

PRELIMINARY REMARKETING MEMORANDUM

Dated January 20, 2026

NOT A NEW ISSUE – Book-Entry-Only

Rating: S&P: “AAA”/ “AA-”

PSF Guaranteed

(See “OTHER INFORMATION – Rating” and “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein)

On the date of initial delivery of the Bonds, Bond Counsel to the District rendered its opinion based on existing statutes, regulations, published rulings and court decisions as of such date, that interest on the Bonds would be excludable from the “gross income” of the owners thereof for federal income tax purposes and that the Bonds would not be “specified private activity bonds” within the meaning of section 57(a)(5) of the Internal Revenue Code of 1986, as amended (the “Code”). As a condition to conversion and remarketing of the Bonds on the conversion date, McCall, Parkhurst & Horton L.L.P., as Bond Counsel to the District, will render an opinion to the effect that the conversion will not adversely affect any exclusion of interest on any Bond from gross income of the owner for federal income tax purposes. Bond Counsel will express no opinion as to any federal, state, or local tax consequences pertaining to the acquisition, carrying, ownership, or disposition of the Bonds or to any other matters relating to the remarketing. See “TAX MATTERS” herein for a discussion of the opinion of Bond Counsel, including certain collateral federal tax consequences.

\$13,620,000*

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

(A Political Subdivision of the State of Texas Located in Bexar and Medina Counties)

FIXED AND VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021

CONVERSION OF VARIABLE RATE BONDS TO NEW TERM RATE PERIOD OF * YEARS

AT A PER ANNUM TERM RATE OF ___% (PRICED TO YIELD ___% TO MANDATORY TENDER DATE)



Dated: April 1, 2021

CUSIP NO: 584887 _____

New Mandatory Tender Date: February 15, 202_

Stated Maturity: February 15, 2049

The Medina Valley Independent School District Fixed and Variable Rate Unlimited Tax School Building Bonds, Series 2021 (the “Bonds”) were initially issued on May 12, 2021, in part as fixed rate serial bonds maturing on February 15 in each of the years 2026 through 2041 and in part as variable rate bonds (such Bonds, the “Variable Rate Bonds”), pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code, an election held in the District on May 4, 2019, and an order adopted by the Board of Trustees (the “Board”) on February 22, 2021 (the “Original Order”).

The Variable Rate Bonds were initially issued in a term rate interest mode that expires on February 14, 2026. On February 15, 2026 (the “Mandatory Tender Date” and the “Conversion Date” although such tender will occur administratively on the first business day after such date, February 17, 2026), the Variable Rate Bonds are subject to mandatory tender for purchase without right of retention by the holders thereof. The Original Order requires that the District, in advance of the Mandatory Tender Date, provide for the remarketing of the Variable Rate Bonds to new holders, with settlement of such remarketing to occur on the Conversion Date. On December 18, 2025, the Board adopted an order (the “Conversion Order”) that, with respect to the Variable Rate Bonds, (i) authorized their remarketing to new holders and conversion to a new interest rate period that commences on the Conversion Date and concludes on February 14, 20__* (the “New Rate Period”), (ii) delegated to certain District officials and staff members (each, an “Authorized Official”) the authority to execute a certificate (the “Conversion Certificate”) evidencing terms of the Variable Rate Bonds, as remarketed, and (iii) authorized on the Conversion Date the optional redemption, exercisable by an Authorized Official, of Variable Rate Bonds using lawfully available District funds. The Conversion Order and Original Order are collectively referred to herein as the “Order”.

The Variable Rate Bonds are currently outstanding in the principal amount of \$13,620,000. On February 14, 2026, \$13,620,000* in Variable Rate Bonds will be mandatorily tendered for purchase by the existing holders thereof for remarketing and conversion to the New Rate Period by the remarketing agent identified below by the District. During the New Rate Period, remarketed Variable Rate Bonds will bear interest at the term interest rate of ___% (the “Term Rate”). Interest on the remarketed Variable Rate Bonds will accrue from the Conversion to the expiration date of the New Rate Period and is payable on August 15, 2026 and, thereafter, on each February 15 and August 15 through and including the hereinafter-defined New Mandatory Tender Date. The remarketed Variable Rate Bonds are subject to mandatory tender, without right of retention by the holders thereof, on February 15, 20__* (the “New Mandatory Tender Date”), which is the day immediately succeeding the last day of the New Rate Period. If such day is not a business day, the actual tender shall occur on the next business day although interest will have ceased to accrue as of the expiration of the New Rate Period.

The definitive Bonds have been registered and delivered to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Variable Rate Bonds may be acquired in principal denominations of \$5,000 or any integral multiple thereof. No physical delivery of the Variable Rate Bonds will be made to the owners thereof. Principal of and interest on the Variable Rate Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM” herein). UMB Bank, N.A., Dallas, Texas serves as Paying Agent/Registrar and Tender Agent for the Variable Rate Bonds. All tenders of Variable Rate Bonds on the New Mandatory Tender Date must be made to the Tender Agent at its designated office in Dallas, Texas. In the Original Order, the District has covenanted to identify and enter into a contract with a new remarketing agent for the Variable Rate Bonds prior to the commencement of the remarketing period applicable thereto prior to the conclusion of the New Rate Period. Variable Rate Bonds tendered for purchase on the New Mandatory Tender Date will be bought from the proceeds derived from their remarketing, if any; provided, however, that should the date for tender of the Variable Rate Bonds occur on an Interest Payment Date, the accrued interest portion of the Purchase Price is to be paid by the District.

In the event that all of the remarketed Variable Rate Bonds are not remarketed to new purchasers on the New Mandatory Tender Date, neither the acting remarketing agent nor the District will have any obligation to purchase any of the Variable Rate Bonds tendered on such date, and the related notice of mandatory tender will be deemed to be rescinded for that date with respect to all of the Variable Rate Bonds. The occurrence of the foregoing will not result in an Event of Default under the Original Order or the Variable Rate Bonds. Until such time as the District redeems or remarkets Variable Rate Bonds that have not been successfully remarketed as described above, the Variable Rate Bonds shall bear interest at the “Stepped Rate” for the duration of the Stepped Rate Period. The Stepped Rate for the Variable Rate Bonds remarketed to the New Rate Period is a per annum rate of __.00% (see “THE BONDS — Determination of Interest Rates; Rate Mode Changes” and “— Tender Provisions” herein).

Pursuant to the Conversion Order, the District has contracted with Robert W. Baird & Co. Incorporated to serve as the Remarketing Agent for the Bonds (the “Remarketing Agent”).

The Bonds were initially delivered on May 12, 2021, and were approved by the Attorney General of the State of Texas and the approval of certain legal matters by the District’s Bond Counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas (see “Appendix C – Form of Bond Counsel’s Opinion”). In connection with the remarketing of the Bonds, certain legal matters will be passed upon for the District by its Bond Counsel. Certain legal matters will be passed upon for the Remarketing Agent by its counsel, Winstead PC, San Antonio, Texas. The Bonds will, through the services of DTC, be available for delivery following payment of the Purchase Price thereof on February 17, 2026 (the first business day after February 15, 2026).

BAIRD

* Preliminary, subject to change.

\$13,620,000*
MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas Located in Bexar and Medina Counties, Texas)
FIXED AND VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021

CUSIP PREFIX⁽¹⁾: 584887

MATURITY SCHEDULE*

<u>Stated Maturity</u> ⁽²⁾	<u>New Rate Conversion Date</u> ⁽⁵⁾	<u>Last Day of New Rate Period</u> ⁽¹⁾	<u>New Mandatory Tender Date</u> ⁽⁴⁾	<u>Term Rate</u>	<u>Initial Yield</u> ⁽³⁾	<u>Stepped Rate</u>	<u>CUSIP Suffix</u> ⁽¹⁾
February 15, 2049	February 15, 2026	February 14, 20__	February 15, 20__	__%	__%	__%	

(Interest accrues from the New Rate Conversion Date)

* Preliminary, subject to change.

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⁽²⁾ Subject to scheduled mandatory sinking fund redemption. See "THE BONDS – Redemption – Scheduled Mandatory Redemption" herein. The Bonds' final maturity was modified in August 15, 2023, from February 15, 2051, as originally structured, to February 15, 2049, due to a defeasance transaction.

⁽³⁾ Initial yield calculated from New Rate Conversion Date to New Mandatory Tender Date.

⁽⁴⁾ If such day is not a business day, the actual tender shall occur on the next business day although interest will have ceased to accrue as of the expiration of the New Rate Period.

⁽⁵⁾ Because February 15, 2026 is not a business day, the actual conversion shall occur on the next business day after such date, February 17, 2026.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Name	Years Served	Term Expires	Occupation
Mr. Nathan Fillinger President	2	May 2026	Technical Architect Principal
Mr. Matthew Castiglione Vice-President	3	May 2028	Facilities Engineer
Mr. Joe Biediger Secretary	1	May 2027	Corporate Project Controls Manager
Mr. Blane Nash Trustee	2	May 2026	Construction Business Owner
Mr. Jason Bonney Trustee	2	May 2026	Retired Military
Mr. Ben Juarez Trustee	1	May 2027	Law Enforcement Training Officer
Ms. Suzanne Lee Trustee	0.5	May 2028	Retired Educator

SELECTED ADMINISTRATIVE STAFF

Name	Position	Years of Service with the District	Years of Service in Present Position
Dr. Scott Caloss ⁽¹⁾	Superintendent	4	4
Ms. Crystal Hermes	Chief Financial Officer	2	2

⁽¹⁾ Dr. Caloss' retirement from the District was announced on January 13, 2026, effective date of June 30, 2026.

CONSULTANTS AND ADVISORS

Bond Counsel McCall, Parkhurst & Horton L.L.P.
San Antonio, Texas

Auditors ABIP, PC
San Antonio, Texas

Financial Advisor Specialized Public Finance Inc.
San Antonio, Texas

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Specialized Public Finance Inc.
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San Antonio, Texas 78258
Phone: (210) 239-0204
victor@spfmuni.com

USE OF INFORMATION IN THE PRELIMINARY REMARKETING MEMORANDUM

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule"), this document constitutes an "Official Statement" of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of the information permitted by the Rule.

No dealer, broker, salesman or other person has been authorized by the District, the Financial Advisor, or the Remarketing Agent to give any information, or to make any representations other than those contained in this Reoffering Memorandum, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District, the Remarketing Agent, or the Financial Advisor. This Reoffering Memorandum does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Financial Advisor or the Remarketing Agent. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Reoffering Memorandum 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 D – 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.

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE REMARKETING AGENT MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS REOFFERING MEMORANDUM REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM, OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY ("TEA") DESCRIBED UNDER "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," AS SUCH INFORMATION WAS PROVIDED BY DTC AND TEA, RESPECTIVELY.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE REMARKETING AGENT MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES 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 Remarketing Agent has provided the following sentence for inclusion in this Reoffering Memorandum. The Remarketing Agent has reviewed the information in this Reoffering Memorandum pursuant to its respective responsibilities to investors under the federal securities laws, but the Remarketing Agent does 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 Reoffering Memorandum nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THIS ENTIRE REOFFERING MEMORANDUM, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

TABLE OF CONTENTS

REMARKETING MEMORANDUM.....	1	CURRENT PUBLIC SCHOOL FINANCE	
DISTRICT OFFICIALS, STAFF AND CONSULTANTS	3	SYSTEM.....	22
USE OF INFORMATION IN THE REMARKETING			
MEMORANDUM	4	CURRENT PUBLIC SCHOOL FINANCE SYSTEMAS	
REMARKETING MEMORANDUM SUMMARY.....	5	APPLIED TO THE DISTRICT.....	26
INTRODUCTION	7	INVESTMENTS	26
THE BONDS.....	8	EMPLOYEES' RETIREMENT PLAN AND OTHER	
TAX RATE LIMITATIONS	15	POST-EMPLOYMENT BENEFITS.....	27
AD VALOREM TAX PROCEDURES.....	17	TAX MATTERS	27
THE PERMANENT SCHOOL FUND		CONTINUING DISCLOSURE OF INFORMATION .	29
GUARANTEE PROGRAM.....	21	LEGAL MATTERS.....	31
STATE AND LOCAL FUNDING OF SCHOOL		OTHER INFORMATION	31
DITRICTS IN TEXAS	21		
FINANCIAL INFORMATION OF THE DISTRICT		APPENDIX A	
GENERAL INFORMATION REGARDING THE DISTRICT		APPENDIX B	
FORM OF BOND COUNSEL'S OPINION.....		APPENDIX C	
THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM		APPENDIX D	
EXCERPTS FROM THE DISTRICT'S ANNUAL FINANCIAL REPORT		APPENDIX E	

REMARKETING MEMORANDUM SUMMARY

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

THE DISTRICT	The Medina Valley Independent School District (the “Issuer”) is a political subdivision located in Bexar and Medina Counties, Texas, and includes the City of Castroville, Texas. The District encompasses approximately 43.57 square miles in area (see “INTRODUCTION – Description of the District”).
The Bonds	<p>The Variable Rate Bonds are currently outstanding in the Initial Rate Period, expiring on February 14, 2026 and during which they bear interest at the Initial Rate. On February 15, 2026 (the “Conversion Date” although such tender will occur administratively on the first business day after such date, February 17, 2026), all outstanding Variable Rate Bonds are subject to mandatory tender for purchase, without the right of retention by the owners thereof, and redemption at the District’s option (interest on the Variable Rate Bonds shall cease to accrue at the Initial Rate on February 14, 2026, being the last day of the Initial Rate Period). On the Conversion Date, Variable Rate Bonds not redeemed will be converted to a new Term Rate Period, commencing on such Conversion Date and concluding on February 14, 20__* (such Term Rate Period, the “New Rate Period”), bearing interest at a Term Rate of __%, and remarketed to new holders. Variable Rate Bonds remarketed into the New Rate Period are subject to mandatory tender, without right of retention by the holders thereof, on February 15, 20__* (hereinafter defined and referred to as the “New Mandatory Tender Date”), which is the day immediately succeeding the last day of the New Rate Period. If such day is not a business day, the actual tender shall occur on the next business day although interest will have ceased to accrue as of the expiration of the New Rate Period.</p> <p>On the New Mandatory Tender Date, the Variable Rate Bonds remarketed into the New Rate Period are subject to mandatory tender, without the right of retention by the holders thereof, at which time the District expects to convert such tendered Variable Rate Bonds to a new Rate Period or Periods and, again, remarket them to new purchasers.</p>
FAILURE TO REMARKET	In the event that all of the Variable Rate Bonds remarketed into the New Rate Period are not converted into one or more Rate Periods and remarketed to new purchasers on such New Mandatory Tender Date, neither the then-acting remarketing agent nor the District will have any obligation to purchase any of the Bonds tendered on such date, and the mandatory tender notice will be deemed to be rescinded for that date with respect to all of such Variable Rate Bonds. The occurrence of the foregoing will not result in an Event of Default under the Original Order or the Variable Rate Bonds. Until such time as the District redeems or remarkets Variable Rate Bonds that have not been successfully remarketed as described above, such Variable Rate Bonds shall bear interest at the “Stepped Rate” of __.00% per annum for the duration of the Stepped Rate Period (see “THE BONDS Determination of Interest Rates; Rate Period Changes” and “– Tender Provisions” herein).
AUTHORITY FOR ISSUANCE	The Bonds were initially issued on May 12, 2021 pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code (“Chapter 1371”), an election held in the District on May 4, 2019, and the Original Order.
PAYING AGENT/REGISTRAR AND TENDER AGENT	The Paying Agent/Registrar and Tender Agent is UMB Bank, N.A., Dallas, Texas.
SECURITY FOR THE BONDS	The Variable Rate Bonds constitute direct obligations of the District, payable as to principal and interest from ad valorem taxes levied annually against all taxable property located within the District, without legal limitation as to rate or amount.
PERMANENT SCHOOL FUND GUARANTEE	The Variable Rate Bonds are guaranteed by the corpus of the Permanent School Fund Guarantee Program of Texas. However, the Permanent School Fund guarantee is not effective with respect to the payment of the Purchase Price of tendered Variable Rate Bonds. (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM”).
REDEMPTION PROVISIONS.....	The Variable Rate Bonds remarketed into the New Rate Period are not subject to redemption prior to the conclusion of the New Rate Period, except with respect to special mandatory redemption. Subsequent to the conclusion of the New Rate Period, the Variable Rate Bonds are subject to redemption in the manner herein described (see “THE BONDS — Redemption” herein).

* Preliminary, subject to change.

TAX EXEMPTION	On May 12, 2021, the date of initial delivery of the Bonds, Bond Counsel to the District rendered its opinion based on existing law and as of such date, that interest on the Bonds is excludable from the “gross income” of the owners thereof for federal income tax purposes and that the Bonds are not “specified private activity bonds” within the meaning of section 57(a)(5) of the Internal Revenue Code of 1986. Upon the conversion of the Bonds to the new Term Rate Period described herein, Bond Counsel will render its opinion that the conversion of the Bonds will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income of the owners of the Bonds for federal income tax purposes. See “TAX MATTERS” herein for a discussion of certain collateral federal tax consequences.
USE OF PROCEEDS	Proceeds from the sale of the Bonds were used for (i) designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities with respect to any of the foregoing); and (ii) paying the costs of issuing the Bonds.
RATINGS	The Bonds have been rated “AAA” by S&P Global Ratings virtue of the guarantee of the Permanent School Fund Guarantee of the State of Texas. The Bonds and the outstanding debt of the District has been rated “AA-” by S&P without regard to credit enhancement. See “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM.”
BOOK-ENTRY-ONLY SYSTEM.....	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. 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 make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS – Book-Entry-Only System”).
PAYMENT RECORD	The District has never defaulted in payment of its tax supported debt.

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PRELIMINARY REMARKETING MEMORANDUM
RELATING TO
\$13,620,000*
MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT
FIXED AND VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2021

INTRODUCTION

This Remarketing Memorandum (the “Remarketing Memorandum”), including Appendices A, B and D, has been prepared by the Medina Valley Independent School District (the “District”), a political subdivision of the State of Texas (the “State”) located in Bexar and Medina Counties, Texas, in connection with the remarketing by the District of the portion of its Fixed and Variable Rate Unlimited Tax School Building Bonds, Series 2021 initially issued as obligations bearing interest at a term rate (and not a fixed interest rate from initial issuance to the earlier of redemption or stated maturity) (such Bonds, the “Variable Rate Bonds”; those Bonds bearing interest at a fixed rate to the earlier of redemption or stated maturity, the “Fixed Rate Bonds”).

All financial and other information presented in this Remarketing Memorandum 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 such financial and other information, will necessarily continue or be repeated in the future.

There follows in this Remarketing Memorandum descriptions of the Variable Rate Bonds and the order adopted on February 22, 2021 by the Board of Trustees of the District (the “Board”) authorizing the issuance of the Bonds (the “Original Order”) and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request by writing the Medina Valley Independent School District, 8449 FM 471 South, Castroville, Texas 78009 and, during the offering period, from the Financial Advisor, Specialized Public Finance Inc., 17721 Rogers Ranch Parkway, Suite 140, San Antonio, Texas 78258, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Remarketing Memorandum speaks only as of its date, and the information contained herein is subject to change. A copy of this Final Remarketing Memorandum pertaining to the Variable Rate Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (EMMA) system. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the District’s undertaking to provide certain information on a continuing basis.

This Remarketing Memorandum does not describe the terms and provisions of the Fixed Rate Bonds, nor does it describe the terms and provision of the Variable Rate Bonds or the Original Order as they relate to the Variable Rate Bonds following the expiration of the New Rate Period (defined herein) except as described herein in connection with the mandatory tender for purchase following the last day of the New Rate Period. See “THE BONDS – Tender Provisions.” Upon mandatory tender for purchase of the Variable Rate Bonds as described herein, the Variable Rate Bonds are expected to be remarketed. At the time of such remarketing, a new offering document or supplement to this Remarketing Memorandum will be prepared for such remarketing of the Variable Rate Bonds.

Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Original Order. Unless specifically stated otherwise herein, references to “Bonds” hereafter in this Remarketing Memorandum shall mean the Variable Rate Bonds.

THE VARIABLE RATE BONDS ARE SUBJECT TO CONVERSION TO OTHER INTEREST MODES AT THE TIMES AND UPON THE CONDITIONS DESCRIBED IN THE ORIGINAL ORDER FOLLOWING A MANDATORY TENDER FOR PURCHASE OF SUCH VARIABLE RATE BONDS. THIS REMARKETING MEMORANDUM IS NOT INTENDED TO PROVIDE INFORMATION WITH RESPECT TO THE VARIABLE RATE BONDS AFTER CONVERSION TO ANY NEW INTEREST RATE PERIOD (INCLUDING ANY THAT ARE SUBSEQUENT TO THE NEW RATE PERIOD THAT IS THE SUBJECT OF THIS REMARKETING MEMORANDUM). PURCHASERS OF VARIABLE RATE BONDS SHOULD NOT RELY ON THIS REMARKETING MEMORANDUM FOR INFORMATION CONCERNING ANY OTHER INTEREST RATE PERIOD FOR THE VARIABLE RATE BONDS OTHER THAN THE VARIABLE BONDS IN THE NEW RATE PERIOD. SIMILARLY, INVESTORS SHOULD NOT RELY ON THIS REMARKETING MEMORANDUM FOR INFORMATION CONCERNING THE FIXED RATE BONDS.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision of the State of Texas (the “State”) located in Bexar and Medina Counties, Texas. The District is governed by a seven-member Board of Trustees (the “Board”) the members of which serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District includes all of the City of Castroville, encompassing a total of approximately 43.57 square miles (see “APPENDIX A – General Information Regarding the District”).

* Preliminary, subject to change.

THE BONDS

AUTHORIZATION AND PURPOSE . . . The Bonds were initially issued on May 12, 2021 pursuant to the Constitution and general laws of the State of Texas, particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code (“Chapter 1371”), an election held in the District on May 4, 2019, and the Original Order. Proceeds from the sale of the Bonds were used for (i) designing, constructing, renovating, improving, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities with respect to any of the foregoing); and (ii) paying the costs of issuing the Bonds.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are direct obligations of the District and are payable as to both principal and interest from ad valorem taxes levied annually on all taxable property within the District, without legal limitation as to rate or amount. Payment of the scheduled debt service on (but not the Purchase Price of) the Bonds is guaranteed under the State of Texas Permanent School Fund Guarantee Program (hereinafter defined).

PERMANENT SCHOOL FUND GUARANTEE . . . The Bonds received conditional approval from the Commissioner of Education for the guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C, of the Texas Education Code, as amended). The Bonds are absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas; Provided, however, the Permanent School Fund Guarantee is not effective with respect to the payment of the Purchase Price for mandatorily tendered Bonds. In the event of a payment default by the District, registered owners 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 PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “REGISTERED OWNERS’ REMEDIES” herein.

INITIAL RATE PERIOD; CONVERSION AND REMARKETING . . . The Variable Rate Bonds are variable rate, multi-modal obligations, currently outstanding in the Initial Rate Period that expires on February 14, 2026 (which period, from the Variable Rate Bonds’ date of initial delivery to such date of expiration is referred to herein as the “Initial Rate Period”). Upon expiration of the Initial Rate Period, the Bonds are subject to mandatory tender for purchase, without right of retention by the owners thereof and, upon tender, will be remarketed into a new Term Rate Period, commencing on February 17, 2026 (as February 15, 2026 is not a business day) and concluding on February 14, 20__ (such period, the “New Rate Period”), pursuant to the applicable terms of the Original Order and the terms of an order adopted by the Board on December 18, 2025 (the “Conversion Order”). The Conversion Order delegated to certain District officials and staff members (each, an “Authorized Official”) the authority to execute a pricing certificate (the “Conversion Pricing Certificate”) evidencing certain of the terms of the Variable Rate Bonds, as remarketed.

On February 15, 2026 (the “Conversion Date” although such tender will occur administratively on the first business day after such date, February 17, 2026), all outstanding Bonds in the Initial Rate Period, as stated above, are subject to mandatory tender for purchase, without the right of retention by the owners thereof (interest on the Bonds shall cease to accrue at the Initial Rate on February 14, 2026, being the last day of the Initial Rate Period).

The Variable Rate Bonds are currently outstanding in the principal amount of \$13,620,000. On February 17, 2026, (as February 15, 2026 is not a business day) \$13,620,000* in Variable Rate Bonds will be mandatorily tendered for purchase by the existing holders thereof for remarketing and conversion to the New Rate Period by the remarketing agent identified below and \$_____* will be optionally redeemed by the District. Except specifically with respect to a description of the Variable Rate Bonds prior to the Conversion Date, the term “Bonds” as used in this Remarketing Memorandum refers to Variable Rate Bonds that remain outstanding on and immediately after the Conversion Date.

NEW RATE PERIOD . . . On the Conversion Date, the Bonds tendered for purchase and not optionally redeemed will be converted to the New Rate Period. The Bonds will bear interest during the New Rate Period at a Term Rate of __%, which Term Rate will be effective from and including the Conversion Date and shall remain in effect through and including the last day of the New Rate Period (which is February 14, 20__). If such day is not a business day, the actual tender shall occur on the next business day although interest will have ceased to accrue as of the expiration of the New Rate Period. Pursuant to the terms of the Original Order, the Term Rate on the Bonds is established by the Remarketing Agent (defined herein) for the New Rate Period.

GENERAL DESCRIPTION . . . Authorized Denominations. The Bonds are being remarketed in the New Rate Period in principal denominations of \$5,000 or integral multiples thereof.

Calculation of Interest; Interest Payment Dates. Interest accrued on the Bonds during the New Rate Period will be paid on each February 15 and August 15, commencing August 15, 2026 (and continuing through February 15, 2051). Interest on the Bonds in a Stepped Rate Period will be payable on each February 15 and August 15 during such period and on the day such Bonds are converted from the Stepped Rate Period to a different Rate Period (as defined herein).

Interest Payment Methods. While the Bonds bear interest at a Term Rate, interest will be paid by check, sent by first class mail, to the owner of record on the Record Date or by such other customary banking arrangement acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the owner.

* Preliminary, subject to change.

Book-Entry System of Registration and Payment. The Bonds were issued as Book-Entry-Only securities through The Depository Trust Company (“DTC”). Use of the DTC Book-Entry-Only System will affect the timing and receipt of payment of interest on and principal of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.

Paying Agent/Registrar. UMB Bank, N.A., Dallas, Texas currently serves as the Paying Agent/Registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District has covenanted in the Order to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any 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.

Tender Agent. UMB Bank, N.A., Dallas, Texas, currently serves as the tender agent (the “Tender Agent”) for the Bonds. All notices and Bonds required to be delivered to the Tender Agent shall be delivered to UMB Bank, N.A., 5910 N. Central Expressway, Suite 1900, Dallas, Texas 75206, Attn: Damien Daley (damien.daley@umb.com) 214.389.5941. In the event that the Book-Entry-Only System herein is discontinued and registered bonds are issued, all notices and Bonds are required to be delivered to UMB Bank, N.A., 5910 N. Central Expressway, Suite 1900, Dallas, Texas 75206.

Remarketing Agent and Remarketing Agreement. Robert W. Baird & Co. Incorporated (“Baird”) has been appointed to serve as the remarketing agent (the “Remarketing Agent”) for the Bonds. Baird may be removed as Remarketing Agent and a successor may be appointed in accordance with the Order and the Remarketing Agreement between the Remarketing Agent and the District. The office of Baird for purposes of its duties as Remarketing Agent, is 227 N. Loop 1604, Ste. 150, San Antonio, Texas 78232.

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

DETERMINATION OF INTEREST RATES; RATE MODE CHANGES . . . New Rate Period. The Bonds will bear interest at the Term Rate of __%, from the Conversion Date through and including February 14, 20__. The Interest Payment Dates during the New Rate Period will be February 15 and August 15, commencing on August 15, 2026, and continuing through February 15, 20__ (preliminary, subject to change). Following the New Rate Period, the Bonds will bear interest at a Term Rate as determined by the Remarketing Agent, unless changed by the District in the manner as described below.

Rate Mode Changes after New Rate Period. On the first Business Day immediately following the last day of the New Rate Period (referred to herein as the “New Mandatory Tender Date”), which is scheduled for February 15, 2026 (although will occur on February 17, 2026), the Bonds are subject to mandatory tender for purchase, without right of retention by the holders thereof, and are to be converted from the New Term Rate Period to one or more different Rate Periods established under the Order. See “– Tender Provisions – Mandatory Tender.” The “Rate Periods” established under the Order include a term rate period and fixed rate period. The Order does not obligate the District to obtain a standby bond purchase agreement, liquidity facility, or similar agreement (each, a “Liquidity Facility”) providing liquidity support for the Bonds upon the conversion thereof from the New Rate Period to a different term rate period or a fixed rate period. Any Liquidity Facility obtained by the District in connection with the conversion of the Bonds following the New Rate Period will not be available to pay any portion of the Purchase Price of the Bonds on the New Mandatory Tender Date. If the day specified for any payment and interest on the Bonds is not a business day, then such payment may be made on the next business day without additional interest and with the same force and effect as if made on the date specified for the payment.

The District may elect to convert the Bonds on the New Mandatory Tender Date from the New Rate Period to one or more Rate Periods by notice given to the Paying Agent/Registrar and certain other notice parties at least 45 days prior to the New Mandatory Tender Date. Such notice shall also specify the conditions, if any, to the conversion and the consequences of such conditions not being fulfilled. Not less than 30 days prior to such conversion, the Paying Agent/Registrar shall send a written notice of the conversion and the mandatory tender for the Bonds to the registered owners thereof. See “– Tender Provisions – Mandatory Tender.” While the Bonds are in book-entry form, registered to DTC, such notice will be given only to DTC.

After the New Rate Period, any conversion to a new interest period will be conditioned on delivery of an opinion of nationally recognized bond counsel to the Paying Agent/Registrar and the Remarketing Agent prior to the applicable conversion date to the effect that the conversion will not adversely affect the excludability of interest on the Bonds from gross income of the owners thereof for federal income tax purposes and is in compliance with State law. Bond Counsel’s Original Opinion attached to this Remarketing Memorandum as Appendix C expresses no opinion as to the effect on excludability from gross income for federal income tax purposes of any action taken after the delivery date which requires the receipt of an opinion of a nationally recognized bond counsel.

While in a Term Rate mode, Bonds may be converted to a different interest rate mode only at the expiration of a Term Rate period.

Any Owner of Bonds who may be unable to take timely action on any notice should consider whether to make arrangements for another person to act in his or her stead.

Determination of Interest Rates. During each Rate Period after the New Rate Period, the rate of interest on the Bonds will be the rate that the Remarketing Agent determines, in conjunction with the District and under prevailing market conditions on the date of such determination, would result in the market value of the Bonds being not less than 100% of the principal amount thereof.

In no event will the interest rate borne by the Bonds exceed the “Highest Rate”, which (as provided in the Order) is the lesser of 8.00% and the maximum net effective interest rate permitted under Chapter 1204, Texas Government Code, as amended.

TENDER PROVISIONS . . . No Optional Tender. During the New Rate Period, the Bonds are not benefitted by a Liquidity Facility, nor is one currently contemplated to be entered into in the future. The Bonds are not subject to optional tender at the election of the holders thereof for purchase during the New Rate period.

Mandatory Tender. The Bonds are required to be tendered for purchase to the Tender Agent on the day immediately succeeding conclusion of the New Rate Period for the Bonds, without right of retention by holders thereof, and, if not successfully remarketed at the end of the New Rate Period, while the Bonds bear interest at the Stepped Rate, upon at least one day’s prior notice.

Payment of the Purchase Price of Bonds to be purchased upon mandatory tender as described herein will be made by the Tender Agent at its Corporate Trust Office or by wire transfer in immediately available funds. Payment of such Purchase Price is not guaranteed by the Permanent School Fund Guarantee.

Effects of Failed Remarketing. In the event that such Bonds are not converted and remarketed to new purchasers on the scheduled date of mandatory tender, the District or the Remarketing Agent shall have no obligation to purchase the Bonds tendered on such date, the failed conversion and remarketing shall not constitute an event of default under the Original Order or the Bonds, the mandatory tender notice will be deemed to have been rescinded for that date with respect to the Bonds subject to such failed remarketing only, and such Bonds (i) will continue to be Outstanding, (ii) will be purchased upon the availability of funds to be received from the subsequent remarketing of such Bonds, (iii) will bear interest at the Stepped Rate during the Stepped Rate Period, (iv) will be subject to redemption and mandatory tender for purchase on any date during the Stepped Rate Period upon which a conversion occurs (which shall occur at the District’s discretion upon delivery of at least one day’s notice to the holders of Bonds bearing interest at the Stepped Rate), and (v) will be deemed to continue in the then-applicable Term Rate period for all other purposes of the Original Order, though bearing interest during such time at the Stepped Rate until remarketed or redeemed in accordance with the terms of the Original Order. In the event of a failed conversion and remarketing as described above, the District has covenanted in the Original Order to cause the Bonds to be converted and remarketed on the earliest reasonably practicable date on which they can be sold at not less than par, in such interest rate mode or modes as the District directs at a rate not exceeding the Highest Rate. The Conversion Order provides that the Stepped Rate means a rate per annum equal to __%, calculated on the basis of twelve 30-day months and the number of days actually elapsed.

Interest on any Bond that the Owner has not elected to continue to own after a mandatory purchase date and that is not tendered on the mandatory purchase date, but for which there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the Purchase Price thereof, will cease to accrue on the mandatory purchase date. Thereafter, the Owner of such Bond will not be entitled to any payment other than the Purchase Price for such Bond from money held by the Tender Agent for such payment, and such Bond will not otherwise be outstanding or entitled to the benefits of the Original Order. On the mandatory purchase date, the Tender Agent will authenticate and deliver substitute Bonds in lieu of such untendered Bonds.

Remarketing and Purchase. The Remarketing Agent is required, at a minimum, to use its best efforts to sell such Bonds at a price equal to not less than 100% of the principal amount thereof plus accrued interest, if any, on the forthcoming mandatory tender date or as quickly as possible thereafter.

The Purchase Price of Bonds tendered for purchase is required to be paid by the Tender Agent from money derived from the remarketing of such Bonds by the Remarketing Agent. If sufficient funds are not available for the purchase of all tendered Bonds, no purchase will be consummated.

REDEMPTION . . . Optional Redemption. The Bonds are not subject to optional redemption prior to the expiration of the New Rate Period; provided, however, the Bonds are subject to optional redemption on the New Mandatory Tender Date and on any date when the Bonds bear interest at the Stepped Rate.

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Scheduled Mandatory Redemption. The Bonds are subject to mandatory redemption prior to stated maturity as follows (preliminary, subject to change):

<u>Mandatory Redemption</u>	
<u>Date:</u>	<u>Amount:</u>
February 15, 2042	\$1,020,000
February 15, 2043	1,055,000
February 15, 2044	1,100,000
February 15, 2045	1,145,000
February 15, 2046	1,205,000
February 15, 2047	2,670,000
February 15, 2048	2,775,000
February 15, 2049*	2,650,000

* Stated maturity

The principal amount of Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 50 days prior to the mandatory redemption date (1) shall have been defeased or acquired by the District 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 with money in the Interest and Sinking Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

Special Mandatory Redemption. While the Variable Rate Bonds are Outstanding and accruing interest at the Term Rate which includes a period longer than the period for which taxes are then being assessed, the District may, at its discretion and in accordance with and as permitted by the Order, budget for such fiscal year and levy taxes for the payment of interest on the Bonds based on an interest rate on the Bonds equal to the actual rate borne thereby or up to the Highest Rate per annum. At the end of the fiscal year in which the District levies a tax based on the interest rate on the Bonds being equal to a rate of interest other than the actual rate borne by the Bonds up to the Highest Rate, the District shall determine whether the interest paid on the Bonds in such fiscal year is less than the amount of revenue collected. If in such circumstance the amount of interest paid on the Bonds is less than the amount collected, the District shall cause the difference between the amount budgeted at the assumed interest rate and the amount paid on the Bonds ("Excess Interest Funds") to be allocated and appropriated for the payment of the mandatory redemption of Bonds on the first February 15 next following the end of such fiscal year; provided the amount of such Excess Interest Funds is equal to or greater than \$100,000. In each fiscal year when the amount of Excess Interest Funds is equal to or greater than \$100,000, the District shall cause Bonds in a principal amount equivalent to the Excess Interest Funds to be redeemed on the August 15 next following the end of such fiscal year at the redemption price of par plus accrued interest to the date of redemption. The mandatory redemption of Bonds in accordance with the provisions of this paragraph shall be in addition to the amount of Bonds to be mandatorily redeemed as set forth in the schedule above in the years shown.

On or before July 1 of each year preceding each mandatory redemption date the Bonds are to be mandatorily redeemed, the District will notify the Paying Agent/Registrar in writing of the principal amount of Bonds to be mandatorily redeemed with Excess Interest Funds on the following February 15, and instruct the Paying Agent/Registrar to select by lot or other customary random selection method the Bonds or portions thereof to be redeemed.

NOTICE OF REDEMPTION . . . The Paying Agent/Registrar is required to cause notice of any redemption of Bonds to be mailed to each owner of Bonds to be redeemed at the respective addresses appearing in the registration books for the Bonds at least 30 days prior to the redemption date when Bonds bear interest at the Stepped Rate at the Term Rate (including during the New Rate Period). All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state the Bonds, or the portion of the principal amount thereof, to be redeemed, shall become due and payable on the redemption date specified, and the interest thereof, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify the payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived, as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding. A notice of mandatory tender delivered in connection with the remarketing of any outstanding Bonds shall also serve as notice of redemption if any such Bonds will be redeemed on a Conversion Date.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING

THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar, so long as a book-entry system is used for the Bonds, will send any notice of redemption, or other notices with respect to the Bonds only to DTC (or any successor securities depository for the Bonds). Any failure by DTC to advise any Direct Participant (defined herein), or of any Direct Participant or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), will 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 Direct Participants in accordance with its rules or other agreements with Direct Participants and then Direct 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 Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants, or the persons for whom Direct Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein).

LEGALITY . . . The Bonds were initially delivered on May 12, 2021, and were approved as to legality by the Attorney General of the State of Texas and the approval of certain legal matters by the District's bond counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Bond Counsel will approve certain legal matters relating to the conversion and remarketing of the Bonds described herein. See "LEGAL MATTERS" and "BOND COUNSEL'S ORIGINAL OPINION" attached hereto as Exhibit C.

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

AMENDMENTS . . . The District may amend the Original Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate, combined principal amount of the Fixed Rate Bonds and the Variable Rate Bonds then outstanding, amend, add to, or rescind any of the provisions of the Original Order; except that, without the consent of the registered owners of all of the Fixed Rate Bonds and Variable Rate Bonds then outstanding, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount, thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition or rescission.

DEFEASANCE OF OUTSTANDING BONDS . . . The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Defeasance Securities sufficient to make such payment. The sufficiency of deposits hereinbefore described shall be certified by an independent certified accountant, the District's Financial Advisor, the Paying Agent/Registrar, or some other qualified financial institution as specified in the Order. The District has additionally reserved the right in the Order, 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 moneys on deposit for such defeasance and to withdraw for the benefit of the District money in excess of the amount required for such defeasance. The Order provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. Authorized District officials may restrict such eligible securities as deemed appropriate in connection with the remarketing of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Defeasance Securities, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the District has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the District to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, which defeasance securities may not be of the same investment quality as those currently identified Texas law as permissible defeasance securities.

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

have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds (see “APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein).

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 The Depository Trust Company (“DTC”), New York, New York, while the Bonds are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Remarketing Memorandum. The District and the Remarketing Agent believe the source of such information to be reliable but take no responsibility for the accuracy or completeness thereof.

The District, the Financial Advisor, and the Remarketing Agent cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, 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), redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Remarketing Memorandum. 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.

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

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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 payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the 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 in accordance with the Order.

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.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor, or the Remarketing Agent take any responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Remarketing Memorandum . . . In reading this Remarketing Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Remarketing Memorandum 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.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed bond certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS – Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any 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.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds will be printed and delivered to the Beneficial Owners thereof, and thereafter may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instruments 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 corporate trust office of the Paying Agent/Registrar (as defined in the Order), or sent by United States mail, first class, postage prepaid, to the new registered owner or its designee. 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 business days after the receipt of the Bonds to be canceled, 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 any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount, as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description to be utilized initially in regard to ownership and transferability of the Bonds.

LIMITATION ON TRANSFER OF BONDS . . . The Paying Agent/Registrar shall not be required to make any transfer or exchange with respect to Bonds 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 with respect to any Bond or any portion thereof called for redemption prior to maturity, within 30 days prior to its redemption date, provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

REPLACEMENT BONDS . . . If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount, maturity and interest rate 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 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.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for determining the party to whom the interest on a Bond is payable on any interest payment date means the close of business on the last business day of the preceding month; provided, however, that the Record Date for the one-time irregular payment date shall be on the Date of Initial Delivery.

In the event of a non-payment 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 holder of a Bond appearing on the registration 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.

BONDHOLDERS' REMEDIES . . . If the District defaults in the payment of the principal of, redemption price, or interest due on the Bonds, when due, or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the performance or observance of any other covenant, agreement or obligation of the District and the confirmation thereof for a period of 60 days after notice of such default is given by a holder to the District, in such event, any owner may proceed against the District for the purpose of protecting and enforcing the rights of the owners under the Order, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction. Such a right is in addition to any other rights, the registered owners of the Bonds may be provided by the laws of the State. The issuance of a writ of mandamus is controlled by equitable principles, so 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, 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 issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the remarketing of the Bonds (see "THE BONDS – Authority for Issuance" herein), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, 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. See "APPENDIX D – 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. The opinion of 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 and by general principles of equity which permit the exercise of judicial discretion.

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS . . . The District is authorized to levy a maximum maintenance and operation ("M&O") tax rate of \$1.50 per \$100 of assessed valuation, as approved by the voters at an election held on January 9, 1960, pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

The maximum M&O tax rate per \$100 of taxable 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 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 & Source of Payment.")

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 test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds were initially issued as "new money" and were, subject to the 50-cent Test. In connection with prior bond issuances, the District has not used projected property values or State assistance (other than EDA, IFA, and ASAFE allotment funding) to satisfy this threshold test.

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

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

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

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

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

AD VALOREM TAX PROCEDURES

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

VALUATION OF TAXABLE PROPERTY . . . The Property Tax Code provides for 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 Bexar and Medina Counties Appraisal District (together, the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

Unless extended by the Legislature, through December 31, 2026 an appraisal district is prohibited from increasing the appraised value of real property during the 2025 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5.16 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 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

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

STATE MANDATED HOMESTEAD EXEMPTIONS. . . State law grants, with respect to each school district in the State, (1) a \$100,000 exemption of the appraised value of all homesteads, (2) a \$10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by both houses of the Legislature during the 89th Regular Session increases: (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.

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 an optional homestead exemption described in clause (1) above that was granted in tax year 2022 through December 31, 2027. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

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 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 homestead qualified for such exemption. This freeze is transferable to a different homestead if a qualifying taxpayer moves and, under certain circumstances, is also transferable to the surviving spouse of persons sixty-five (65) years of age or older, but not the disabled. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

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. Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by the Legislature and signed by the Governor during the 89th Regular Session will provide a person to 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.

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as retail manufactured housing inventory, or a dealer’s motor vehicle, vessel 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. See “Appendix A – Financial Information of the District – Assessed Valuation” for the reduction in taxable valuation, if any, attributable to Goods-in-Transit or Freeport Property exemptions.

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER. . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Legislature amended Section 11.35 Tax Code to clarify that “damage” for the purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35 of the 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 (Chapter 313, Texas Tax Code, as amended) allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district could only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that is not fully taxable is excluded from the school district’s taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (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.

For a discussion of how the various exemptions described above are applied by the District, see “ - District Application of Tax Code” herein.

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

In the 88th Legislative Session, House Bill 5 (“HB 5” or “The Texas Jobs, Energy, Technology, and Innovation Act”) was adopted to create an economic development program, subject to state oversight, which would attract jobs and investment to Texas through school district property tax abatement agreements with businesses. HB5 was codified as Chapter 403, Subchapter T, Texas Government Code (“Chapter 403”) and had an effective date of January 1, 2024. Under Chapter 403, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. Chapter 403 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project’s construction period. Taxable valuation for purposes of the debt 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 “ – District Application of Tax Code” 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 one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$61,349,201 for the 2025 tax year and is adjusted annually by the State Comptroller 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 become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax

also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See “AD VALOREM TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

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

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

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

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

DISTRICT APPLICATION OF TAX CODE . . . The District does grant a State mandated \$140,000 general residence homestead exemption.

The District does grant a State mandated \$60,000 residence homestead exemption for taxpayers who are at least 65 years of age or disabled. A taxpayer who qualifies for both the age 65 or older exemption and the disabled exemption must choose only one of the options to claim.

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

The District does not tax non-business personal property.

The Medina County Tax Assessor-Collector’s Office (the “Tax Assessor-Collector”) collects taxes for all property within the District.

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

The District does not grant tax abatements.

The District has taken action to continue taxing Goods-in-Transit.

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

The Board has approved a resolution initiating an additional 20% penalty to defray attorney costs in the collection of delinquent taxes over and above the penalty automatically assessed under the Property Tax Code. 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 increases at the rate of 1% each month. An additional penalty of 20% is assessed on July 1 in order to defray attorney’s collection expenses.

Property within the District is assessed as of January 1 of each year (except business inventories which may be assessed as of September 1 and mineral values which are assessed on the basis of a twelve-month average) and taxes become due October 1 of the same year and become delinquent of February 1 of the following year. Split payments of taxes are not permitted. Discounts for the early payment of taxes are not permitted.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

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

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

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CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW . . . The following language constitutes only a summary of the Finance System. 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 Remarketing Memorandum. Voter approval of constitutional amendments submitted to the voters at an election held on November 4, 2025 are noted below. See “– 2025 Legislative Session,” below. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

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

During the 89th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Pursuant to a Statewide election held on November 4, 2025 and legislation passed by both houses of the Legislature there is an increase in: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) the exemption for tangible personal property used in the production of income from the current \$2,500 to \$125,000. Additionally, the Legislature passed legislation that authorizes roughly \$8.5 billion in funding for public schools and provides districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as providing districts with additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation passed by the Legislature and signed into law by the Governor will create an education savings account program (commonly referred to as vouchers) for students that attend private schools or home school. The legislation was effective September 1, 2025, when the state fiscal biennium begins, though families will not receive ESA funds until the 2026-2027 school year. The amount spent for purposes of the program for the 2025-2027 biennium may not exceed \$1 billion. Beginning on September 1, 2027, the legislation requires the Legislature to re-appropriate funds for the program for each subsequent State fiscal biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District’s attendance-based funding.

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

LOCAL 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 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 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 increases (1) the State mandated general homestead exemption from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000. The constitutional amendment takes effect for the tax year beginning January 1, 2025.

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

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

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

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

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 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.

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 then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation and retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by the district's Basic Allotment is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

The fast growth allotment weights 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 Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. A school district may use additional state aid received from an IFA award only to pay the principal of and interest on the bonds for which the district received the aid. The guaranteed level of State and local funds per student percent 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 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 Commissioner may proportionally reduce the amount of funding a school district receives under the Foundation School Program and the ADA calculation if the school district operates on a calendar that provides less than the State-mandated minimum instruction time in a school year. The Commissioner may also adjust a school district's ADA as it relates to State funding where disaster, flood, extreme weather or other calamity has a significant effect on a school district's attendance.

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2025-2026 school year, the District was not designated as an “excess local revenue” Chapter 49 school district by TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. 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 revenues” must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District’s wealth per student should exceed the maximum permitted value in future school years, it will be required to exercise one or more of the permitted wealth equalization options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district’s combined property tax base, and the District’s ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of an annexing district.

For a detailed discussion of State funding for school district see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts.”

INVESTMENTS

INVESTMENTS . . . The District invests its funds in investments authorized by State 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 and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) “A” or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an “A” or better rated state or national bank; (10) 270-day or shorter bankers’ acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least “A-1” or “P-1”; (11) commercial paper rated at least “A-1” or “P-1”; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) “AAA” or “AAAm” rated investment pools that invest solely in investments described above; (15) 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 Public Funds Investment Act; and (16) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The District may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the District may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund’s total assets.

Except as stated above or inconsistent with its investment policy, the District may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the District is not required to liquidate the investment unless it no longer carries a required rating, in which case the District is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

As a school district that qualifies as an “issuer” under Chapter 1371, the District is also authorized to purchase, sell, and invest its funds in corporate bonds. State law defines “corporate bonds” as senior secured debt obligations issued by a domestic business entity and rated not lower than “AA-” or the equivalent by a nationally recognized investment rating firm. The term does not include a bond that is convertible into stocks or shares in the entity issuing the bond (or an affiliate or subsidiary thereof) or any unsecured debt. Corporate bonds must finally mature not later than 3 years from their date of purchase by the school district. A school district may not (1) invest more than 15% of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service) in corporate bonds; or (2) invest more than 25% of the funds invested in corporate bonds in any one domestic business entity (including subsidiaries and affiliates thereof). Corporate bonds held by a school district must be sold if they are at any time downgraded below “AA-” (or the equivalent thereof) or, with respect to a corporate bond rated “AA-” (or the equivalent thereof), such corporate bond is placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. To invest in corporate bonds, an eligible school district must first (i) amend its investment policy to authorize corporate bonds as an eligible investment, (ii) adopt procedures for monitoring rating changes in corporate bonds and liquidating an investment in corporate bonds, and (iii) identify funds eligible to be invested in corporate bonds. As of the date of this Remarketing

Memorandum, the District has not taken the steps necessary to allow for investing in corporate bonds or made investments in that type of instrument.

INVESTMENT POLICIES . . . Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the District's investments 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." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

CURRENT INVESTMENTS – TABLE 1

As of August 31, 2025, the District's investable funds in the amount of \$350,769,926 were invested in the following:

<u>Type of Investment</u>	<u>Amount</u>
Investment Pools	\$30,819,890
General Fund Bank	3,856,697
Debt Service Investment Pools	6,466,347
Capital Projects Investment Pools	<u>309,653,992</u>
Total	\$350,796,926

Source: The District.

EMPLOYEES' RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan (the "Plan") with the State of Texas. The Plan is administered by the Teacher Retirement System of Texas ("TRS"). State contributions are made to cover the costs of the Plan up to certain statutory limits. The District is obligated for a portion of TRS costs relating to employee salaries that exceed the statutory limit. Aside from the District's contribution to TRS, the District has no pension fund expenditures or liabilities. For the fiscal year ending August 31, 2025, the District made a contribution to TRS on a portion of their employees' salaries that exceeded the statutory minimum. For a discussion of the Plan, see "Note – (14)" in the audited financial statements of the District that are attached hereto as APPENDIX E (the "Financial Statements").

In addition to its participation in TRS, the District contributes to the Texas Public School Retired Employees Group Insurance Program (the "TRS-Care Retired Plan"), a cost-sharing multiple-employer defined benefit post-employment health care plan. The TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who have retired under the TRS. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. For more detailed information concerning the District's funding policy and contributions in connection with the TRS-Care Retired Plan, see "Note – (15)" in the Financial Statements.

During the year ended August 31, 2025, employees of the District were covered by a fully insured health insurance plan (the "Health Care Plan"). Employees, at their option, authorize payroll withholdings to pay premiums for dependents. See "Note – (19)" of the Financial Statements.

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

TAX MATTERS

OPINION . . . At the time of the original delivery of the Bonds, and on the date of settlement of the initial remarketing of the Bonds, McCall, Parkhurst Horton L.L.P., Bond Counsel to the District, rendered its respective opinions that, as of the respective dates thereof, in accordance with statutes, regulations, published rulings and court decisions existing on the respective dates thereof ("Existing Law"), (1) interest on the Bonds is excludable from the "gross income" of the owners thereof for federal income tax purposes and (2) the Bonds are not "specified private activity bonds" within the meaning of section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). As a condition to conversion and remarketing of the Bonds on the conversion date, Bond Counsel will render an opinion to the effect that the conversion will not adversely affect

any exclusion of interest on any Bond from gross income of the owner for federal income tax purposes. See "Appendix C – Form of Legal Opinion of Bond Counsel." Except as stated above, Bond Counsel to the District has expressed and will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds, including any opinion relating to the status of the Bonds, as of the conversion date, as obligations described in section 103 of the Code.

In rendering its opinion, Bond Counsel to the District relied upon (i) information furnished by the District with respect to certain material facts that are solely within their knowledge relating to the use of the proceeds of the Bonds, the construction, use and management of the project financed with the proceeds of the Bonds and in the case of the opinion to be rendered on the conversion date the use of proceeds of and the property to be refinanced by the Bonds, and (ii) covenants of the District with respect to arbitrage, the application of the proceeds received from the issuance and sale of the Bonds and certain other matters. Failure to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the District is conditioned on compliance by the District with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the District that it deems relevant to render such an opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such a procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount

Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds may be includable in certain corporation's "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Bonds" to the extent such gain does not exceed the accrued market discount of such Bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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 foreign investors, 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.

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 for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). For a description of the continuing disclosure obligations of the TEA, see "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM."

ANNUAL REPORTS . . . The District will file certain updated financial information and operating data with 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 Remarketing Memorandum as Table 1, in APPENDIX A (Tables 1- 10) and in APPENDIX E. The District will update and provide this information within six months after the end of each Fiscal Year ending in or after 2026.

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 EMMA Internet Website or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX 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 District's current fiscal year end is August 31. Accordingly, it must provide updated information by February in each year following the end of its fiscal year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES . . . The District will also provide the MSRB notices of certain events on a timely basis, no later than 10 business days after the event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the 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 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; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into of 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 trustee or the change of name of a trustee, 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. Neither the Bonds nor the Order makes any provision for a debt service reserve fund, credit enhancement (except with respect to the Permanent School Guarantee Fund) or a trustee. In the Original Order, the District adopted policies and procedures to ensure timely compliance with continuing disclosure undertakings.

For these purposes, (a) any event described in clause (12) of 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, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

NOTICE OF FAILURE TO TIMELY FILE . . . The District also will notify the MSRB through EMMA, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with the provisions described above.

AVAILABILITY OF INFORMATION . . . The District has agreed to provide the foregoing information only to the MSRB. The information will be available to holders of the Bonds free of charge through the MSRB's EMMA system.

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of material 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.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders 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 provisions 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 so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the past five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

LEGAL MATTERS

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE . . . The District will furnish the Remarketing Agent with a complete transcript of proceedings incident to the authorization and issuance of the Bonds being purchased, including the unqualified approving legal opinion of the Attorney General of Texas to the effect that such Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without limit as to rate or amount, upon all taxable property in the District, and the legal opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, a copy of the proposed form of which is attached as APPENDIX C. Though it represents investment banking firms such as the Remarketing Agent from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in the Remarketing Memorandum. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Remarketing Memorandum, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information (other than any financial, technical, or statistical data therein) in this Remarketing Memorandum appearing under the captions and subcaptions “THE BONDS” (excluding the information under the subcaption “Permanent School Fund Guarantee”, “DTC Redemption Provisions”, “Book-Entry-Only-System”, “Sources and Uses of Proceeds”, and “Bondholders’ Remedies” as to which no opinion is expressed), “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS”, “CURRENT PUBLIC SCHOOL FINANCE SYSTEM,” “THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT”, “TAX RATE LIMITATIONS” (first paragraph only), “CONTINUING DISCLOSURE OF INFORMATION” (except under the subcaption “Compliance with Prior Undertakings”, as to which no opinion is expressed), “OTHER INFORMATION – Registration and Qualification of Bonds for Sale”, “LEGAL MATTERS - Legal Investments and Eligibility to Secure Public Funds in Texas”, and such firm is of the opinion that the information contained under such captions and subcaptions 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.

The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Remarketing Agent by its counsel, Winstead PC, San Antonio, Texas, whose legal fees are contingent upon the delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues 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.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – Rating” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the District has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

OTHER INFORMATION

RATING . . . At the time of their initial issuance, the Bonds were rated “AAA” by S&P Global Ratings (“S&P”) by virtue of the guarantee of the Permanent School Fund Guarantee of the State of Texas. The Bonds remain guaranteed by the Permanent School fund Guarantee Programs. The Bonds and the outstanding debt of the District has been rated “AA-” by S&P without regard to credit enhancement. The rating reflects only the view of such an organization at the time the ratings are given, and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

Periodically, rating agencies will evaluate and, on occasion as a result of these evaluations revise their rating methodologies and criteria for municipal issuers such as the District. A revision in a rating agency’s rating methodology could result in a positive or negative change in a rating assigned by that agency, even if the rated entity has experienced no material change in financial condition or operation. Any of the rating agencies at any time while the Bonds remain outstanding could undertake such an evaluation process.

LITIGATION . . . In the opinion of District officials, 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 of the District.

At the time of the initial delivery of the Bonds, the District will provide the Remarketing Agent 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.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualifications 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 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 Remarketing Agent 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 Remarketing Agent's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION . . . The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Remarketing Memorandum are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

REMARKETING . . . The Remarketing Agent has agreed, subject to certain conditions, to purchase the Bonds from the District, at a price equal to the initial offering prices to the public, as shown on page 2 of this Remarketing Memorandum, less an underwriting discount of \$ _____, and no accrued interest. The Remarketing Agent will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Remarketing Agent and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Remarketing Agent.

The Remarketing Agent has provided the following sentence for inclusion in this Remarketing Memorandum. The Remarketing Agent has reviewed the information in this Remarketing Memorandum in accordance with, and as part of, its responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Remarketing Agent does not guarantee the accuracy or completeness of such information.

CERTIFICATION OF THE REMARKETING MEMORANDUM . . . At the time of payment for and delivery of the Bonds, the initial purchasers will be furnished a certificate, executed by an Authorized Official acting in his or her official capacity, to the effect that to the best of his or her knowledge and belief: (a) the description and statements of or pertaining to the District contained in the Remarketing Memorandum, and any addenda, supplement or amendment thereto, on the date of the Remarketing Memorandum, on the date of the sale of the Bonds and the acceptance of the best bid therefor, and on the date of the initial delivery of the Bonds, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs are concerned, the Remarketing Memorandum did not and does not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of circumstances under which they were made, not misleading; (c) to the best of his or her knowledge, insofar as the description and statements, including financial data, of or pertaining to entities other than the District, and their activities contained in the Remarketing Memorandum are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the District since August 31, 2025, the date of the last audited financial statements of the District.

FORWARD-LOOKING STATEMENTS DISCLAIMER . . . The statements contained in this Remarketing Memorandum, 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 Remarketing Memorandum 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. The District's actual results could differ materially from those discussed in such forward-looking statements.

The forward-looking statements included 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 Remarketing Memorandum will prove to be accurate.

INFORMATION FROM EXTERNAL SOURCES . . . References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Preliminary Remarketing Memorandum for purposes of, and as that term is defined in, the Rule.

MISCELLANEOUS . . . The financial data and other information contained herein have been obtained from the District's records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and resolutions contained in this Remarketing Memorandum are made subject to all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

In the Order, the Board authorized (i) the District representative to approve, for and on behalf of the District, the form and content of this Remarketing Memorandum, and any addenda, supplement or amendment thereto, and (ii) its further use in the public offering and sale of the Bonds by the Remarketing Agent.

Superintendent
Medina Valley Independent School District

APPENDIX A

FINANCIAL INFORMATION OF THE ISSUER

FINANCIAL INFORMATION OF THE ISSUER**ASSESSED VALUATION****TABLE 1**

2025 Total Appraised Value	\$ 10,465,101,377
Less:	
Homestead Exemption Loss	\$ 1,945,703,729
Over-65/Homestead Exemption Loss	140,175,652
Disabled Persons/Surviving Spouse Exemption	7,322,809
Disabled Veterans/Surviving Spouse Exemption	12,932,579
Disabled Veterans/Surviving Spouse Homestead Exemption	624,029,173
Member Armed Services Surviving Spouse	850,436
Solar Wind Exemption Loss	-
Miscellaneous	34,456,321
Productivity Loss	1,327,422,572
Homestead Cap	138,110,723
2025 Net Taxable Assessed Valuation	\$ 6,234,097,383

Note: The above figures were taken from the Bexar County and Medina County Appraisal Districts.

GENERAL OBLIGATION BONDED DEBT**TABLE 2**

(As of November 30, 2025)

General Obligation Debt Outstanding:

Unlimited Tax Debt:	
Unlimited Tax Refunding Bonds, Series 2014	\$ 2,031,680
Unlimited Tax Refunding Bonds, Series 2015	255,000
Unlimited Tax Refunding Bonds, Series 2015A	1,540,000
Unlimited Tax Refunding Bonds, Series 2016	14,105,000
Unlimited Tax School Building Bonds, Series 2016	65,870,000
Unlimited Tax School Building Bonds, Series 2019	39,215,000
Fixed and Variable Rate Unlimited Tax School Building Bonds, Series 2021*	27,795,000 ⁽¹⁾
Unlimited Tax School Building Bonds, Series 2022	14,030,000
Unlimited Tax School Building Bonds, Series 2023	364,340,000
Unlimited Tax School Building Bonds, Series 2024	11,090,000
Unlimited Tax School Building Bonds, Series 2025	128,615,000
Total Unlimited Tax Debt	\$ 668,886,680 ⁽¹⁾
Interest and Sinking Fund Balance as of August 31, 2025	\$ 6,471,898
2025 Net Taxable Assessed Valuation ⁽²⁾	\$ 6,234,097,383
Ratio of Total General Obligation Debt to 2025 Net Taxable Assessed Valuation	10.73%

Area of District:	296 Square Miles
Estimated Population:	38,348 in Year 2026
Per Capita 2025 Net Taxable Assessed Valuation:	\$ 162,566
Per Capita General Obligation Debt:	\$ 17,443

() As of November 30, 2025, fixed and variable outstanding balances total \$14,175,000 and \$13,620,000, respectively.*

⁽¹⁾ Preliminary, subject to change.

⁽²⁾ See "AD VALOREM TAX PROCEDURES" in the body of this Remarketing Memorandum for a description of the District's taxation procedures.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS*

Fiscal Year Ending 8/31	Current Total Debt Service ⁽¹⁾	The Bonds ⁽²⁾			Combined Debt Service
		Principal	Interest	Total	
2026	\$ 36,491,307	\$ -	\$ 476,700	\$ 476,700	\$ 36,968,007
2027	38,201,119	-	953,400	953,400	39,154,519
2028	38,573,294	-	953,400	953,400	39,526,694
2029	38,275,694	-	953,400	953,400	39,229,094
2030	38,268,094	-	953,400	953,400	39,221,494
2031	38,268,594	-	953,400	953,400	39,221,994
2032	38,759,519	-	953,400	953,400	39,712,919
2033	41,658,719	-	953,400	953,400	42,612,119
2034	41,666,919	-	953,400	953,400	42,620,319
2035	41,666,769	-	953,400	953,400	42,620,169
2036	41,664,269	-	953,400	953,400	42,617,669
2037	41,662,719	-	953,400	953,400	42,616,119
2038	41,630,994	-	953,400	953,400	42,584,394
2039	41,633,769	-	953,400	953,400	42,587,169
2040	41,632,494	-	953,400	953,400	42,585,894
2041	41,629,219	-	953,400	953,400	42,582,619
2042	40,628,544	1,020,000.00	917,700	1,937,700	42,566,244
2043	40,638,344	1,055,000.00	845,075	1,900,075	42,538,419
2044	40,631,594	1,100,000.00	769,650	1,869,650	42,501,244
2045	40,635,919	1,145,000.00	691,075	1,836,075	42,471,994
2046	40,619,513	1,205,000.00	608,825	1,813,825	42,433,338
2047	39,090,381	2,670,000.00	473,200	3,143,200	42,233,581
2048	39,088,281	2,775,000.00	282,625	3,057,625	42,145,906
2049	39,324,006	2,650,000.00	92,750	2,742,750	42,066,756
2050	41,979,119	-	-	-	41,979,119
2051	41,975,950	-	-	-	41,975,950
2052	41,979,194	-	-	-	41,979,194
2053	41,976,769	-	-	-	41,976,769
2054	8,499,072	-	-	-	8,499,072
2055	7,840,206	-	-	-	7,840,206
2056	7,843,369	-	-	-	7,843,369
2057	7,839,469	-	-	-	7,839,469
2058	7,842,588	-	-	-	7,842,588
2059	7,841,675	-	-	-	7,841,675
2060	7,845,681	-	-	-	7,845,681
	<u>\$ 1,185,803,160</u>	<u>\$ 13,620,000</u>	<u>\$ 19,458,600</u>	<u>\$ 33,078,600</u>	<u>\$ 1,218,881,760</u>

^(*) Preliminary, subject to change.

⁽¹⁾ Excludes variable rate maturities of the Fixed & Variable Rate Unlimited Tax School Building Bonds, Series 2021

⁽²⁾ Calculated at the Stepped Rate of 7.00%, for illustration purposes only.

TAX ADEQUACY

2025 Net Taxable Assessed Valuation	\$ 6,234,097,383
Estimated Maximum Annual Debt Service Requirements for Fiscal Year Ending: 8/31/2034	\$ 42,620,319
Less: Existing Debt Allotment	-
Less: Instructional Facilities Allotment	-
Net Debt Service Requirement	\$ 42,620,319
Indicated Interest and Sinking Fund Tax Rate	\$ 0.6977
Indicated Interest and Sinking Fund Tax Levy at the following Collections: 98%	\$ 42,625,391

Note: See "Tax Data" herein.

To comply with certain Texas Attorney General Office rules, the District intends to pledge a portion of the Tier One funds received from the State to pass the \$0.50 I&S tax rate test.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance as of August 31, 2025	\$ 6,471,898
2025 Interest and Sinking Fund Tax Levy at 98% Collections Produce	30,547,077
Plus: Existing Debt Allotment	-
Plus: Instructional Facilities Allotment	-
Plus: Additional State Aid for Homestead Exemption	7,753,241
Total Available for Debt Service	\$ 44,772,216
Less: General Obligation Debt Service Requirements, Fiscal Year Ending August 31, 2026	36,968,007
Estimated Balance at Fiscal Year Ended August 31, 2026	\$ 7,804,209

DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 3

Capital Leases: The District leases a copier with an agreement having a 3-year term. Annual payments of \$7,860 are made which consist of principal and annual interest of 3.25%. No assets were pledged as collateral for this lease.

A summary of right-to-use lease arrangements for the year ended August 30, 2025 is as follows:

Governmental Activities	Interest Rate	Amounts Outstanding 9/1/2024	Retired	Amounts Outstanding 8/31/2025	Amounts Due Within One Year
Equipment	3.25%	\$0	\$ 596	\$ 21,902	\$ -

Future principal and interest payments due to maturity as of the end of the fiscal year are as follows:

Year Ending August 31,	Principal	Interest	Total Requirements
2026	\$ 7,277	\$ 583	\$ 7,860
2027	7,517	343	7,860
2028	7,108	97	7,205
Totals	\$ 21,902	\$ 1,023	\$ 22,925

The effective interest rate was 3.25%.

Note: The above information was taken from the District's 2025 Annual Financial Report.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2020 – 2025

TABLE 4

Tax Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2020	\$ 2,611,823,582	\$ 444,063,957	20.48%
2021	3,205,024,799	593,201,217	22.71%
2022	4,343,993,126	1,138,968,327	35.54%
2023	5,129,767,145	785,774,019	18.09%
2024	5,942,249,683	812,482,538	15.84%
2025	6,234,097,383	291,847,700	4.91%

Note: The above figures were taken from the Bexar County and Medina County Appraisal Districts.

PRINCIPAL TAXPAYERS

TABLE 5

Name	2025 Net	% of Total
	Taxable Assessed Valuation	2025 Assessed Valuation
Microsoft Corporation	\$ 494,757,490	8.33%
Microsoft Corporation	148,913,070	2.51%
BT-JV PBR LLC	118,366,000	1.99%
GG B2R Pecan I LP	72,063,170	1.21%
Artesia at Medina Valley LLC	50,327,030	0.85%
THPAS Trails BTR LLC	33,250,000	0.56%
LGI Homes Texas LLC	32,753,952	0.55%
BES Eleven West Fund XIII LLC ET AL	29,800,000	0.50%
Woodlands Group LLC	23,943,950	0.40%
Continental Homes of Texas LP	20,308,170	0.34%
Total	\$ 1,024,482,832	17.24%

Note: The above information was taken from the Bexar County and Medina County Appraisal Districts.

Based on 2025 Net Taxable Assessed Valuation of \$6,234,097,383.

As shown in the table above, the total combined top ten taxpayers in the District currently account for over 17% of the District's tax base. Any adverse development related to these taxpayers affecting their ability to continue to conduct business at their respective locations within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom. If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever.

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CLASSIFICATION OF ASSESSED VALUATION
TABLE 6

	2025	% of Total	2024	% of Total	2023	% of Total
Real, Residential, Single-Family	\$ 6,540,224,089	62.50%	\$ 5,806,057,236	61.98%	\$ 5,210,931,306	61.89%
Real, Residential, Multi-Family	276,049,170	2.64%	226,242,236	2.41%	189,579,122	2.25%
Real, Vacant Lots/Tracts & Colonia Lots/Tracts	201,439,857	1.92%	254,117,865	2.71%	281,610,813	3.34%
Real, Qualified Open-Space Land	1,350,562,063	12.91%	1,355,217,805	14.47%	1,438,256,078	17.08%
Real, Farm and Ranch Improvements	404,238,471	3.86%	17,999,536	0.19%	16,661,247	0.20%
Real, Rural Land (Non Qualified)/Residential Improvements	230,026,779	2.20%	523,002,273	5.58%	432,068,311	5.13%
Real, Commercial	245,956,123	2.35%	232,730,965	2.48%	214,990,057	2.55%
Real, Industrial and Manufacturing	175,914,290	1.68%	126,537,420	1.35%	97,152,660	1.15%
Real, Minerals Oil and Gas	4,825,990	0.05%	7,264,590	0.08%	2,531,550	0.03%
Real & Tangible, Personal Utilities	58,413,986	0.56%	49,829,525	0.53%	45,624,740	0.54%
Tangible Personal, Commercial	49,484,423	0.47%	57,809,880	0.62%	61,157,171	0.73%
Tangible Personal, Industrial	548,923,436	5.25%	366,264,211	3.91%	55,653,190	0.66%
Tangible Personal, Mobile Homes	33,128,640	0.32%	33,246,310	0.35%	29,877,490	0.35%
Residential Inventory	327,397,460	3.13%	292,191,817	3.12%	325,731,619	3.87%
Special Inventory	18,516,600	0.18%	19,796,210	0.21%	18,155,890	0.22%
Other	-	0.00%	58,686	0.00%	-	0.00%
Total Appraised Value	\$ 10,465,101,377	100.00%	\$ 9,368,366,565	100.00%	\$ 8,419,981,244	100.00%
Less:						
Homestead Exemption Loss	\$ 1,945,703,729		\$ 1,222,601,966		\$ 981,551,576	
Over-65/Homestead Exemption Loss	140,175,652		24,002,283		21,281,231	
Disabled Persons/Surviving Spouse Exemption	7,322,809		1,465,739		1,296,703	
Disabled Veterans/Surviving Spouse Exemption	12,932,579		12,156,417		10,482,693	
Disabled Veterans/Surviving Spouse Homestead Exemption	624,029,173		578,375,437		401,974,186	
Member Armed Services Surviving Spouse	850,436		639,560		671,759	
Solar Wind Exemption Loss	-		624,498		483,521	
Misc	34,456,321		29,960,538		-	
Productivity Loss	1,327,422,572		1,331,125,311		1,412,723,487	
Homestead Cap	138,110,723		225,165,133		459,748,943	
Net Taxable Assessed Valuation	\$ 6,234,097,383		\$ 5,942,249,683		\$ 5,129,767,145	

Note: The above figures were taken from the Bexar County and Medina County Appraisal Districts which is compiled during the initial phase of the tax year.

TAX DATA
TABLE 7

Taxes are due October 1 and become delinquent after January 31. Split payments are allowed. Discounts are not allowed. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of up to 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable		Tax Rate	Tax Levy	Collections		Year Ended
	Assessed Valuation				Current	Total	
2021	\$ 3,205,024,799		\$ 1.3442	\$ 42,079,781	98.12%	98.68%	8/31/2022
2022	4,343,993,126		1.3268	54,651,913	96.96%	97.21%	8/31/2023
2023	5,129,767,145		1.1692	54,318,473	97.76%	97.31%	8/31/2024
2024	5,942,249,683		1.1669	64,037,235	98.38%	97.91%	8/31/2025
2025	6,234,097,383		1.1527	71,860,441	(In Process)		8/31/2026

Note: The above figures were taken from the Municipal Advisory Council of Texas, Texas Municipal Reports, the District's 2025 Annual Financial Report and the Bexar County and Medina County Appraisal Districts.

TAX RATE DISTRIBUTION**TABLE 8**

Tax Year	2025	2024	2023	2022	2021
General Fund	\$ 0.6527	\$ 0.6669	\$ 0.6692	\$ 0.8546	\$ 0.8720
I & S Fund	0.5000	0.5000	0.5000	0.4722	0.4722
Total Tax Rate	\$ 1.1527	\$ 1.1669	\$ 1.1692	\$ 1.3268	\$ 1.3442

Note: The above information was taken from the Bexar County and Medina County Appraisal Districts.

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COMBINED GENERAL FUND BALANCE SHEET

TABLE 9

Fiscal Year Ended	8/31/2025	8/31/2024	8/31/2023	8/31/2022	8/31/2021
Assets:					
Cash and Temporary Investments	\$ 29,987,823	\$ 26,479,855	\$ 23,535,251	\$ 25,180,082	\$ 24,334,790
Property Taxes, Delinquent	1,485,808	1,451,885	1,762,013	1,144,206	1,162,574
Allowance for Uncollectible Taxes	(148,581)	(145,188)	(176,201)	(114,421)	(116,257)
Due From Other Governments	13,575,057	10,980,264	9,740,940	5,272,984	3,644,558
Due From Other Funds	224,864	578,090	1,216,058	484,055	297,206
Other Receivables	30,462	756	1,697	30,919	-
Prepayments	14,584	189	119,290	237,715	-
Inventories	-	-	3,343	-	6,863
Total Assets	\$ 45,170,017	\$ 39,345,851	\$ 36,202,391	\$ 32,235,540	\$ 29,329,734
Liabilities:					
Accounts Payable	\$ 1,716,933	\$ 1,666,518	\$ 1,152,923	\$ 129,902	\$ 360,442
Accrued Wages Payable	6,145,828	5,478,946	3,483,439	4,605,664	3,340,777
Due to Other Funds	-	73,746	-	448,393	-
Payroll Deductions and Withholdings Payable	11,128	1,778	10,308	534,653	404,283
Total Liabilities	\$ 7,873,889	\$ 7,220,988	\$ 4,646,670	\$ 5,718,612	\$ 4,105,502
Deferred Inflows of Resources:					
Unavailable Revenue - Property Taxes	\$ 1,337,227	\$ 1,306,697	\$ 1,585,812	\$ 976,899	\$ 971,711
Total Deferred Inflows of Resources	\$ 1,337,227	\$ 1,306,697	\$ 1,585,812	\$ 976,899	\$ 971,711
Fund Balances:					
Nonspendable Fund Balance					
Inventory	\$ -	\$ -	\$ 3,343	\$ -	\$ 6,863
Prepaid Items	14,584	189	119,290	-	-
Committed Fund Balance					
Construction	4,000,000	4,000,000	4,000,000	4,000,000	4,000,000
Unassigned Fund Balance	31,944,317	26,817,977	25,847,276	21,540,029	20,245,658
Total Fund Balances	\$ 35,958,901	\$ 30,818,166	\$ 29,969,909	\$ 25,540,029	\$ 24,252,521
Total Liabilities & Fund Balances	\$ 45,170,017	\$ 39,345,851	\$ 36,202,391	\$ 32,235,540	\$ 29,329,734

Source: District's Audited Financial Statements.

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**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES AND
ANALYSIS OF CHANGES IN FUND BALANCES**

TABLE 10

Fiscal Year Ended	8/31/2025	8/31/2024	8/31/2023	8/31/2022	8/31/2021
Revenues:					
Local and Intermediate Sources	\$ 38,527,603	\$ 33,228,585	\$ 36,334,084	\$ 27,618,674	\$ 22,661,265
State Program Revenues	62,217,239	55,669,498	37,172,454	35,459,607	33,510,762
Federal Program Revenues	885,003	333,391	1,709,331	1,511,476	977,121
Total Revenues	\$ 101,629,845	\$ 89,231,474	\$ 75,215,869	\$ 64,589,757	\$ 57,149,148
Expenditures:					
Instruction	\$ 55,779,711	\$ 50,956,729	\$ 39,850,360	\$ 36,189,955	\$ 31,428,803
Instructional Resources and Media Services	564,005	579,699	650,059	936,954	531,608
Curriculum & Staff Development	1,663,540	1,153,081	867,480	671,724	576,936
Instructional Leadership	1,566,779	1,118,642	1,062,931	824,890	1,083,706
School Leadership	5,116,384	4,732,229	3,634,860	3,179,852	2,917,335
Guidance, Counseling and Evaluation Services	3,646,978	3,362,769	2,581,635	2,439,660	1,839,969
Social Work Services	801,018	897,536	453,990	519,740	477,454
Health Services	1,206,243	899,342	803,543	801,089	683,193
Student (Pupil) Transportation	6,432,304	5,317,622	4,511,950	3,949,305	2,953,508
Food Services	162,188	242,649	118,908	50,513	79,197
Extracurricular Activities	2,334,491	2,528,413	2,238,558	1,801,703	1,569,699
General Administration	3,016,420	3,047,465	2,384,098	2,286,954	1,531,346
Plant Maintenance and Operations	9,315,368	8,192,637	7,209,154	6,853,299	6,296,333
Security and Monitoring Services	1,292,772	1,219,584	783,982	614,953	406,740
Data Processing Services	2,719,551	1,690,445	1,494,887	1,735,091	1,529,333
Community Services	2,426	9,089	14,600	10,790	26,661
Principal on Long-Term Debt	161,005	504,919	426,470	-	-
Interest on Long-Term Debt	6,047	29,136	45,253	-	-
Bond Issuance Costs and Fees	-	-	-	-	-
Capital Outlay	52,765	1,477,177	1,135,890	4,041	23,858
Other Intergovernmental Charges	614,073	565,216	517,381	430,656	398,910
Facilities Acquisition and Construction					
Total Expenditures	\$ 96,454,068	\$ 88,524,379	\$ 70,785,989	\$ 63,301,169	\$ 54,354,589
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 5,175,777	\$ 707,095	\$ 4,429,880	\$ 1,288,588	\$ 2,794,559
Other Financing Sources (Uses):					
Proceeds from right to use assets	\$ 71,534	\$ -	\$ -	\$ -	\$ -
Issuance of Capital Leases	-	141,162	-	-	-
Transfers In	-	-	-	-	-
Transfers Out	-	-	-	(1,080)	-
Total Other Financing Sources and (Uses)	\$ 71,534	\$ 141,162	\$ -	\$ (1,080)	\$ -
Net Change in Fund Balance	\$ 5,247,311	\$ 848,257	\$ 4,429,880	\$ 1,287,508	\$ 2,794,559
Fund Balance - Beginning	30,818,166	29,969,909	25,540,029	24,252,521	21,457,962
Restatement of fund balance	(106,576) ⁽¹⁾	-	-	-	-
Fund Balance - Ending	\$ 35,958,901	\$ 30,818,166	\$ 29,969,909	\$ 25,540,029	\$ 24,252,521

Note: The above information was taken from the District's Annual Reports dated August 31, 2021-2025.

⁽¹⁾ Prior period adjustment to account for liability to pay back School Health & Related Services (SHARS) revenue.

OVERLAPPING DEBT DATA AND INFORMATION*(As of November 30, 2025)*

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures.

The following statements of direct and estimated overlapping ad valorem bonds were developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete.

Furthermore, certain of the entities below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt	% Overlapping	Amount Overlapping
Alamo Community College District	\$ 844,175,000	1.50%	\$ 12,662,625
Bexar County	2,152,210,000	1.50%	32,283,150
Bexar County Hospital District	1,238,865,000	1.50%	18,582,975
Castroville, City of	21,415,000	100.00%	21,415,000
Medina County	25,125,000	51.09%	12,836,363
Redbird Ranch FWSD #2	39,595,000	41.51%	16,435,885
San Antonio, City of	3,058,300,000	0.01%	305,830
Westpointe Special Improvement District	30,505,000	*	-
Westside 211 Special Improvement District	28,515,000	69.72%	19,880,658
Total Gross Overlapping Debt			\$ 134,402,485
Medina Valley Independent School District	\$ 668,886,680	100.00%	\$ 668,886,680
Total Direct and Overlapping Debt			\$ 803,289,165
Ratio of Direct and Overlapping Debt to the 2025 Assessed Valuation			2.16%
Per Capita Direct and Overlapping Debt			\$ 3,505

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

* Less than 0.01%

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**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND
OVERLAPPING GOVERNMENTAL SUBDIVISIONS**

Purpose	Date of Authorization	Amount Authorized	Amount Previously Issued	Amount Issued	Amount Unissued
School Building & Security	5/4/2024	\$ 249,150,000	\$ 132,000,000	\$ -	\$ 117,150,000
Stadium	5/4/2024	40,850,000	11,200,000	-	29,650,000
Total		\$ 290,000,000	\$ 143,200,000	\$ -	\$ 146,800,000

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

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APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT

**GENERAL INFORMATION REGARDING THE DISTRICT, THE CITY OF CASTROVILLE AND
BEXAR AND MEDINA COUNTIES, TEXAS**

The District:

The Medina Valley Independent School District (the “District”) encompasses approximately 296 square miles and is located primarily in Medina County with a portion extending into Bexar County, is a farming and ranching area that includes the City of Castroville, a retail center located approximately 15 miles west of San Antonio on U.W. Highway 90. Lake Medina, in the northern portion of the District, provides irrigation water and recreational facilities. The District’s 2026 estimated population is 38,348.

The Schools:

Historical Enrollment for the District

School Year	Enrollment
2019-20	5,868
2020-21	6,134
2021-22	6,785
2022-23	7,823
2023-24	8,700
2024-25	9,618
2025-26	10,468

School	Grades	Number of Students
Castroville Elementary School	Pre-K - 5	634
Lacoste Elementary School	Pre-K - 5	732
Ladera Elementary School	Pre-K - 5	941
Luckey Ranch Elementary School	Pre-K - 5	948
Potranco Elementary School	Pre-K - 5	914
Silos Elementary School	Pre-K - 5	1,000
Loma Alta Middle School	6-8	1,236
Medina Valley Middle School	6-8	1,200
Medina Valley High School	9-12	2,863

Educational status of the teachers is as follows:

	Count
Doctorate’s degree	2
Master’s degree	177
Bachelor’s degree	462
Average years of classroom experience per teacher	11.0

Personnel distribution is as follows:

	Count
District Level Administrators	26
Building Level Administrators	34
Instructional Staff	641
Professional Support Staff (Counselors, Librarians, Nurses, Social Workers, Etc.)	120
General Personnel (Secretaries, Aides, Clerks, Bus Drivers, Food Service, Maintenance, Etc.)	510
TOTAL	1,331

THE CITY OF CASTROVILLE AND BEXAR AND MEDINA COUNTIES, TEXAS

Castroville, Texas

The city of Castroville is a retail center located approximately 15 miles west of San Antonio on U.S. Highway 90. The 2025 population is 3,261.

Bexar County, Texas

Bexar County, Texas (the “County”) was created in 1836. The southcentral Texas county is the major component of the San Antonio Metropolitan Statistical Area and is traversed by Interstate Highway 10 and 35, four U.S. Highways, and two State Highways.

Economic Base: Mineral: Sand, limestone and gravel.

Industry: Tourism, military bases, medical/biomedical research & services, government and education center.

Agricultural: Nursery crops, hay, grain sorghum, corn and beef cattle.

Employment Data:	2025	2024	2023
	<u>Employed</u>	<u>Employed</u>	<u>Employed</u>
1st Quarter:	3,022,361	2,955,772	908,656
2nd Quarter:	2,047,305	2,985,676	918,788
3rd Quarter:		3,009,957	922,648
4th Quarter:		3,032,554	937,302

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas and Demographics USA County Edition. Any data on population, value added by manufacturing or production of minerals or agricultural products are from the US Census or other official sources.

Medina County, Texas

Medina County, Texas (the “County”) is a southwest Texas county, created in 1848 and named after the river that flows through it. The county is traversed by Interstate Highway 35, U.S. Highway 90, State Highway 173, and six farm-to-market roads. The county was the fifth largest producing county of oats in Texas in 2016.

Economic Base: Mineral: Oil and natural gas.

Industry: Tourism and agribusiness

Agricultural: Vegetable, oats, irrigation, hay, grains, cotton, corn and cattle.

Employment Data:	2025	2024	2023
	<u>Employed</u>	<u>Employed</u>	<u>Employed</u>
1st Quarter:	70,347	68,538	10,578
2nd Quarter:	47,456	69,361	10,563
3rd Quarter:		69,846	10,563
4th Quarter:		70,206	10,884

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas and Demographics USA County Edition. Any data on population, value added by manufacturing or production of minerals or agricultural products are from US Census or other official sources.

Labor Force Statistics:

	Bexar County		Medina County		Texas	
	May	July	May	July	May	July
	2025	2024	2025	2024	2025	2024
Total Civilian Labor Force	1,060,149	1,029,841	24,605	23,844	15,839,406	15,454,094
Total Unemployment	40,070	42,019	979	1,014	647,148	677,962
Percent Unemployed	3.8	4.1	4.0	4.3	4.1	4.4
Total Employment	1,020,079	987,822	23,626	22,830	15,192,258	14,776,132

Source: Texas Labor Market Review.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

May 12, 2021

**MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT
FIXED AND VARIABLE RATE UNLIMITED TAX SCHOOL BUILDING BONDS,
SERIES 2021
DATED AS OF APRIL 1, 2021
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$39,255,000**

AS BOND COUNSEL FOR THE MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT (the *District*) in connection with the issuance of the bonds described above (the *Bonds*), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds until maturity or prior redemption at the rates and are payable on the dates as stated in the text of the Bonds, all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and general laws of the State of Texas and a transcript of certified proceedings of the District, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the order authorizing the issuance of the Bonds (the *Order*), (ii) the Tender Agent Agreement, dated as of February 22, 2021, between the District and UMB Bank, N.A., Dallas, Texas, as Tender Agent, (iii) one of each of the executed Bonds, and (iv) the District's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized, issued and delivered in accordance with law; that the Bonds constitute valid and legally binding general obligations of the District in accordance with their terms except as the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally; that the District has the legal authority to issue the Bonds and to repay the Bonds; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Bonds, as such interest comes due, and as such principal matures, have been levied and ordered to be levied against all taxable property in the District, and have been pledged for such payment, without limit as to rate or amount.

IT IS FURTHER OUR OPINION, except as discussed below, that the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the *Code*). In expressing the aforementioned opinions, we have relied on and assume continuing compliance with, certain representations contained in the Federal Tax Certificate of the District and covenants set forth in the order adopted by the District to authorize the issuance of the Bonds, relating to, among other matters, the use of the project and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service





on the Bonds, and the certificate with respect to arbitrage by the Commissioner of Education regarding the allocation and investment of certain investments in the Permanent School Fund, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the District fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state or local tax consequences of acquiring, carrying, owning or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the *Service*); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer. We observe that the District has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the District, and, in that capacity, we have been engaged by the District for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and general laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the District as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the District. Our role in connection with the District's Offering Memorandum prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

*Medina Valley Independent School District Fixed and Variable Rate Unlimited Tax School
Building Bonds, Series 2021*

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Act requires that the Education Commissioner prepare, and the SBOE approve, an annual status report on the Guarantee Program (which is included in the Annual Report). The State Auditor or a certified public accountant audits the financial statements of the PSF, which are separate from other financial statements of the State. Additionally, not less than once each year, the PSFC Board must submit an

audit report to the Legislative Budget Board (“LBB”) regarding the operations of the PSF Corporation. The PSF Corporation may contract with a certified public accountant or the State Auditor to conduct an independent audit of the operations of the PSF Corporation, but such authorization does not affect the State Auditor’s authority to conduct an audit of the PSF Corporation in accordance with State laws.

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

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

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

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

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

ANNUAL DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND⁽¹⁾

Fiscal Year Ending	2015	2016	2017	2018	2019	2020	2021	2022	2023⁽²⁾	2024
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156
PSF(SBOE) Distribution	839	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-
PSF(SLB) Distribution	-	-	-	-	300	600	600 ⁽³⁾	415	115	-
Per Student Distribution	173	215	212	247	306	347	341	332	440	430

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

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

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

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

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

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

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

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

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

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

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

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

COMPARATIVE INVESTMENT SCHEDULE – PSF(CORP)

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

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

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

Investment Schedule – PSF(SLB)⁽¹⁾

	<u>Fair Value (in millions) August 31, 2024</u>
	As of <u>8-31-24</u>
Investment Type Investments in Real Assets	
Sovereign Lands	\$ 277.47
Discretionary Internal Investments	457.01
Other Lands	153.15
Minerals ⁽²⁾⁽³⁾	<u>4,540.61⁽⁶⁾</u>
Total Investments ⁽⁴⁾	5,428.23
Cash in State Treasury ⁽⁵⁾	0
Total Investments & Cash in State Treasury	\$5,428.23

- (1) Unaudited figures from Table 5 in the FY 2024 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.
- (2) Historical Cost of investments at August 31, 2024 was: Sovereign Lands \$838,730.24; Discretionary Internal Investments \$318,902,420.97; Other Lands \$37,290,818.76; and Minerals \$13,437,063.73.
- (3) Includes an estimated 1,000,000.00 acres in freshwater rivers.
- (4) Includes an estimated 1,747,600.00 in excess acreage.
- (5) Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the State of Texas.
- (6) Future Net Revenues discounted at 10% and then adjusted for risk factors. A mineral reserve report is prepared annually by external third-party petroleum engineers.

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

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

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

If a school district fails to pay principal or interest on a bond as it is stated to mature, other amounts not due and payable are not accelerated and do not become due and payable by virtue of the district’s default. The School District Bond Guarantee Program does not apply to the payment of principal and interest upon redemption of bonds, except upon mandatory sinking fund redemption, and does not apply to the obligation, if any, of a school district to pay a redemption premium on its guaranteed bonds. The guarantee applies to all matured interest on guaranteed school district bonds, whether the bonds were issued with a fixed or variable interest rate and whether the interest rate changes as a result of an interest reset provision or other bond order provision requiring an interest rate change. The guarantee does not extend to

any obligation of a school district under any agreement with a third party relating to guaranteed bonds that is defined or described in State law as a “bond enhancement agreement” or a “credit agreement,” unless the right to payment of such third party is directly as a result of such third party being a bondholder.

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

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

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

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

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

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

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

In the event of default, holders of guaranteed charter district bonds will receive all payments as and when they become due from the corpus of the PSF. Following a determination that a charter district will be or is unable to pay maturing or matured principal or interest on any guaranteed bond, the Act requires a charter district to notify the Education Commissioner not later than the fifth day before the stated maturity date of such bond or interest payment and provides that immediately following receipt of notice that a charter district will be or is unable to pay maturing or matured principal or interest on a guaranteed bond, the Education Commissioner is required to instruct the Comptroller to transfer from the Charter District Reserve Fund to the district’s paying agent an amount necessary to pay the maturing or matured principal or interest, as applicable. If money in the Charter District Reserve Fund is insufficient to pay the amount due on a bond for which a notice of default has been received, the Education Commissioner is required to instruct the Comptroller to transfer from the PSF to the district’s paying agent the amount necessary to pay the balance of the unpaid maturing or matured principal or interest, as applicable. If a total of two or more payments are made under the Charter District Bond Guarantee Program on charter district bonds and the Education Commissioner determines that the charter district is acting in bad faith under the program, the Education Commissioner may request the Attorney General to institute appropriate legal action to compel the charter district and its officers, agents, and employees to

comply with the duties required of them by law in regard to the guaranteed bonds. As is the case with the School District Bond Guarantee Program, the Act provides a funding “intercept” feature that obligates the Education Commissioner to instruct the Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations

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

- (1) SLB managed assets are included in the market value and book value of the Fund. In determining the market value of the PSF from time to time during a fiscal year, the current, unaudited values for PSF investment portfolios and cash held by the SLB are used. With respect to SLB managed assets shown in the table above, market values of land and mineral interests, internally managed real estate, investments in externally managed real estate funds and cash are based upon information reported to the PSF Corporation by the SLB. The SLB reports that information to the PSF Corporation on a quarterly basis. The valuation of such assets at any point in time is dependent upon a variety of factors, including economic conditions in the State and nation in general, and the values of these assets, and, in particular, the valuation of mineral holdings administered by the SLB, can be volatile and subject to material changes from period to period.
- (2) At August 31, 2024, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.2 million, and \$318.9 million, respectively, and market values of approximately \$4,540.6 million, \$277.4 million, \$153.1 million, and \$457.0 million, respectively.

Permanent School Fund Guaranteed Bonds

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

- (1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.
- (2) At August 31, 2024 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$196,294,405,488, of which \$70,478,423,885 represents interest to be paid. As shown in the table above, at August 31, 2024, there were \$125,815,981,603 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$169,961,518,160 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of January 31, 2025, 7.69% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of January 31, 2025, the amount of outstanding bond guarantees represented 76.33% of the Capacity Limit (which is currently the State Capacity Limit). January 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

- (1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program.
- (2) At January 31, 2025 (based on unaudited data, which is subject to adjustment), there were \$129,723,799,121 in principal amount of bonds guaranteed under the Guarantee Program, representing 3,437 school district issues, aggregating \$124,794,149,121 in principal amount and 109 charter district issues, aggregating \$4,929,650,000 in principal amount. At January 31, 2025 the projected guarantee capacity available was \$39,780,221,830 (based on unaudited data, which is subject to adjustment).

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

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

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

PSF Returns Fiscal Year Ended 8-31-2024⁽¹⁾

<u>Portfolio</u>	<u>Return</u>	Benchmark <u>Return⁽²⁾</u>
Total PSF (CORP) Portfolio	10.12	9.28
Domestic Large Cap Equities	27.30	27.14
Domestic Small/Mid Cap Equities	18.35	18.37
International Equities	18.82	18.08
Private Credit	1.41	0.93
Core Bonds	7.08	7.30
Absolute Return	11.50	8.87
Real Estate	(6.42)	(7.22)
Private Equity	4.62	4.23
High Yield	12.03	12.53
Natural Resources	12.36	6.42
Infrastructure	4.41	3.63
Bank Loans	3.02	3.23
Short Term Investment Portfolio	2.42	2.28

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

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

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

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

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

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

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

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

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

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

The TEA and the PSF Corporation may provide updated information in full text or may incorporate by reference certain other publicly-available documents, as permitted by Rule 15c2-12. The updated information includes audited financial statements of, or relating to, the State or the PSF, when and if such audits are commissioned and available. In the event audits are not available by the filing deadline, unaudited financial statements will be provided by such deadline, and audited financial statements will be provided when available. Financial statements of the State will be prepared in accordance with generally accepted accounting principles as applied to state governments, as such principles may be changed from time to time, or such other accounting principles as the State Auditor is required to employ from time to time pursuant to State law or regulation. The financial statements of the Fund are required to be prepared to conform to U.S. Generally Accepted Accounting Principles as established by the Governmental Accounting Standards Board.

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

MEDINA VALLEY ISD, TEXAS ANNUAL FINANCIAL REPORT For the Year Ended August 31, 2025

The information contained in this APPENDIX consists of excerpts from the Medina Valley Independent School District, Texas Annual Financial Report for the Year Ended August 31, 2025, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Medina Valley Independent School District
Castroville, 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 Medina Valley Independent School District (the District) as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2025, and the respective changes in financial position, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2025, the District adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this manner.

Responsibilities of Management for the Financial Statements

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

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

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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information for the general fund, schedules of the District's proportionate share of the net pension and OPEB liability, and schedules of the District's contributions to the Teacher Retirement System of Texas as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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 the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedules, required Texas Education Agency schedules, and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 and individual nonmajor fund financial statements and schedules, required Texas Education Agency 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 December 18, 2025 on our consideration of Medina Valley 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 Medina Valley Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Medina Valley Independent School District's internal control over financial reporting and compliance.

ABIP, PC

San Antonio, Texas
December 18, 2025

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

August 31, 2025

The annual financial report of the Medina Valley Independent School District (the District) is presented in six sections, Management Discussion and Analysis (this part), Basic Financial Statements, Required Supplementary Information, Combining and Other Statements and Schedules, Texas Education Agency Required Schedules, and the Federal Awards Section. This section of the District's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ended August 31, 2025. Please read it in conjunction with the District's financial section, which follows.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
 - The *governmental fund* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-term* and *long-term* financial information about the activities the government operates on a cost reimbursement basis, such as self-insurance.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *custodian* for the benefit of others, to whom the resources in question belong.

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities

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

The two government-wide statements report the District's *net position* and how they have changed. Net position, the difference between the District's assets, deferred outflows of resources and liabilities and deferred inflows of resources is one way to measure the District's financial health or *position*.

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

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees (the Board) establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

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

We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities such as the District's Self Insurance Fund.

- *Fiduciary fund* – The District is the custodian, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL HIGHLIGHTS

- The District's combined net position was \$67,323,123 at August 31, 2025, an increase of \$15,102,117.
- During the year, the District's revenue was \$156,726,956 as reflected below:

	Governmental Activities		
	Current Year	Prior Year	Change
Taxes	\$ 64,136,252	\$ 53,793,074	\$ 10,343,178
State aid	64,112,511	60,514,742	3,597,769
Federal aid	8,543,760	9,519,142	(975,382)
Investment earnings	14,194,141	23,502,359	(9,308,218)
Other	<u>5,740,292</u>	<u>5,499,777</u>	<u>240,515</u>
 Total	 <u>\$ 156,726,956</u>	 <u>\$ 152,829,094</u>	 <u>\$ 3,897,862</u>

During the year, the District's expenses were \$137,937,338 as reflected below:

	Governmental Activities		
	Current Year	Prior Year	Change
Instruction and instructional related	\$ 61,871,209	\$ 62,656,643	\$ (785,434)
Instruction leadership/school leadership	11,592,845	9,825,868	1,766,977
Guidance, social work, health, transportation	11,438,712	11,129,517	309,195
Food services	7,013,965	7,103,083	(89,118)
Extracurricular activities	3,449,264	3,502,700	(53,436)
General administration	3,282,478	3,346,766	(64,288)
Plant maintenance and security	11,421,569	10,782,673	638,896
Data processing services	2,945,791	1,731,429	1,214,362
Community services	40,210	21,233	18,977
Debt service	23,898,797	22,679,777	1,219,020
Capital outlay	368,425	1,058,138	(689,713)
Intergovernmental changes	<u>614,073</u>	<u>565,216</u>	<u>48,857</u>
 Total expenses	 <u>\$ 137,937,338</u>	 <u>\$ 134,403,043</u>	 <u>\$ 3,534,295</u>

The District's combined net position was \$67,323,123 at August 31, 2025, as reflected below:

STATEMENT OF NET POSITION
August 2025 and 2024

	Governmental Activities		
	2025	2024	Change
Current and other assets	\$ 366,940,068	\$ 364,799,751	\$ 2,140,317
Capital and non-current assets	459,572,218	327,356,406	132,215,812
Total assets	826,512,286	692,156,157	134,356,129
Deferred outflows of resources	22,100,046	21,948,092	151,954
Total deferred outflows of resources	22,100,046	21,948,092	151,954
Current liabilities	29,403,445	35,280,255	(5,876,810)
Long term liabilities	737,251,334	608,173,360	129,077,974
Total liabilities	766,654,779	643,453,615	123,201,164
Deferred inflows of resources	14,634,430	18,429,628	(3,795,198)
Total deferred inflows of resources	14,634,430	18,429,628	(3,795,198)
Net position			
Net investment in capital assets	59,017,843	44,492,020	14,525,823
Restricted	9,269,359	8,961,873	307,486
Unrestricted	(964,079)	(1,232,887)	268,808
Total net position	\$ 67,323,123	\$ 52,221,006	\$ 15,102,117

CHANGES IN NET POSITION
August 2025 and 2024

	Governmental Activities	
	2025	2024
Revenues:		
Program revenues:		
Charges for services	\$ 2,094,215	\$ 1,988,217
Operating grants and contributions	8,543,760	9,519,142
General revenues:		
Property taxes	64,136,252	53,793,074
State aid	64,112,511	60,514,742
Grants, contributions not restricted to a specific function	3,489,853	3,223,829
Investment earnings	14,194,141	23,502,359
Miscellaneous	156,224	287,731
Total revenues	<u>156,726,956</u>	<u>152,829,094</u>
Expenses:		
Instruction, curriculum and media services	61,871,209	62,656,643
Instructional/school leadership	11,592,845	9,825,868
Guidance, social work, health and transportation	11,438,712	11,129,517
Food services	7,013,965	7,103,083
Cocurricular activities	3,449,264	3,502,700
General administration	3,282,478	3,346,766
Plant maintenance and security	11,421,569	10,782,673
Data processing	2,945,791	1,731,429
Community services	40,210	21,233
Debt service	23,898,797	22,679,777
Other governmental charges	982,498	1,623,354
Total expenses	<u>137,937,338</u>	<u>134,403,043</u>
Increase in net position	<u>18,789,618</u>	<u>18,426,051</u>
Net position at September 1,	52,221,006	33,777,704
Restatement of beginning net position	<u>(3,687,501)</u>	<u>17,251</u>
Net position at August 31,	<u>\$ 67,323,123</u>	<u>\$ 52,221,006</u>

Property tax rates were reduced by 0.23 cents for the year. The tax base increased during the past year by \$789,267,913. The increase in the tax levy was \$9,101,403.

State program revenues increased for the year by \$3,597,769.

Federal program revenues decreased by \$266,024.

Investment earnings decreased by \$9,308,218.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Net capital assets for the District at the end of the fiscal year August 31, 2025 amounted to \$459,572,218. It is the District's policy to charge off as a current expenditure any purchases less than \$5,000. The total capital assets recorded were land and its improvements, buildings, equipment and vehicles, right-to-use lease assets, SBITA assets, and construction in progress as reflected below:

DISTRICT'S CAPITAL ASSETS August 2025 and 2024

	Governmental Activities		
	Current Year	Prior Year	Change
Land	\$ 40,976,715	\$ 29,984,121	\$ 10,992,594
Buildings and improvements	255,292,768	203,039,162	52,253,606
Equipment	18,649,095	16,992,975	1,656,120
Right-to-use lease assets	22,498	241,675	(219,177)
SBITA assets	649,403	1,218,702	(569,299)
Construction in progress	222,663,222	148,837,405	73,825,817
Total at historical cost	<u>538,253,701</u>	<u>400,314,040</u>	<u>137,939,661</u>
Total accumulated depreciation	<u>(78,681,483)</u>	<u>(72,957,634)</u>	<u>(5,723,849)</u>
Net capital assets	<u>\$ 459,572,218</u>	<u>\$ 327,356,406</u>	<u>\$ 132,215,812</u>

Long-Term Liabilities

For the year ended August 31, 2025, the District made bond debt principal payments of \$18,697,934.

	Governmental Activities		
	Current Year	Prior Year	Change
Bonds payable	\$ 668,886,679	\$ 547,879,613	\$ 121,007,066
Right-to-use lease liabilities	21,902	-	21,902
SBITA liabilities	81,988	451,093	(369,105)
Compensated absences	<u>4,138,925</u>	<u>127,631</u>	<u>4,011,294</u>
Sub-total	673,129,494	548,458,337	124,671,157
Accreted interest on capital appreciation bonds	841,558	979,075	(137,517)
Premium on bond issuance	<u>29,424,708</u>	<u>26,482,962</u>	<u>2,941,746</u>
Total long-term liabilities	<u>\$ 703,395,760</u>	<u>\$ 575,920,374</u>	<u>\$ 127,475,386</u>

GOVERNMENTAL FUNDS

Financial Highlights

At the close of the fiscal year ending August 31, 2025, the District's governmental funds reported a combined fund balance of \$344,450,808. This compares to a combined fund balance of \$333,064,065 at August 31, 2024. The increase is due to bond proceeds received during the fiscal year in the amount of \$139,705,000. The general fund increased \$5,140,735 as revenues were above original projections and expenditures were below original projections. The debt service fund increased \$293,490 as property tax revenue increased during the fiscal year.

Budgetary Highlights

In accordance with State law and Generally Accepted Accounting Standards (GAAS), the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2025, the District amended its budget as required by state law and to reflect current levels of revenue and anticipated expenditures. The general fund budgeted revenues increased from an adopted budget amount of \$95,171,577 to the final amended budget amount of \$100,546,889. The general fund's actual revenues were \$101,629,845. The general fund expenditures were more than the original budget by \$1,282,491, but budget amendments were board approved throughout the year.

Economic Factors and Next Year's Budgets and Rates

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

- Student enrollment and attendance for 2025-2026 is projected to increase. The district demographer estimated a district enrollment of 10,617, which is an increase of 979 students from the prior year. Average daily attendance is estimated to increase from 8,454 to 9,512 in 2025-2026.
- Property values for ad valorem tax purposes are projected to increase by \$291,847,700 or 4.91% for 2025-2026, as compared to the taxable values for 2024-2025. This is inclusive of the additional homestead exemptions.
- The District's maintenance and operations tax rate decreased to \$0.6527, and the interest and sinking tax rate had no change at \$0.50.
- The general fund budget was a balanced budget with revenues and appropriations budgeted at \$112,746,593. Appropriates for the 2025-2026 general fund budget increased over the appropriations for the 2024-2025 general budget by \$13,636,813.
- The District added 56 new positions to accommodate student growth and the implementation of the MVISD Police Department. The Board of Trustees also approved a compensation plan in accordance with House Bill 2 to include \$2,500 pay increases for teachers with 3-4 years' experience and \$5,000 for teachers with 5+ years' experience. In addition, the Board provided for compensation increases for additional staff as follows: \$2,000 for new teachers, \$2,400 for teachers with 1-2 years' experience, 3% for district and campus administration, and \$1 per hour for clerical and trades positions. The estimated additional cost for staffing and compensation increases is \$9,608,284.
- The largest increase can be found in appropriations for instruction in the amount of \$7,543,971.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Medina Valley Independent School District, 8449 FM 471 South, Castroville, Texas 78009.

BASIC FINANCIAL STATEMENTS

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION

August 31, 2025

EXHIBIT A-1

Data Control Codes		Primary Government Governmental Activities
	Assets:	
1110	Cash and cash equivalents	\$ 350,414,571
1220	Property taxes receivable (delinquent)	2,374,964
1230	Allowance for uncollectible taxes	(237,497)
1240	Due from other governments	14,342,910
1260	Due to fiduciary fund	73
1290	Other receivables (net)	30,463
1410	Prepaid items	14,584
	Capital assets:	
1510	Land	40,976,715
1520	Buildings, (net)	189,500,374
1530	Furniture and equipment (net)	6,279,906
1553	SBITA assets, net	130,128
1559	Right-to-use assets, net	21,873
1580	Construction in progress	222,663,222
1000	Total assets	<u>826,512,286</u>
	Deferred outflows of resources:	
1705	Deferred outflow related to TRS pension	8,630,610
1706	Deferred outflow related to TRS OPEB	13,469,436
1700	Total deferred outflows of resources	<u>22,100,046</u>
	Liabilities:	
2110	Accounts payable	13,520,903
2140	Interest payable	1,371,176
2150	Payroll deductions and withholdings payable	11,128
2160	Accrued wages payable	6,495,141
2180	Due to other governments	13,319
2300	Unearned revenue	276,395
	Noncurrent liabilities:	
2501	Due within one year	7,715,383
2502	Due in more than one year	695,680,377
2540	Net pension liability (District's share)	24,590,095
2545	OPEB liability (District's share)	16,980,862
2000	Total liabilities	<u>766,654,779</u>
	Deferred inflows of resources:	
2605	Deferred inflows related to TRS pension	571,848
2606	Deferred inflows related to TRS OPEB	14,062,582
	Total deferred inflows of resources	<u>14,634,430</u>
	Net position:	
3200	Net investment in capital assets	59,017,843
3820	Restricted for Federal and State programs	2,797,461
3850	Restricted for debt service	6,471,898
3900	Unrestricted	(964,079)
3000	Total net position	<u>\$ 67,323,123</u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended August 31, 2025

EXHIBIT B-1

	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
Functions / Programs	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Governmental activities:				
Instruction	\$ 61,871,209	\$ 7,515	\$ 1,006,374	\$ (60,857,320)
Instructional resources and media services	606,472	-	-	(606,472)
Curriculum and instructional staff development	2,949,638	-	1,047,444	(1,902,194)
Instructional leadership	2,521,087	-	753,570	(1,767,517)
School leadership	5,515,648	-	-	(5,515,648)
Guidance, counseling, and evaluation services	4,052,094	-	109,303	(3,942,791)
Social work services	863,710	-	-	(863,710)
Health services	1,336,448	-	24,526	(1,311,922)
Student (pupil) transportation	5,186,460	-	-	(5,186,460)
Food services	7,013,965	1,928,741	4,473,995	(611,229)
Extracurricular activities	3,449,264	157,959	878,186	(2,413,119)
General administration	3,282,478	-	36,882	(3,245,596)
Facilities maintenance and operations	9,744,049	-	-	(9,744,049)
Security and monitoring services	1,677,520	-	137,730	(1,539,790)
Data processing services	2,945,791	-	41,102	(2,904,689)
Community services	40,210	-	34,648	(5,562)
Debt service - interest on long-term debt	22,193,751	-	-	(22,193,751)
Debt service - bond issuance costs and fees	1,705,046	-	-	(1,705,046)
Capital outlay	368,425	-	-	(368,425)
Other intergovernmental charges	614,073	-	-	(614,073)
Total primary government	<u>\$ 137,937,338</u>	<u>\$ 2,094,215</u>	<u>\$ 8,543,760</u>	<u>(127,299,363)</u>
General revenues:				
MT		Property taxes, levied for general purposes		36,770,072
DT		Property taxes, levied for debt service		27,366,180
SF		State aid - Formula grants		64,112,511
GC		Grants and contributions not restricted		3,489,853
IE		Investment earnings		14,194,141
MI		Miscellaneous local and intermediate revenue		156,224
TR		Total general revenues		<u>146,088,981</u>
CN		Change in net position		18,789,618
NB		Net position - beginning		52,221,006
		Restatement of net position		<u>(3,687,501)</u>
NE		Net position - ending		<u>\$ 67,323,123</u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET – GOVERNMENTAL FUNDS

August 31, 2025

EXHIBIT C-1

Data Control Codes		10	50	60		Total Governmental Funds
		General Fund	Debt Service Fund	Capital Projects	Other Funds	
	Assets:					
1110	Cash and cash equivalents	\$ 29,987,823	\$ 6,466,448	\$ 309,654,496	\$ 3,525,764	\$ 349,634,531
1220	Property taxes - delinquent	1,485,808	889,156	-	-	2,374,964
1230	Allowance for uncollectible taxes	(148,581)	(88,916)	-	-	(237,497)
1240	Due from other governments	13,575,057	18,103	-	749,750	14,342,910
1260	Due from other funds	224,864	-	-	204	225,068
1290	Other receivables	30,462	1	-	-	30,463
1410	Prepayments	14,584	-	-	-	14,584
1000	Total assets	<u>\$ 45,170,017</u>	<u>\$ 7,284,792</u>	<u>\$ 309,654,496</u>	<u>\$ 4,275,718</u>	<u>\$ 366,385,023</u>
	Liabilities:					
2110	Accounts payable	\$ 1,716,933	\$ 550	\$ 10,951,465	\$ 106,822	\$ 12,775,770
2150	Payroll deductions and withholdings payable	11,128	-	-	-	11,128
2160	Accrued wages payable	6,145,828	-	-	349,313	6,495,141
2170	Due to other funds	-	-	571	224,424	224,995
2180	Due to other governments	-	12,104	-	1,215	13,319
2300	Unearned revenue	-	-	-	276,395	276,395
2000	Total liabilities	<u>7,873,889</u>	<u>12,654</u>	<u>10,952,036</u>	<u>958,169</u>	<u>19,796,748</u>
	Deferred inflows of resources:					
2601	Unavailable revenue - property taxes	1,337,227	800,240	-	-	2,137,467
	Fund balances:					
	Nonspendable fund balances:					
3430	Prepaid items	14,584	-	-	-	14,584
	Restricted fund balances:					
3450	Federal or state funds grant restriction	-	-	-	2,797,461	2,797,461
3470	Capital acquisition and contractual obligation	-	-	298,702,460	-	298,702,460
3480	Retirement of long-term debt	-	6,471,898	-	-	6,471,898
	Committed fund balance:					
3510	Construction	4,000,000	-	-	-	4,000,000
3545	Other committed fund balance	-	-	-	520,088	520,088
3600	Unassigned fund balance	31,944,317	-	-	-	31,944,317
3000	Total fund balances	<u>35,958,901</u>	<u>6,471,898</u>	<u>298,702,460</u>	<u>3,317,549</u>	<u>344,450,808</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 45,170,017</u>	<u>\$ 7,284,792</u>	<u>\$ 309,654,496</u>	<u>\$ 4,275,718</u>	<u>\$ 366,385,023</u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

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

August 31, 2025

EXHIBIT C-2

Total fund balances - governmental funds balance sheet \$ 344,450,808

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

The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position. 34,907

Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$400,314,040 and the accumulated depreciation was \$(72,957,634). In addition, long-term liabilities, including bonds payable of \$(548,858,688) and leases payable of \$(451,093) are not due and payable in the current period, and therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position. (221,953,375)

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2025 capital outlays of \$139,438,457 and debt principal payments of \$19,116,671 is to increase net position. 158,555,128

The 2025 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. (6,982,419)

Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$(24,590,095), a deferred resource inflow of \$(571,848), and a deferred resource outflow of \$8,630,610. The net effect of this recognition is to decrease net position. (16,531,333)

Included in the items related to debt is the recognition of the District's proportionate share of net OPEB liability required by GASB 75 in the amount of \$(16,980,862), a deferred resource inflow of \$(14,062,582), and a deferred resource outflow of \$13,469,436. The net effect of this recognition is to decrease net position. (17,574,008)

Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable taxes receivable of \$2,137,467 as revenue, and recognizing the liabilities associated with maturing long-term debt interest of \$(1,371,176), recognizing accumulated accretion of capital appreciation bonds of \$137,517, unamortized bond premium of \$(29,424,708) accumulated local leave of \$(4,138,925), reclassifying the proceeds of new bonds received of \$(139,705,000), reclassifying the proceeds of right to use assets received of \$(71,534), and recognizing a loss on disposal of assets of \$(240,226). The net effect of these reclassifications and recognitions is to decrease net position. (172,676,585)

Net position of governmental activities - statement of net position \$ 67,323,123

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

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

For the year ended August 31, 2025

EXHIBIT C-3

Data Control Codes		10	50	60	Other Governmental Funds	Total Governmental Funds
		General Fund	Debt Service Fund	Capital Projects		
	Revenues:					
5700	Local and intermediate sources	\$ 38,527,603	\$ 27,985,263	\$ 11,776,006	\$ 3,141,775	\$ 81,430,647
5800	State program revenues	62,217,239	3,489,853	-	608,722	66,315,814
5900	Federal program revenues	<u>885,003</u>	<u>-</u>	<u>127,910</u>	<u>6,847,525</u>	<u>7,860,438</u>
5020	Total revenues	<u>101,629,845</u>	<u>31,475,116</u>	<u>11,903,916</u>	<u>10,598,022</u>	<u>155,606,899</u>
	Expenditures:					
	Current:					
0011	Instruction	55,779,711	-	104,645	865,047	56,749,403
0012	Instructional resources and media services	564,005	-	-	-	564,005
0013	Curriculum and instructional staff development	1,663,540	-	-	1,047,444	2,710,984
0021	Instructional leadership	1,566,779	-	-	753,570	2,320,349
0023	School leadership	5,116,384	-	-	-	5,116,384
0031	Guidance, counseling, and evaluation services	3,646,978	-	-	109,303	3,756,281
0032	Social work services	801,018	-	-	-	801,018
0033	Health services	1,206,243	-	7,636	24,526	1,238,405
0034	Student (pupil) transportation	6,432,304	-	-	-	6,432,304
0035	Food services	162,188	-	-	6,514,261	6,676,449
0036	Extracurricular activities	2,334,491	-	-	878,186	3,212,677
0041	General administration	3,016,420	-	8,500	36,882	3,061,802
0051	Facilities maintenance and operations	9,315,368	-	672	-	9,316,040
0052	Security and monitoring services	1,292,772	-	371,593	137,730	1,802,095
0053	Data processing services	2,719,551	-	-	40,438	2,759,989
0061	Community services	2,426	-	-	35,312	37,738
	Debt service:					
0071	Principal on long-term debt	161,005	18,697,934	-	-	18,858,939
0072	Interest on long-term debt	6,047	23,873,699	-	-	23,879,746
0073	Bond issuance cost and fees	-	308,443	1,396,603	-	1,705,046
	Capital outlay:					
0081	Facilities acquisition and construction	52,765	-	137,138,318	-	137,191,083
	Intergovernmental:					
0099	Other intergovernmental charges	<u>614,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>614,073</u>
6030	Total expenditures	<u>96,454,068</u>	<u>42,880,076</u>	<u>139,027,967</u>	<u>10,442,699</u>	<u>288,804,810</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>5,175,777</u>	<u>(11,404,960)</u>	<u>(127,124,051)</u>	<u>155,323</u>	<u>(133,197,911)</u>
	Other financing sources and (uses):					
7911	Capital related debt issued	-	-	139,705,000	-	139,705,000
7913	Proceeds from right to use assets	71,534	-	-	-	71,534
7915	Transfer in	-	11,698,450	-	-	11,698,450
7916	Premium or discount on issuance of bonds	-	-	4,891,604	-	4,891,604
8911	Transfer out (use)	<u>-</u>	<u>-</u>	<u>(11,698,450)</u>	<u>-</u>	<u>(11,698,450)</u>
7080	Total other financing sources and (uses)	<u>71,534</u>	<u>11,698,450</u>	<u>132,898,154</u>	<u>-</u>	<u>144,668,138</u>
1200	Net change in fund balances	5,247,311	293,490	5,774,103	155,323	11,470,227
0100	Fund balance - September 1 (beginning)	<u>30,818,166</u>	<u>6,178,408</u>	<u>292,928,357</u>	<u>3,139,134</u>	<u>333,064,065</u>
	Restatement of fund balance	<u>(106,576)</u>	<u>-</u>	<u>-</u>	<u>23,092</u>	<u>(83,484)</u>
3000	Fund balance - August 31 (ending)	<u>\$ 35,958,901</u>	<u>\$ 6,471,898</u>	<u>\$ 298,702,460</u>	<u>\$ 3,317,549</u>	<u>\$ 344,450,808</u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

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

For the year ended August 31, 2025

EXHIBIT C-4

Net change in fund balances - total governmental funds \$ 11,470,227

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

The District uses an internal service fund to charge the costs of self-insurance to appropriate functions in other funds. The change in net position of the internal service fund is reported with governmental activities. The net effect of this consolidation is to decrease net position.

(31,852)

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2025 capital outlays of \$139,438,457 and bond debt principal payments of \$19,116,671 is to increase net position.

158,555,128

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.

(6,982,419)

The reporting of GASB 68 for the current year resulted in the recognition of revenue of \$(1,883,230) and an increase in related expenses of \$(14,869). The result of these items is to decrease net position.

(1,898,099)

The reporting of GASB 75 for the current year resulted in the recognition of revenue of \$2,765,590 and an increase in related expenses of \$(1,697,008). The result of these items is to increase net position.

1,068,582

Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in unavailable tax revenue of \$100,180, and recognizing the change in accrued bond interest of \$(263,863). Also, recognizing the increase in bond premium of \$(2,941,746), recognizing accumulated accreted interest on capital appreciation bonds of \$137,517, the change in accrued local leave of \$(407,277), reclassifying bond proceeds of \$(139,705,000), reclassifying right to use asset proceeds of \$(71,534), and recognizing a loss on disposal of assets of \$(240,226). The net effect of these reclassifications is to decrease net position.

(143,391,949)

Change in net position of governmental activities - statement of activities \$ 18,789,618

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS**

August 31, 2025

EXHIBIT D-1

	<u>Governmental Activities Total Internal Service Funds</u>
Assets:	
Current assets:	
Cash and cash equivalents	\$ <u>780,040</u>
Total assets	<u>780,040</u>
Liabilities:	
Current liabilities:	
Accounts payable	<u>745,133</u>
Total liabilities	<u>745,133</u>
Net position:	
Unrestricted net position	<u>34,907</u>
Total net position	\$ <u><u>34,907</u></u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

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

For the year ended August 31, 2025

EXHIBIT D-2

	<u>Governmental Activities Total Internal Service Funds</u>
Operating revenues:	
Local and intermediate sources	<u>\$ 5,697,422</u>
Total operating revenues	<u>5,697,422</u>
Operating expenses:	
Professional and contracted services	<u>5,729,274</u>
Total operating expenses	<u>5,729,274</u>
Operating income (loss)	(31,852)
Total net position - September 1 (beginning)	<u>66,759</u>
Total net position - August 31 (ending)	<u>\$ 34,907</u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the year ended August 31, 2025

EXHIBIT D-3

	Governmental Activities
	<u>Total Internal Service Funds</u>
Cash flows from operating activities:	
Cash received from assessments - other funds	\$ 5,700,754
Cash payments for insurance claims	<u>(5,990,725)</u>
Net cash provided from operating activities	<u>(289,971)</u>
Net increase (decrease) in cash and cash equivalents	(289,971)
Cash and cash equivalents at beginning of year	<u>1,070,011</u>
Cash and cash equivalents at end of year	<u>\$ 780,040</u>
Reconciliation of operating income (loss) to net cash used for operating activities	
Operating income (loss)	\$ (31,852)
Effect of increases and decreases in current assets and liabilities:	
Assets and liabilities:	
(Increase) decrease in accounts receivable	3,332
Increase (decrease) in accounts payable	<u>(261,451)</u>
Net cash provided from operating activities	<u>\$ (289,971)</u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS**

August 31, 2025

EXHIBIT E-1

Custodial Fund

Assets:

Cash and cash equivalents \$ 173,156

Total assets 173,156

Liabilities:

Due to other funds 73

Total liabilities 73

Net position:

Unrestricted net position 173,083

Total net position \$ 173,083

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS

For the year ended August 31, 2025

EXHIBIT E-2

	<u>Custodial Fund</u>
Additions:	
Local and intermediate sources	\$ 143,692
Deductions:	
Student activities	<u>128,348</u>
Change in fiduciary net position	<u>15,344</u>
Total net position - September 1 (beginning)	<u>180,831</u>
Restatement of net position	<u>(23,092)</u>
Total net position - August 31 (ending)	<u>\$ 173,083</u>

The accompanying notes are an integral part of these financial statements.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies

The Medina Valley 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 (GAAP) promulgated by the Government Accounting Standards Board (GASB) and other authoritative sources identified in GASB Statement Number 76, and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

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 the TRS fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Other postemployment benefits - The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS-Care Plan has been determined using the flow of economic resource 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 postemployment 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.

Fair value - The District applies GASB Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

Reporting entity

The Board is elected by the public and 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 GASB in its Statement No. 14 “*The Financial Reporting Entity*”. There are no component units included within the reporting entity.

Government-wide and fund financial statements

The statement of net position and the statement of activities are government-wide financial statements. They report information on all of the District’s nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies (continued)

Government-wide and fund financial statements (continued)

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

Interfund activities between governmental funds appear and proprietary funds appear as due to/due from on the governmental fund balance sheet and the proprietary fund statement of net position and as other resources and other uses on the governmental fund statement of revenues, expenditures, and changes in fund balance and on the proprietary fund statement of revenues, expenses and changes in fund net position. All interfund transactions between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide statement of net position.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories – governmental, proprietary, 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.

Measurement focus, basis of accounting, and financial statement presentation

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

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

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies (continued)

Measurement focus, basis of accounting, and financial statement presentation (continued)

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for the unmatured interest and principal on long-term debt, which is recognized when due. The District considers all revenues available if they are collectible within 60 days after year end.

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

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

The proprietary fund types and fiduciary funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the statement of net position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Fund accounting

The District reports the following major governmental funds:

- **General fund** – the general fund is the District’s primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
- **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.
- **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.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies (continued)

Fund accounting (continued)

Additionally, the District reports the following fund type(s):

Non-major 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 funds** – 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 funds are the workers compensation fund and the health insurance fund.

Fiduciary funds:

- **Custodial funds** - the District accounts for resources held for others in a custodial capacity in custodial funds. The District's custodial fund is the student activity account.

Fund balance policy

The District reports fund balance for governmental funds in classifications based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The *nonspendable* classification represents assets that will be consumed or "must be maintained intact" and therefore, will never convert to cash, such as inventories of supplies. Provisions of laws, contracts, and grants specify how fund resources can be used in the *restricted* classification. The nature of these two classifications precludes a need for policy from the Board. However, the Board has adopted fund balance policies for the three unrestricted classifications – *committed*, *assigned*, and *unassigned*.

From time to time, the Board may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the District does not have. Commitments may be for facility expansion or renovations, program modifications, wage and salary adjustments, financial cushions, and other purposes determined by the Board.

The Board may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting. The Board has delegated this authority to the Superintendent or Assistant Superintendent for Business and Operations.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies (continued)

Fund balance policy (continued)

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the District incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures should be charged in the same order.

Nonspendable	
Prepayments in the general fund	\$ 14,584
Total nonspendable	<u>14,584</u>
Restricted	
Capital acquisition	298,702,460
Debt service	6,471,898
Federal/state grants	<u>2,797,461</u>
Total restricted	<u>307,971,819</u>
Committed	
Construction	4,000,000
Special revenue funds	<u>520,088</u>
Total committed	<u>4,520,088</u>
Unassigned	<u>31,944,317</u>
Total fund balances	<u>\$ 344,450,808</u>

Other accounting policies

1. The District reports inventories of supplies at cost including consumable custodial, maintenance, instructional, and office supplies. Inventories of supplies are recorded as expenditures when they are consumed rather than when they are purchased. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as revenue when received. When requisitioned, inventory is relieved, and expenditures are charged.
2. Cash and cash equivalents include cash and high liquid investments such as investment pools.
3. Unearned revenue accounted for on the balance sheet relates to excess funds received from funding sources over earned amounts.
4. The District provides risk management obligations by carrying appropriate insurance. Property and general liability insurance are obtained from a licensed insurer. Risk of loss is not retained by the District.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies (continued)

Other accounting policies (continued)

5. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
6. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements field in order to ensure accuracy in building a Statewide data base for policy development and funding plans.
7. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District's deferred outflows of resources consist of differences between expected and actual actuarial experience (pension and OPEB), changes in actuarial assumptions (pension and OPEB), differences between projected and actual investment earnings (pension), change in proportion and differences between employer's contributions and the proportionate share of contributions (pension and OPEB), and contributions paid to TRS subsequent to the measurement date (pension and OPEB).
8. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government-wide statement of net position. In the government-wide financial statements, the District reports a deferred inflow of resources for differences between expected and actual actuarial experience (pension and OPEB), changes in actuarial assumptions (pension and OPEB), difference between projected and actual investment earnings (OPEB), and changes in proportion and differences between employer's contributions and the proportionate share of contributions (pension).
9. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. The District has implemented GASB 87 for reporting leases. A right-to-use lease is defined as a contract that conveys control of another entity's nonfinancial asset as specified in the contract for a period of time in an exchange or exchange-like transaction. To be accounted for as a lease, the lease must meet the definition of a "long-term" lease provided in GASB 87 and must meet the capitalization level set by the Board. The right-to-use lease liability is reported in the government-wide statements. The lease liability is calculated as the present value of the reasonably certain expected payments to be made over the term of the lease and the interest included in the lease payment is recorded as an expense. The District has implemented GASB Statement 96, *Subscription-Based Information Technology Arrangements (SBITAs)*.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies (continued)

Other accounting policies (continued)

This statement is based on the principle that SBITAs are financings of the right-to-use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets). It establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding liability. The right to use SBITA and the related liability is reported in the governmental-wide statement. The District has implemented GASB Statement 101, *Compensated Absences*. This statement requires that liabilities for compensated absences be recognized for (1) leave that has not been used and (2) leave that has been used but not yet paid in cash or settled through noncash means.

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 resources 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. With GASB 87, the initial measure of a new right-to-use lease arrangement is reported in government fund types as an other financial source during the current period. Monthly payments are reported as principal and interest payments during the reporting period of the fund level statements.

10. Upon separation from the District, an employee in good standing who has ten or more years of employment in the District and who has accumulated 15 or more local leave days shall be paid one-third of the employee's daily rate of pay for the accrued and unused local leave days, up to a maximum of \$5,000.
11. Capital assets, which include land, buildings, furniture and equipment, and right-to-use lease assets are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District 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 estimated acquisition value at the date of donation.

The right-to-use asset capitalization level is determined by the Board. The term of the lease must be the noncancelable period during which the District has the right-to-use the tangible assets of another entity plus periods in which either the lessee or the lessor has the sole option to extend the lease if it is reasonably certain the option will be exercised, plus any periods in which either the lessee or the lessor has the sole option to terminate the lease if it is reasonably certain the option will not be exercised by that party and must not meet the definition of a short-term lease under GASB 87. If the lease is in a governmental fund, the full amount of the lease asset will be reported as an expenditure in the fund level statements the year the agreement is made.

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.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(1) Summary of significant accounting policies (continued)

Other accounting policies (continued)

Buildings, furniture and equipment, and leased assets of the District are depreciated using the straight-line method over the following estimated useful lives or, for the leased asset, for the term of the lease if the estimated useful life is longer than the term of the lease, if there is an option to purchase, which is expected to be exercised:

<u>Assets</u>	<u>Years</u>
Buildings	40
Vehicles	7-15
Equipment	5-15

(2) Stewardship, compliance and accountability

Budgetary data

The Board of Trustees adopts an “appropriated budget” for the general fund, debt service fund, and the food service fund which is included in the special revenue funds. 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 appear in exhibit J-2 and J-3.

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

- Prior to August 20th the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
- 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.
- Prior to September 1st, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(2) Stewardship, compliance and accountability

Budgetary data (continued)

- Each budget is controlled by the budget coordinator at the revenue and expenditure/function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

Fund	Fund Balance August 31, 2025
Appropriated budget funds - food service special revenue funds	\$ 2,797,461
Nonappropriated budget funds	520,088
All special revenue funds	<u>\$ 3,317,549</u>

(3) Detailed notes on all funds and account groups

Cash, cash equivalents, and investments

Cash and cash equivalents

Direct policies and legal and contractual provisions governing deposits

Custodial credit risk for deposits – State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

At fiscal year end, the Districts funds were fully secured by pledged securities of the depository bank.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(3) Detailed notes on all funds and account groups

Cash, cash equivalents, and investments (continued)

District policies on legal and contractual provisions governing investments

Compliance with the Public Investment Act

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies, (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas, (3) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less an "A", (4) no load money market funds with a weighted average maturity of 90 days or less, (5) fully collateralized repurchase agreements, (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit, (7) secured corporate bonds rated no lower than "AA-" or the equivalent, (8) public funds investment pools, and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

As of August 31, 2025, the District had the following investments, which are classified on the balance sheet as cash and cash equivalents:

Investment Type	Credit Rating	Amount	Maturity		
			Less than 1 Year	1-5 Years	10+ Years
External Investment Pools	AAAm	<u>\$ 346,940,229</u>	<u>\$ 346,940,229</u>	<u>\$ -</u>	<u>\$ -</u>
Total		<u>\$ 346,940,229</u>	<u>\$ 346,940,229</u>	<u>\$ -</u>	<u>\$ -</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(3) Detailed notes on all funds and account groups (continued)

Cash, cash equivalents, and investments (continued)

Additional policies and contractual provisions governing deposits and investments of the District are specified below:

Credit risk – To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments to those allowed by Government Code 2256. As of August 31, 2025, the District's investments were limited to investment pools.

Custodial credit risk for investments – To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party. The District requires counterparties to register the securities in the name of the District's custodian and hand them over to the District or its designated agent. All of the securities are held by the District's agent.

Concentration of credit risk – To limit the risk of loss, the District's investment portfolio is diversified in terms of investment instruments, maturity schedule, and financial institutions.

Interest rate risk – To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District's investment portfolio has various maturities.

Foreign currency risk – The District has no foreign currency investments.

Fair value measurement

The District categorizes its fair value measurements with the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy. In instances where inputs used to measure fair value fall into different levels in the above fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability. The District is only invested in investment pools which are valued at amortized cost.

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 256, 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 an authorized short-term investment.

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 stable net asset value of \$1. The book value of the position in the pools is the same as the number of shares in each pool; the market value of a share should approximately equal the book value of a share.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(3) Detailed notes on all funds and account groups (continued)

Cash, cash equivalents, and investments (continued)

Lone Star Investment Pool (the Pool) – The Pool’s liquidity fund operates in a manner consistent with SEC Rule 2a7 of the Investment Company Act of 1940, which allows the fund to use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the District’s position in the Pool is the same as the value of the Pool’s shares and does not include any unrealized gains and losses.

The Pool is governed by an eleven-member Board of Trustees made up of active participants in the Pool. The Board of Trustees has the responsibility of adopting and monitoring compliance with the investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. The Board of Trustees is also responsible for monitoring performance of the Pool. Financial information for the Pool can be obtained by writing to post office box 400, Austin, Texas 78767-0400 or by calling 1-800-758-3927.

(4) 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 and in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period, and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

(5) Delinquent taxes receivable

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the general fund and debt service fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

(6) Interfund balances and transfers

Interfund balances at August 31, 2025 consisted of the following:

<u>DUE TO FUND</u>	<u>DUE FROM FUND</u>	<u>AMOUNT</u>	<u>PURPOSE</u>
General fund	Other governmental funds	\$ 224,220	Short-term loan
General fund	Capital projects fund	571	Short-term financing
General fund	Fiduciary funds	73	Short-term loan
Other governmental funds	Other governmental funds	204	Short-term loan
		<u>\$ 225,068</u>	

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(7) Disaggregation of receivables and payables

Receivables at August 31, 2025, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General fund	\$ 1,337,227	\$ 13,575,057	\$ 224,864	\$ 30,462	\$ 15,167,610
Debt service fund	800,240	18,103	-	1	818,344
Capital projects	-	-	-	-	-
Nonmajor governmental funds	-	749,750	204	-	749,954
Total governmental activities	<u>\$ 2,137,467</u>	<u>\$ 14,342,910</u>	<u>\$ 225,068</u>	<u>\$ 30,463</u>	<u>\$ 16,735,908</u>

Payables at August 31, 2025, were as follows:

	Accounts Payable	Salaries and Benefits	Due To Other Funds	Due to Other Governments	Total Payables
Governmental Activities:					
Governmental fund:					
General fund	\$ 1,716,933	\$ 6,156,956	\$ -	\$ -	\$ 7,873,889
Debt service fund	550	-	-	12,104	12,654
Capital projects	10,951,465	-	571	-	10,952,036
Nonmajor governmental funds	106,822	349,313	224,424	1,215	681,774
Total governmental activities	<u>\$ 12,775,770</u>	<u>\$ 6,506,269</u>	<u>\$ 224,995</u>	<u>\$ 13,319</u>	<u>\$ 19,520,353</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(8) Capital assets

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

	Primary Government			
	Beginning Balance	Additions	Deletions	Ending Balance
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 29,984,121	\$ 10,992,594	\$ -	\$ 40,976,715
Construction in progress	<u>148,837,405</u>	<u>126,069,461</u>	<u>(52,243,644)</u>	<u>222,663,222</u>
Total capital assets not being depreciated	<u>178,821,526</u>	<u>137,062,055</u>	<u>(52,243,644)</u>	<u>263,639,937</u>
Capital assets being depreciated:				
Buildings and improvements	203,039,162	52,253,606	-	255,292,768
Equipment	16,992,975	2,294,906	(638,786)	18,649,095
Right-to-use leased assets	241,675	22,498	(241,675)	22,498
SBITA assets	<u>1,218,702</u>	<u>49,036</u>	<u>(618,335)</u>	<u>649,403</u>
Total capital assets being depreciated	<u>221,492,514</u>	<u>54,620,046</u>	<u>(1,498,796)</u>	<u>274,613,764</u>
Less accumulated depreciation for				
Buildings and improvements	(60,292,647)	(5,499,747)	-	(65,792,394)
Equipment	(11,676,646)	(1,270,736)	578,193	(12,369,189)
Right-to-use leased assets	(241,675)	(625)	241,675	(625)
SBITA assets	<u>(746,666)</u>	<u>(211,311)</u>	<u>438,702</u>	<u>(519,275)</u>
Total accumulated depreciation	<u>(72,957,634)</u>	<u>(6,982,419)</u>	<u>1,258,570</u>	<u>(78,681,483)</u>
Total capital assets being depreciated, net	<u>148,534,880</u>	<u>47,637,627</u>	<u>(240,226)</u>	<u>195,932,281</u>
Governmental activities capital assets, net	<u>\$ 327,356,406</u>	<u>\$ 184,699,682</u>	<u>\$ (52,483,870)</u>	<u>\$ 459,572,218</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(8) Capital assets (continued)

Depreciation expense was charged to governmental functions as follows:

	<u>Amount</u>
Instruction	\$ 3,719,662
Instructional resources and media services	36,947
Curriculum and instructional staff development	177,593
Instructional leadership	152,003
School leadership	335,167
Guidance, counseling, and evaluation services	246,069
Social work services	52,474
Health services	81,126
Student (pupil) transportation services	421,371
Food services	437,365
Extracurricular activities	210,458
General administration	200,575
Facilities maintenance and operations	610,281
Security and monitoring	118,053
Data processing services	180,803
Community services	<u>2,472</u>
Total depreciation expense	<u>\$ 6,982,419</u>

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MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(9) Bonds payable

Bonded indebtedness of the District is reflected in the statement of net position, and current requirements for principal and interest expenditures are accounted for in the debt service fund. The bonds mature serially and term through the year 2060, with interest rates of 2.0% to 5.0%.

A summary of changes in 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 9/1/2024	Issued	Retired/ Refunded	Amounts Outstanding 8/31/2025	Amounts Due Within One Year
Unlimited Tax Refunding Bonds Series 2014	2.00% - 4.00%	\$ 6,937,932	\$ 1,008,066	\$ 5,284,613	\$ -	\$ (3,252,934)	\$ 2,031,679	\$ 673,795
Unlimited Tax Refunding Bonds Series 2015	2.00% - 4.00%	8,665,000	61,850	8,295,000	-	(8,040,000)	255,000	125,000
Unlimited Tax Refunding Bonds Series 2015A	2.00% - 4.00%	6,800,000	64,525	2,145,000	-	(605,000)	1,540,000	615,000
Unlimited Tax Refunding Bonds Series 2016	2.00% - 5.00%	22,079,220	541,475	14,460,000	-	(355,000)	14,105,000	365,000
Unlimited Tax School Building Series 2016	2.00% - 4.00%	71,080,000	2,714,400	70,380,000	-	(4,510,000)	65,870,000	260,000
Unlimited Tax School Building Series 2019	2.25% - 5.00%	47,035,000	1,395,900	40,175,000	-	(960,000)	39,215,000	1,010,000
Unlimited Tax School Building Series 2021	3.00% - 5.00%	39,255,000	658,284	28,505,000	-	(710,000)	27,795,000	1,025,000
Unlimited Tax School Building Series 2022	5.00% - 4.00%	14,695,000	590,425	14,295,000	-	(265,000)	14,030,000	275,000
Unlimited Tax School Building Series 2023	5.00%	364,340,000	16,396,900	364,340,000	-	-	364,340,000	-
Unlimited Tax School Building Series 2024	4.00% -5.00%	11,090,000	314,868	-	11,090,000	-	11,090,000	185,000
Unlimited Tax School Building Series 2025	5.00%	128,615,000	127,006	-	128,615,000	-	128,615,000	2,085,000
Totals			<u>\$ 23,873,699</u>	<u>\$ 547,879,613</u>	<u>\$ 139,705,000</u>	<u>\$ (18,697,934)</u>	<u>\$ 668,886,679</u>	<u>\$ 6,618,795</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(9) Bonds payable (continued)

Debt service requirements are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2026	\$ 6,618,795	\$ 30,349,212	\$ 36,968,007
2027	9,152,884	30,001,634	39,154,518
2028	10,350,000	29,176,694	39,526,694
2029	10,570,000	28,659,094	39,229,094
2030	11,100,000	28,121,494	39,221,494
2031-2035	75,325,000	131,462,519	206,787,519
2036-2040	101,940,000	111,051,244	212,991,244
2041-2045	127,660,000	85,000,519	212,660,519
2046-2050	158,070,000	52,788,700	210,858,700
2051-2055	123,605,000	18,666,191	142,271,191
2056-2060	34,495,000	4,717,781	39,212,781
Total	<u>\$ 668,886,679</u>	<u>\$ 549,995,081</u>	<u>\$ 1,218,881,760</u>

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.

(10) Right-to-use lease liabilities

The District leases a copier with an agreement having a 3-year term. Annual payments of \$7,860 are made which consist of principal and annual interest of 3.25%. No assets were pledged as collateral for this lease.

A summary of right-to-use lease arrangements for the year ended August 30, 2025 is as follows:

Description	Date of Issue	Maturity	Interest Rate	Interest Current Year	Amounts Outstanding 9/1/2024	Issued	Retired	Amounts Outstanding 8/31/2025	Amounts Due Within One Year
Equipment	7/7/2025	8/7/2028	3.25%	\$ -	\$ -	\$ 22,498	\$ (596)	\$ 21,902	\$ -
Totals				<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,498</u>	<u>\$ (596)</u>	<u>\$ 21,902</u>	<u>\$ -</u>

Year Ended August 31,	Principal	Interest	Total Requirements
2026	\$ 7,277	\$ 583	\$ 7,860
2027	7,517	343	7,860
2028	<u>7,108</u>	<u>97</u>	<u>7,205</u>
Total	<u>\$ 21,902</u>	<u>\$ 1,023</u>	<u>\$ 22,925</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(11) Subscription-Based Information Technology Agreements

Subscription-based information technology agreements are capitalized in the statement of net position. Correspondingly, a liability is reported to capture the present value of future payments for these agreements. The agreements allow the District to use various software in the course of its business. The agreements range from one to three years with varying renewal options.

Future principal and interest payments due to maturity as of the end of the fiscal year are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2026	\$ 54,580	\$ 2,337	\$ 56,917
2027	8,703	1,342	10,045
2028	9,129	916	10,045
2029	9,576	469	10,045
Total	<u>\$ 81,988</u>	<u>\$ 5,064</u>	<u>\$ 87,052</u>

(12) Changes in long-term liabilities

Long-term activities for the year ended August 31, 2025, was as follows:

Description	Payable Amounts Outstanding 9/1/2024	Issued	Retired/ Refunded	Amounts Outstanding 08/31/2025	Amounts Due Within One Year
Governmental Activities:					
Bonds	\$ 547,879,613	\$ 139,705,000	\$ (18,697,934)	\$ 668,886,679	\$ 6,618,795
Right-to-use lease liabilities	-	22,498	(596)	21,902	7,277
SBITA liabilities	451,093	49,036	(418,141)	81,988	54,580
Compensated absences	3,604,017	534,908	-	4,138,925	1,034,731
Total governmental activities	551,934,723	140,311,442	(19,116,671)	673,129,494	7,715,383
Accreted interest on capital					
appreciation bonds, series 2014	979,075	-	(137,517)	841,558	-
Bond premium, refunding series 2014	1,420,263	-	(473,421)	946,842	-
Bond premium, refunding series 2015	600,310	-	(200,103)	400,207	-
Bond premium, refunding series 2015A	177,783	-	(42,667)	135,116	-
Bond premium, refunding series 2016	1,777,274	-	(185,455)	1,591,819	-
Bond premium, series 2015	5,257,681	-	(293,452)	4,964,229	-
Bond premium, series 2019	2,644,768	-	(105,791)	2,538,977	-
Bond premium, series 2021	2,546,706	-	(94,323)	2,452,383	-
Bond premium, series 2022	373,950	-	(13,850)	360,100	-
Bond premium, series 2023	11,684,227	-	(402,905)	11,281,322	-
Bond premium, series 2024	-	362,438	(12,081)	350,357	-
Bond premium, series 2025	-	4,529,166	(125,810)	4,403,356	-
Totals	<u>\$ 579,396,760</u>	<u>\$ 145,203,046</u>	<u>\$ (21,204,046)</u>	<u>\$ 703,395,760</u>	<u>\$ 7,715,383</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(12) Changes in long-term liabilities (continued)

On December 18, 2024, the District issued \$11,090,000 of Unlimited Tax School Building Bonds, Series 2024. The bonds were issued pursuant to an election held on May 4, 2024. The proceeds of the bonds were used for the construction of School Facilities and paying the cost of issuing the bonds. The Serial Bonds are set to mature on February 15 in various years beginning from 2026 to 2043 and 2046 to 2048, with coupon rate from 4.00% to 5.00%. The Term Bonds are set to mature on February 15th beginning in 2045 and 2050 to 2054, with coupon rates from 4.00% to 4.125%. The District received proceeds in the amount of \$11,394,527, comprised of the par amount of the Bonds, plus a reoffering premium of \$362,438, less an original issue discount of (\$57,910). From these proceeds, the District deposited \$11,200,000 to the Project Construction Fund, paid an underwriter's discount of \$101,431, paid cost of issuance of \$148,387, and deposited \$2,619 to the Debt Service Fund due to rounding from the transaction.

On August 21, 2025, the District issued \$128,615,000 Unlimited Tax School Building Bonds, Series 2025, comprised of \$46,950,000 in Serial Bonds and \$81,665,000 in Term Bonds. The bonds were issued pursuant to an election held on May 4, 2024. Bond proceeds will be used to pay for School Facilities, Security and Purchase of Land. The Serial Bonds are set to mature on February 15th in various years beginning from 2026 to 2045, with a coupon rate of 5.000%. The Term Bonds are set to mature on February 15th beginning from 2050 to 2060, with coupon rate from 4.750% to 5.250%. The District received proceeds in the amount of \$133,144,166, comprised of the par amount of the Bonds, plus a reoffering premium of \$4,529,166. From these Bond proceeds, the District paid an underwriter's discount of \$669,280 and deposited \$1,200 to interest and sinking fund for capitalized interest.

(13) Accumulated unpaid vacation and leave benefits

The State of Texas has created a minimum personal leave program consisting of five days per year leave with no limit on accumulation and transferability among districts for every teacher regularly employed in Texas public schools.

Each district's local Board of Education is required to establish a leave plan. Local school districts may provide additional leave beyond the state minimum. The District provides that upon separation from the District, an employee in good standing who has ten or more years of employment in the District and who has accumulated 15 or more local leave days shall be paid one-third of the employee's daily rate of pay for the accrued and unused local leave days, up to a maximum of \$5,000. Effective September 1, 2024, the District adopted GASB Statement No. 101 "*Compensated Absences*". This required all local and sick leave carried by employees of the District as well as the fringe benefits associated with leave balances to be included in the calculation of compensated absences and required a restatement of net position of \$3,604,017.

(14) Defined benefit pension plan

Plan description

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

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(14) Defined benefit pension plan (continued)

Plan description (continued)

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

Pension plan fiduciary net position

Detailed information about TRS's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the internet at <https://www.trs.texas.gov/learning-resources/publications>; by writing to TRS at attention Finance Division, Post Office Box 149676, Austin, Texas 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 postemployment benefit changes; including automatic COLAs. Ad hoc postemployment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the plan description above. Accordingly, the 2023 Texas Legislature passed Senate Bill (SB) 10 and House Joint Resolution (HJR) 2 to provide eligible retirees with a one-time stipend and ad hoc cost-of-living adjustment (COLA).

One time stipends

Stipends, regardless of annuity amounts, 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.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(14) Defined benefit pension plan (continued)

Cost of living adjustment (continued)

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 this 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 thru 2025.

<u>Contribution Rates</u>	<u>2025</u>	<u>2024</u>
Member (employees)	8.25%	8.25%
Non-employer contributing entity (State of Texas)	8.25%	8.25%
Employer (District)	8.25%	8.25%
<u>Contribution Amounts</u>		
Employer (District)	\$ 2,590,963	\$ 2,268,740
Member (employees)	5,708,230	5,089,029
Non-employer contributing entity (State of Texas)	4,832,126	4,521,914

Contributors to the plan include active members, employers and the State of Texas as the only non-employer contributing entity. The State is also the employer for senior colleges, medical schools and other entities 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 colleges, universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(14) Defined benefit pension plan (continued)

Contributions (continued)

- When any 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 is a surcharge an employer is subject to:

- All public schools, charter schools, and regional educational service centers must contribute 1.9% of the member's salary beginning in fiscal year 2024, gradually increasing to 2% in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Actuarial assumptions

The total pension liability in the August 31, 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%
Municipal bond rate of return	3.87% - The source for the rate is the Bond Buyers 20 index which represents the estimated yield of a portfolio of 20 general obligation bonds maturing in 20 years based on a survey of municipal bond traders.
Last year in the projection period (100 years)	2123
Inflation	2.30%
Salary increases including inflation	2.95% to 8.95%, including inflation
Ad hoc post-employment benefit changes	None

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

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(14) Defined benefit pension plan (continued)

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 nonemployer 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 system's target asset allocation as of August 31, 2024 are summarized below:

Asset Class	** Target Allocation %	Long-Term Expected Geometric Real Rate of Return ***	Expected Contributions To Long-Term Portfolio Returns
Global Equity			
USA	18.0%	4.4%	1.00%
Non-U.S. Developed	13.0%	4.2%	0.80%
Emerging Markets	9.0%	5.2%	0.70%
Private Equity	14.0%	6.7%	1.20%
Stable Value			
Government Bonds	16.0%	1.9%	0.40%
Absolute Return*	0.0%	4.0%	0.00%
Stable Value Hedge Funds	5.0%	3.0%	0.20%
Real Return			
Real Estate	15.0%	6.6%	1.20%
Energy, Natural Resources, and Infrastructure	6.0%	5.6%	0.40%
Commodities	0.0%	2.5%	0.00%
Risk Parity			
Risk Parity	8.0%	4.0%	0.40%
Asset Allocation			
Cash	2.0%	1.0%	0.00%
Asset Allocation Leverage	-6.0%	1.3%	-0.10%
Inflation Expectation			2.40%
Volatility Drag****			-0.70%
Expected Return	100.0%		7.90%

* Absolute return includes credit sensitive investments

** Target allocations are based on the FY2024 policy model

*** Capital market assumptions (CMA) come from 2024 SAA Study CMA Survey (as of 12/31/2023)

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

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(14) Defined benefit pension plan (continued)

Discount rate sensitivity analysis

The following table presents the net pension liability of the plan using the discount rate of 7.00% and what the net pension liability would be if it were calculated using a discount rate that is 1% point lower (6.00%) or 1% point higher (8.00%) than the current rate.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
District's proportionate share of the net pension liability	\$ 39,276,613	\$ 24,590,095	\$ 12,421,271

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 \$24,590,095 for its proportionate share of the TRS 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	\$ 24,590,095
State's proportionate share that is associated with the District	<u>39,900,431</u>
Total	<u>\$ 64,490,526</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 District'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 0.000402560812 which was an increase of 0.000039265792 from its proportion measured as of August 31, 2023.

Changes in assumptions and benefits since the prior actuarial valuation

The actuarial assumptions and methods are the same as used in the determination of the prior year's net pension liability.

The Texas 2023 Legislature passed Senate Bill (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 appropriate is treated a supplemental contribution and include 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.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(14) Defined benefit pension plan (continued)

For the year ended August 31, 2025, the District recognized pension expense of \$4,768,768 and revenue of \$3,681,036 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual actuarial experience	\$ 1,355,373	\$ 191,987
Changes in actuarial assumptions	1,269,639	170,215
Differences between projected and actual investment earnings	149,474	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	3,265,161	209,646
Contributions paid to TRS subsequent to the measurement date of the net pension liability	2,590,963	-
Total	<u>\$ 8,630,610</u>	<u>\$ 571,848</u>

The District recognized \$2,590,963 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025.

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

Measurement Year Ended August 31,	Pension Expense Amount
2025	\$ 968,725
2026	3,499,323
2027	962,491
2028	(279,674)
2029	316,934
Thereafter	-
	<u>\$ 5,467,799</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(15) Defined other postemployment benefit plans

Plan description

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

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

OPEB plan fiduciary net position

Detailed information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov/Pages/about.publications.aspx>; by writing to TRS at Post Office Box 149676, Austin, Texas 78714-0185; or by calling (800) 223-8778.

Benefits provided

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

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

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

TRS-Care Monthly Premium Rates		
	<u>Medicare</u>	<u>Non-Medicare</u>
Retiree*	\$ 135	\$ 200
Retiree and spouse	529	689
Retiree* and children	468	408
Retiree and family	1,020	999

* or surviving spouse

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(15) Defined other postemployment benefit plans (continued)

Contributions

Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and participating employer based on active employee compensation. 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 salary. Section 1575.204 establishes a public school employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75% of each active employee's pay for the fiscal year 2024.

The following table shows contributions to the TRS-Care plan by type of contributor.

<u>Contribution Rates</u>	<u>2025</u>	<u>2024</u>
Active employee	0.65%	0.65%
Non-employer contributing entity (State of Texas)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

Contribution Amounts

Employer (District)	\$ 559,323	\$ 508,724
Member (employees)	449,740	400,950
Non-employer contributing entity (State of Texas)	732,140	356,268

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to. When hiring a TRS retiree, employers are required to pay to TRS Care, a monthly surcharge of \$535 per retiree.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(15) Defined other postemployment benefit plans (continued)

Actuarial assumptions

The actuarial valuation was performed as of August 31, 2023. Updated 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. The demographic assumptions were updated based on 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	Rates of disability

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, with full generational projection using the ultimate improvement rates from the mortality projection scale MP-2021.

Additional actuarial methods and assumptions.

Valuation date	August 31, 2023 rolled forward to August 31, 2024
Actuarial cost method	Individual Entry Age Normal
Inflation	2.30%
Single discount rate	3.87% as of August 31, 2024
Amortization method and year	Based on the Society of Actuaries' 2013 Study
Aging factors	"Health Care Costs - From Birth to Death."
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in age-adjusted claims costs.
Salary increases	2.95% to 8.95%, including inflation
Healthcare trend rates	4.25% - 6.5%
Election rates	Normal retirement: 62% participation prior to age 65 and 25% after age 65, 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc postemployment benefit changes	None

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(15) Defined other postemployment benefit plans (continued)

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 Bond Buyer's "20-Bond GO Index" as of August 31, 2024 using the fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

Discount rate sensitivity analysis

The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than 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%)
District's proportionate share of the net OPEB liability	<u>\$ 20,174,058</u>	<u>\$ 16,980,862</u>	<u>\$ 14,400,712</u>

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 \$16,980,862 for its proportionate share of the TRS's total 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	\$ 16,980,862
State's proportionate share that is associated with District	<u>21,276,790</u>
Total	<u>\$ 38,257,652</u>

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

At August 31, 2025 the employer's proportion of the collective net OPEB liability was .0000559472977 compared to 0.00005347937 as of August 31, 2024.

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(15) Defined other postemployment benefit plans (continued)

The following schedule shows the impact of the net OPEB liability if a healthcare trend rate is 1% less than and 1% greater than the health rates assumed.

	1% Decrease in Healthcare Trend Rate	Current Single Healthcare Trend Rate	1% Increase in Healthcare Trend Rate
District's proportionate share of the total OPEB liability	\$ 13,828,391	\$ 16,980,862	\$ 21,088,846

Changes since the prior actuarial valuation

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

- The single 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.

Changes of benefit terms since the prior measurement date

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

The amount of OPEB expense recognized by the District in the reporting period was \$(2,765,590) and revenue of \$636,763 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 other postemployment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 3,254,661	\$ 8,474,371
Changes in actuarial assumptions	2,173,350	5,540,659
Difference between projected and actual investment earnings	-	47,552
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	7,482,102	-
Contributions paid to TRS subsequent to the measurement date	559,323	-
Total	\$ 13,469,436	\$ 14,062,582

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(15) Defined other postemployment benefit plans (continued)

The District recognized \$559,323 as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025.

The 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:

Measurement Year Ended August 31,	OPEB Expense Amount
2025	\$ (951,779)
2026	(182,694)
2027	(606,827)
2028	(528,197)
2029	(65,737)
Thereafter	<u>1,182,765</u>
Total	<u>\$ (1,152,469)</u>

(16) 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 provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Payments made on behalf of the District for fiscal years 2023, 2024, and 2025 were \$287,424, \$346,350, and \$459,110 respectively.

(17) General fund federal source revenues

Federally financed programs are generally accounted for in the special revenue funds of the District, except for certain federal programs which are accounted for in the general fund as prescribed by the TEA. The District recognized in the general fund such revenues for the year ended August 31, 2025, from federal sources as follows:

Program or Source	Amount
ROTC	\$ 105,179
SHARS	42
Indirect costs	558,466
E-Rate	<u>221,316</u>
Total	<u>\$ 885,003</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(18) Workers' Compensation

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

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

(19) Health Insurance

During the year ended August 31, 2025, employees of the District were covered by a District self-funded health insurance plan. The District's monthly contribution is \$375 per employee during the fiscal year 2025. All premiums were paid to a licensed insurer through August 31, 2025. The plan was authorized by Article 3.51-2, Texas Insurance Code and the District offered 4 plan options, which are self-funded through an Internal Service Fund. Accrued expenses in the Health Insurance Fund are based on actuarial estimates of the amounts necessary to pay prior and current period claims and to establish a reserve for catastrophic losses. A liability claim is established if information indicates it is a probability that a liability has incurred as of the date of the financial statements and the amounts of the loss is reasonably estimable.

Estimates of claims payable and of claims incurred, but not reported at year end are reflected as other long-term debt of the proprietary fund.

Changes in the balances of claims liabilities during the past year are as follows:

	Year Ended August 31, 2025	Year Ended August 31, 2024
Unpaid claims, beginning of year	\$ 1,006,584	\$ 1,250,441
Incurred claims (including IBNR's)	5,150,037	4,361,764
Claim payments	(5,411,488)	(4,605,621)
Unpaid claims, end of year	\$ 745,133	\$ 1,006,584

(20) Unearned revenue

Unearned revenue at year end consisted of the following:

	Special Revenue Fund
State entitlements	\$ 266,381
Federal	10,014
Total unearned revenue	\$ 276,395

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(21) Receivables 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 Capital Programs. Amounts due from federal and state governments as of August 31, 2025, are summarized below. All federal grants shown are passed through the TEA and are reported on the combined financial statements as due from other governments.

Fund	State Entitlements	Federal/State Grants	Other	Total
General	\$ 13,540,435	\$ 34,622	\$ -	\$ 13,575,057
Debt service	-	-	18,103	18,103
Special revenue	-	749,750	-	749,750
 Total	 <u>\$ 13,540,435</u>	 <u>\$ 784,372</u>	 <u>\$ 18,103</u>	 <u>\$ 14,342,910</u>

(22) Revenue from local and intermediate sources

	General Fund	Debt Service Fund	Capital Projects Fund	Special Revenue Fund	Total
Property taxes	\$ 36,366,329	\$ 27,154,593	\$ -	\$ -	\$ 63,520,922
Penalties, interest and other tax related income	303,563	211,587	-	-	515,150
Investment income	1,536,014	619,083	11,776,006	125,521	14,056,624
Food sales	-	-	-	1,928,741	1,928,741
Co-curricular student activities	157,959	-	-	1,019,513	1,177,472
Other	163,738	-	-	68,000	231,738
 Total	 <u>\$ 38,527,603</u>	 <u>\$ 27,985,263</u>	 <u>\$ 11,776,006</u>	 <u>\$ 3,141,775</u>	 <u>\$ 81,430,647</u>

(23) Prior period adjustment

During FY2025 and subsequent to the year end, based on litigation settlement agreements, a liability was set up to pay back SHARS revenue that the District received dating back multiple prior periods. A restatement of fund balance was made to account for revenue received in the prior periods that was considered payable as of August 31, 2025. The reconciliation is as follows:

	General Fund
Beginning fund balance	\$ 30,818,166
Change in accounting estimate - SHARS liability	(106,576)
Beginning fund balance, as restated	<u>\$ 30,711,590</u>

MEDINA VALLEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

For the year ended August 31, 2025

(23) Prior period adjustment (continued)

During FY2025 multiple accounts in the student activity fund were considered unused and it was determined that these funds belonged in the campus activity fund. This change was recorded to account for the transfer of funds. The reconciliation is as follows:

	Campus Activity Fund
Beginning fund balance	\$ 350,494
Change in financial reporting entity	23,092
Beginning fund balance, as restated	<u>\$ 373,586</u>
	Custodial Fund
Beginning net position	\$ 180,831
Change in financial reporting entity	(23,092)
Beginning net position, as restated	<u>\$ 157,739</u>

(24) New accounting policy and restatement of net position

Effective September 1, 2024, the District adopted and implemented GASB Statement No. 101 “*Compensated Absences*”. This statement changes the measurement of the compensated absences payable reported as of August 31, 2025. As such, the governmental activities in the government wide statement of net position has been restated. The reconciliation is as follows:

	Governmental Activities
Beginning net position	\$ 52,221,006
Change in accounting principle-GASB 101	(3,604,017)
Change in accounting estimate - SHARS liability	(106,576)
Change in financial reporting entity	23,092
Beginning net position, as restated	<u>\$ 48,533,505</u>