments and Contingencies

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2025 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

L. Risk Management

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

M. New Accounting Standards

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

GASB Statement No. 103, *Financial Reporting Model Improvements* – The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 104, *Disclosure of Certain Capital Assets* – The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be presented separately in the note disclosures, including right-to-use assets related to leases, Subscription-Based Information Technology Arrangements, and public-private or public-public partnerships. Other intangible assets are also required to be presented separately by major class. Additional disclosures have also been required for capital assets held for sale. This Statement will become effective for reporting periods beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 105, *Subsequent Events* – The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. This Statement will become effective for fiscal years beginning after June 15, 2026, and the impact has not yet been determined.

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**REQUIRED SUPPLEMENTARY
INFORMATION**

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PALESTINE INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

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

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts (GAAP Basis)	Final Budget Positive (Negative)
REVENUES					
5700	Local and intermediate sources	\$ 12,905,388	\$ 12,905,388	\$ 13,056,249	\$ 150,861
5800	State program revenues	25,363,091	25,363,091	25,457,508	94,417
5900	Federal program revenues	-	-	416,020	416,020
5020	Total revenues	<u>38,268,479</u>	<u>38,268,479</u>	<u>38,929,777</u>	<u>661,298</u>
EXPENDITURES					
Current:					
0011	Instruction	21,154,078	21,074,099	21,205,935	(131,836)
0012	Instructional resources and media sources	279,725	132,397	131,886	511
0013	Curriculum and instructional staff development	321,061	342,415	531,265	(188,850)
0021	Instructional leadership	880,326	878,926	910,467	(31,541)
0023	School leadership	2,029,344	2,036,375	2,277,504	(241,129)
0031	Guidance, counseling, and evaluation services	1,445,694	1,496,939	1,714,288	(217,349)
0032	Social work services	203,741	167,241	160,487	6,754
0033	Health services	243,110	242,883	301,749	(58,866)
0034	Student (pupil) transportation	1,756,162	1,835,162	1,973,818	(138,656)
0035	Food services	2,001	801	196,126	(195,325)
0036	Extracurricular activities	1,745,679	1,746,183	1,810,703	(64,520)
0041	General administration	1,247,202	1,247,202	1,752,037	(504,835)
0051	Facilities maintenance and operations	4,175,943	4,283,443	5,455,855	(1,172,412)
0052	Security and monitoring services	864,956	864,956	1,062,173	(197,217)
0053	Data processing services	852,443	852,443	1,118,654	(266,211)
0061	Community services	79,014	79,014	115,026	(36,012)
Debt Service:					
0071	Principal on long-term debt	530,000	530,000	-	530,000
0072	Interest on long-term debt	500	500	295,128	(294,628)
0073	Bond issuance costs and fees	7,500	7,500	1,100	6,400
Capital Outlay:					
0081	Facilities acquisition and construction	50,000	50,000	-	50,000
Intergovernmental:					
0099	Other intergovernmental	400,000	400,000	381,043	18,957
6030	Total expenditures	<u>38,268,479</u>	<u>38,268,479</u>	<u>41,395,244</u>	<u>(3,126,765)</u>
1200	NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>(2,465,467)</u>	<u>(2,465,467)</u>
0100	FUND BALANCES, BEGINNING	<u>8,233,084</u>	<u>8,233,084</u>	<u>8,233,084</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 8,233,084</u>	<u>\$ 8,233,084</u>	<u>\$ 5,767,617</u>	<u>\$ (2,465,467)</u>

PALESTINE INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Plan Year Ended August 31,	<u>2024</u>	<u>2023</u>	<u>2022</u>
District's proportion of the net pension liability (asset)	0.0202177729%	0.0261407815%	0.0236895155%
District's proportionate share of the net pension liability (asset)	\$ 12,349,860	\$ 17,956,195	\$ 14,063,856
State's proportionate share of the net pension liability (asset) associated with the District	<u>17,491,055</u>	<u>17,467,407</u>	<u>17,003,618</u>
Total	<u>\$ 29,840,915</u>	<u>\$ 35,423,602</u>	<u>\$ 31,067,474</u>
District's covered payroll	\$ 27,534,368	\$ 27,173,716	\$ 25,822,887
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	44.85%	66.08%	54.46%
Plan fiduciary net position as a percentage of the total pension liability	77.51%	73.15%	75.62%

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
0.0218410943%	0.0196883331%	0.0198008039%	0.0208151279%	0.0210428249%	0.0211747369%	0.0221285000%
\$ 5,562,154	\$ 10,544,670	\$ 10,293,077	\$ 11,457,152	\$ 6,728,362	\$ 8,001,618	\$ 7,822,130
<u>8,243,623</u>	<u>16,973,127</u>	<u>14,053,076</u>	<u>15,564,632</u>	<u>9,393,438</u>	<u>11,424,747</u>	<u>11,260,671</u>
<u>\$ 13,805,777</u>	<u>\$ 27,517,797</u>	<u>\$ 24,346,153</u>	<u>\$ 27,021,784</u>	<u>\$ 16,121,800</u>	<u>\$ 19,426,365</u>	<u>\$ 19,082,801</u>
\$ 25,247,636	\$ 23,215,191	\$ 19,867,456	\$ 20,041,683	\$ 19,657,252	\$ 19,248,214	\$ 19,223,762
22.03%	45.42%	51.81%	57.17%	34.23%	41.57%	40.69%
88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

PALESTINE INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Fiscal Year Ended August 31,	<u>2025</u>	<u>2024</u>	<u>2023</u>
Contractually required contribution	\$ 1,126,129	\$ 1,139,689	\$ 1,342,029
Contributions in relation to the contractually required contribution	<u>(1,126,129)</u>	<u>(1,139,689)</u>	<u>(1,342,029)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 26,701,398	\$ 27,534,368	\$ 27,173,716
Contribution as a percentage of covered payroll	4.22%	4.14%	4.94%

<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
\$ 1,105,443	\$ 932,100	\$ 804,987	\$ 692,443	\$ 701,420	\$ 687,923	\$ 342,249
<u>(1,105,443)</u>	<u>(932,100)</u>	<u>(804,987)</u>	<u>(692,443)</u>	<u>(701,420)</u>	<u>(687,923)</u>	<u>(342,249)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 25,822,887	\$ 25,247,636	\$ 23,215,191	\$ 19,867,456	\$ 20,041,683	\$ 19,657,252	\$ 19,248,214
4.28%	3.69%	3.47%	3.49%	3.50%	3.50%	3.50%

PALESTINE INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Plan Year Ended August 31,	2024	2023	2022
District's proportion of the net OPEB liability (asset)	0.0294669096%	0.0369958897%	0.0365949178%
District's proportionate share of the net OPEB liability (asset)	\$ 8,943,659	\$ 8,190,263	\$ 8,762,289
State's proportionate share of the net OPEB liability (asset) associated with the District	11,206,283	9,882,811	10,688,616
Total	<u>\$ 20,149,942</u>	<u>\$ 18,073,074</u>	<u>\$ 19,450,905</u>
District's covered payroll	\$ 27,534,368	\$ 27,173,716	\$ 25,822,887
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	32.48%	30.14%	33.93%
Plan fiduciary net position as a percentage of the total OPEB liability	13.70%	14.94%	11.52%

Note: Only eight years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
0.0343256135%	0.0325779260%	0.0308589324%	0.0307331779%	0.0317475756%
\$ 13,240,923	\$ 12,384,341	\$ 14,593,566	\$ 15,345,357	\$ 13,805,830
17,739,886	<u>16,641,585</u>	<u>19,391,586</u>	<u>16,019,981</u>	<u>14,460,275</u>
<u>\$ 30,980,809</u>	<u>\$ 29,025,926</u>	<u>\$ 33,985,152</u>	<u>\$ 31,365,338</u>	<u>\$ 28,266,105</u>
\$ 25,247,636	\$ 23,215,191	\$ 19,867,456	\$ 20,041,683	\$ 19,657,252
52.44%	53.35%	73.45%	76.57%	70.23%
6.18%	4.99%	2.66%	1.57%	0.91%

PALESTINE INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Fiscal year Ended August 31,	<u>2025</u>	<u>2024</u>	<u>2023</u>
Contractually required contribution	\$ 259,794	\$ 267,662	\$ 318,251
Contributions in relation to the contractually required contribution	<u>(259,794)</u>	<u>(267,662)</u>	<u>(318,251)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 26,701,398	\$ 27,534,368	\$ 27,173,716
Contribution as a percentage of covered payroll	0.97%	0.97%	1.17%

Note: Only eight years of data is presented in accordance with GASB #75, paragraph 245. "The information for all fiscal years for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of

<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
\$ 300,569	\$ 268,179	\$ 246,428	\$ 220,241	\$ 212,022
<u>(300,569)</u>	<u>(268,179)</u>	<u>(246,428)</u>	<u>(220,241)</u>	<u>(212,022)</u>
\$ -	\$ -	\$ -	\$ -	\$ -
\$ 25,822,887	\$ 25,247,636	\$ 23,215,191	\$ 19,867,456	\$ 20,041,683
1.16%	1.06%	1.06%	1.11%	1.06%

PALESTINE INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

AUGUST 31, 2025

Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included as a Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-1 and the other two reports are in Exhibits J-2 and J-3.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.
4. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended as necessary during the year.
5. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.