

PRELIMINARY OFFICIAL STATEMENT
Dated February 6, 2026

NEW ISSUE – BOOK-ENTRY-ONLY

Enhanced/Unenhanced Ratings:

S&P: “AAA” / “A+”

PSF: “Guaranteed”

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

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



\$20,000,000*

MERKEL INDEPENDENT SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Taylor and Jones Counties)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

Dated Date: March 15, 2026

Due: as shown on the inside cover page hereto

Interest to Accrue from Date of Delivery

AUTHORITY FOR ISSUANCE ... The Merkel Independent School District Unlimited Tax School Building Bonds, Series 2026 (the “Bonds”) are direct obligations of the Merkel Independent School District (the “District”) and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 4, 2025 (the “Election”), and an order authorizing the issuance of the Bonds (the “Bond Order”) to be adopted by the Board of Trustees (the “Board”) of the District on February 18, 2026. See “THE BONDS - Authority for Issuance” herein.

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

PURPOSE ... Proceeds from the sale of the Bonds will be used for (i) the design, construction, rehabilitation, renovation, expansion, improvement, acquisition, and equipment of school facilities and the necessary sites for school facilities, with priority given to construction of a new middle school, and (ii) paying for the costs of issuance of the Bonds. See “PLAN OF FINANCING – Purpose” and “– Sources and Uses of Funds” herein.

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

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

The Bonds are offered for delivery when, as, and if issued and received by the Initial Purchaser and are subject to the approving opinion of the Attorney General of the State of Texas and the opinions of Walsh Gallegos Kyle Robinson & Roalson, PC, San Antonio, Texas, Co-Bond Counsel, and Cantu Harden Montoya LLP, San Antonio, Texas, Co-Bond Counsel and Tax Counsel. See “APPENDIX C – FORMS OF CO-BOND COUNSEL’S OPINION AND TAX COUNSEL’S OPINION” attached hereto. It is expected that the Bonds will be available for delivery through DTC on or about March 19, 2026” (the “Date of Delivery”).

BIDS DUE FEBRUARY 18, 2026 AT 10:00 A.M. (CST)

* Preliminary, subject to change.

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

\$20,000,000*

**MERKEL INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Taylor and Jones Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026**

CUSIP No. Prefix 590077 ⁽¹⁾

\$_____ Serial Bonds*

Maturity Date	Principal*	Interest Rate	Initial Yield ⁽²⁾	CUSIP No. ⁽¹⁾
(8/15)	(\$)	(%)	(%)	Suffix
2027	250,000			
2028	640,000			
2029	675,000			
2030	715,000			
2031	760,000			
2032	805,000			
2033	855,000			
2034	895,000			
2035	940,000			
2036	990,000			
2037	1,040,000			
2038	1,080,000			
2039	1,125,000			
2040	1,170,000			
2041	1,215,000			
2042	1,265,000			
2043	1,315,000			
2044	1,365,000			
2045	1,420,000			
2046	1,480,000			

\$_____ Term Bonds*

\$_____ * ____% Term Bonds Due August 15, 20__ to yield ____% CUSIP No. ⁽¹⁾ Suffix ____

(Interest to accrue from the initial Date of Delivery)

Optional Redemption. The District reserves the option to redeem the Bonds maturing on and after August 15, 2036, in whole or in part, before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2035, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 15 in the years 20__ and 20__ (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity. See "THE BONDS – Redemption Provisions of the Bonds" herein.

** Preliminary, subject to change.*

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

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

MERKEL INDEPENDENT SCHOOL DISTRICT
314 Manchester Street
Merkel, Texas 79536

BOARD OF TRUSTEES

<u>Name</u>	<u>Position</u>	<u>Term Expiration</u>
Matt Travis	President	May 2026
Kyle Doan	Vice-President	May 2027
Angela Head	Secretary	May 2027
Kerry Fryar	Board Member	May 2028
Gabby Campbell	Board Member	May 2028
Joe Salas	Board Member	May 2026
Brit Pursley	Board Member	May 2026

ADMINISTRATION – FINANCE RELATED

<u>Name</u>	<u>Position</u>
Kelly West	Interim Superintendent
Lane Petty	Chief Financial Officer

CONSULTANTS AND ADVISORS

Auditors	James E. Rodgers and Company, P.C., Hamlin, Texas
Co-Bond Counsel	Walsh Gallegos Kyle Robinson & Roalson, PC, San Antonio, Texas Cantu Harden Montoya LLP, San Antonio, Texas
Municipal Advisor	Live Oak Public Finance, LLC, Austin, Texas

For Additional Information Contact:

Kelly West
Interim Superintendent
Merkel Independent School District
314 Manchester Street
Merkel, Texas 79536
(325) 928-5813
kwest@merkelisd.net

John Blackburn
Live Oak Public Finance, LLC
1515 S. Capital of Texas Hwy., Suite 206
Austin, Texas 78746
(512) 726-5547
jblackburn@liveoakpf.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended and in effect on the date of this Preliminary Official Statement ("Rule 15c2-12"), this document constitutes an "Official Statement" of the District with respect to the Bonds that has been "deemed final" by the District as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

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

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

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

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

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

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

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

FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE "FORWARD-LOOKING STATEMENTS" HEREIN.

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

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

TABLE OF CONTENTS

USE OF INFORMATION IN THE OFFICIAL STATEMENT	iv	STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS	
TABLE OF CONTENTS	vi	IN TEXAS	12
OFFICIAL STATEMENT SUMMARY	vii	Litigation Relating to the Texas Public School Finance	
INTRODUCTION	1	System	12
Description of the District	1	Possible Effects of Changes in Law on District Bonds	13
PLAN OF FINANCING	1	CURRENT PUBLIC SCHOOL FINANCE SYSTEM	13
Purpose	1	Overview	13
Sources and Uses of Funds	2	2025 Legislative Sessions	13
THE BONDS	2	Local Funding for School Districts	14
Description of the Bonds	2	State Funding for School Districts	15
Authority for Issuance	2	Local Revenue Level in Excess of Entitlement	17
Use of Proceeds	2	THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE	
Security and Source of Payment	3	DISTRICT	18
Permanent School Fund Guarantee	3	TAX RATE LIMITATIONS	18
Redemption Provisions of the Bonds	3	M&O Tax Rate Limitations	18
Selection of Bonds for Redemption	3	I&S Tax Rate Limitations	19
Notice of Redemption	4	Public Hearing and Voter-Approval Tax Rate	19
DTC Redemption Provisions	4	DEBT LIMITATIONS	20
Defeasance	4	EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER	
Amendments	4	POST-EMPLOYMENT BENEFITS	20
Default and Remedies	4	INVESTMENT POLICIES	21
Payment Record	5	Legal Investments	21
Legality	5	LEGAL MATTERS	23
Delivery	5	Litigation	23
Future Issues	5	TAX MATTERS	23
REGISTRATION, TRANSFER AND EXCHANGE	5	Opinion	23
Paying Agent/Registrar	5	Tax Changes	24
Record Date for Interest Payment	5	Ancillary Tax Consequences	24
Registration, Transferability and Exchange	6	Tax Accounting Treatment of Discount Bonds	24
Limitation on Transfer of Bonds	6	Tax Accounting Treatment of Premium Bonds	25
BOOK-ENTRY-ONLY SYSTEM	6	LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE	
Use of Certain Terms in Other Sections of This Official		PUBLIC FUNDS IN TEXAS	25
Statement	7	CONTINUING DISCLOSURE	25
Effect of Termination of Book-Entry-Only System	7	Annual Reports	25
THE PERMANENT SCHOOL FUND GUARANTEE		Notice of Certain Events	26
PROGRAM	8	Availability of Information from MSRB	26
AD VALOREM TAX PROCEDURES	8	Limitations and Amendments	27
Valuation of Taxable Property	8	Compliance with Prior Agreements	27
State-Mandated Homestead Exemptions	8	WEATHER EVENTS	27
Local Option Homestead Exemptions	9	CYBERSECURITY	27
State-Mandated Freeze on School District Taxes	9	OTHER PERTINENT INFORMATION	27
Personal Property	9	Authenticity of Financial Information	27
Freeport and Goods-in-Transit Exemptions	9	Registration and Qualification of Bonds for Sale	28
Other Exempt Property	9	Municipal Bond Rating	28
Temporary Exemption for Qualified Property Damaged by a		Municipal Advisor	28
Disaster	10	Sale of Bonds	28
Tax Increment Reinvestment Zones	10	Use of Audited Financial Statements	28
Tax Limitation Agreements	10	Forward-Looking Statements	29
District and Taxpayer Remedies	10	Information from External Sources	29
Levy and Collection of Taxes	11	Certification of the Official Statement	29
District's Rights in the Event of Tax Delinquencies	11	Authorization of the Official Statement	29
THE PROPERTY TAX CODE AS APPLIED TO THE			
DISTRICT	11		
APPENDIX A – SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT	A-1		
APPENDIX B – AUDITED FINANCIAL STATEMENTS	B-1		
APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION AND TAX COUNSEL'S OPINION	C-1		
APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM	D-1		

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT	The District is a political subdivision of the State of Texas (the "State" or "Texas") located in Taylor and Jones Counties. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. See "INTRODUCTION – Description of the District" herein.
AUTHORITY FOR ISSUANCE	The Bonds are being issued in the principal amount of \$20,000,000 [*] are direct obligations of the Merkel Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 4, 2025 (the "Election"), and an order authorizing the issuance of the Bonds (the "Bond Order") to be adopted by the Board of Trustees (the "Board") of the District on February 18, 2026. See "THE BONDS – Authority for Issuance" herein.
THE BONDS	The Bonds shall mature on the dates and in the amounts set forth on the inside cover page of this Official Statement. See "THE BONDS – Description of the Bonds" herein.
DATED DATE	March 15, 2026.
PAYMENT OF INTEREST	Interest on the Bonds will accrue from the date of initial delivery to the Initial Purchaser (listed on the cover page hereof), will be payable on each August 15 and February 15, commencing February 15, 2027, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. See "THE BONDS – Description of the Bonds" herein.
REDEMPTION	The District reserves the option to redeem the Bonds maturing on and after August 15, 2036, in whole or in part before their respective scheduled maturity dates, in the principal amount of \$5,000 or any integral multiple thereof, on August 15, 2035, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date of redemption. The Bonds maturing on August 15 in the years 20__ and 20__ (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity. See "THE BONDS – Redemption Provisions of the Bonds" herein.
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from a continuing direct annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount. Additionally, the payment of the Bonds is expected to be guaranteed by the corpus of the Permanent School Fund of the State of Texas. See "THE BONDS – Security and Source of Payment" and "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.
TAX MATTERS	In the opinion of Tax Counsel, Cantu Harden Montoya LLP, the interest on the Bonds will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax of the owners thereof who are individuals. See "TAX MATTERS" and "APPENDIX C - FORMS OF CO-BOND COUNSEL'S OPINION AND TAX COUNSEL'S OPINION". The opinion of Walsh Gallegos Kyle Robinson & Roalson, P.C. will not address federal tax matters.
PERMANENT SCHOOL FUND GUARANTEE	The District received conditional approval from the Texas Education Agency for the payment of principal and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program, which guarantee will automatically become effective when the Attorney General of the State of Texas approves the Bonds. See "THE BONDS – Permanent School Fund Guarantee" herein and "APPENDIX D – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
MUNICIPAL BOND RATING	The presently outstanding unlimited tax-supported debt of the District including the Bonds is rated "A+" by S&P Global Ratings, Inc. ("S&P") without regard to credit enhancement, and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State. See "OTHER PERTINENT INFORMATION – Municipal Bond Rating" and "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (i) the design, construction, rehabilitation, renovation, expansion, improvement, acquisition, and equipment of school facilities and the necessary sites for school facilities, with priority given to construction of a new middle school, and (ii) paying for the costs of issuance of the Bonds. See "PLAN OF FINANCING – Purpose" and "- Sources and Uses of Funds" herein.
BOOK-ENTRY-ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., as nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 of the principal amount or any integral multiple thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying

^{*} Preliminary, subject to change.

Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

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

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

LEGALITYThe Bonds are subject to the receipt of an approving opinion from the Attorney General of the State of Texas and opinions from Walsh Gallegos Kyle Robinson & Roalson, PC, San Antonio, Texas, Co-Bond Counsel, and Cantu Harden Montoya LLP, San Antonio, Texas, Co-Bond Counsel and Tax Counsel. See "APPENDIX C – FORMS OF CO-BOND COUNSEL'S OPINION AND TAX COUNSEL'S OPINION" attached hereto.

* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT

Relating to

\$20,000,000*

MERKEL INDEPENDENT SCHOOL DISTRICT

**(A political subdivision of the State of Texas located in Taylor and Jones Counties)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026**

INTRODUCTION

This Official Statement, which includes the schedule and appendices attached hereto, and incorporated herein, provides certain information regarding the issuance of the \$20,000,000* Unlimited Tax School Building Bonds, Series 2026 (the "Bonds") of the Merkel Independent School District (the "District"). The Bonds are direct obligations of the Merkel Independent School District (the "District") and are payable from an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, an election held in the District on November 4, 2025 (the "Election"), and an order authorizing the issuance of the Bonds (the "Bond Order") to be adopted by the Board of Trustees (the "Board") of the District on February 18, 2026. See "THE BONDS - Authority for Issuance" herein.

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

Included in this Official Statement are descriptions of the Bonds, the Order, and certain other information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained by writing the Merkel Independent School District, 314 Manchester Street, Merkel, Texas 79536 Attention: Superintendent of Schools and, during the offering period, from the District's Municipal Advisor, Live Oak Public Finance, LLC, 1515 S. Capital of Texas Hwy., Suite 206, Austin, Texas 78746, Attention: John Blackburn, upon payment of reasonable copying, mailing and handling charges.

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

Description of the District

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

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for (i) the design, construction, rehabilitation, renovation, expansion, improvement, acquisition, and equipment of school facilities and the necessary sites for school facilities, with priority given to construction of a new middle school, and (ii) paying for the costs of issuance of the Bonds. See "- Sources and Uses of Funds" herein.

* Preliminary, subject to change.

Sources and Uses of Funds

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$
[Net] Reoffering Premium on the Bonds	
TOTAL SOURCES	\$
<u>Uses of Funds:</u>	
Deposit to Construction Fund	\$
Costs of Issuance & Rounding Amount ⁽¹⁾	
Initial Purchaser's Discount	
TOTAL USES	\$

(1) Includes fees of consultants, bond rating agencies, and other costs of issuance.

THE BONDS

Description of the Bonds

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

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

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

Authority for Issuance

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

Use of Proceeds

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

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

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
School Buildings	\$20,000,000	\$0	\$20,000,000 ⁽¹⁾	\$0

⁽¹⁾ Includes any premium allocations that the District intends to apply against voted authorization. Preliminary, subject to change.

Security and Source of Payment

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

Permanent School Fund Guarantee

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

Redemption Provisions of the Bonds

Optional Redemption

The District reserves the right to redeem the Bonds maturing on and after August 15, 2036, in whole or in part, in denominations of \$5,000 of the principal amount or any integral multiple thereof, on August 15, 2035 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. When the Bonds or portions thereof have been called for redemption and due provisions have been made to redeem the Bonds, the amounts so redeemed shall be payable solely from the funds provided for redemption, and interest that would otherwise accrue on the Bonds or portions thereof called for redemption shall terminate on the date fixed for redemption.

Mandatory Redemption

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

\$_____ Term Bond		\$_____ Term Bond		\$_____ Term Bond		\$_____ Term Bond	
Due August 15, 20__		Due August 15, 20__		Due August 15, 20__		Due August 15, 20__	
Date	Principal Amount	Date	Principal Amount	Date	Principal Amount	Date	Principal Amount
8/15	(\$)	8/15	(\$)	8/15	(\$)	8/15	(\$)

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

Selection of Bonds for Redemption

If fewer than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be so redeemed. If fewer than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only

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

Notice of Redemption

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

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

DTC Redemption Provisions

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

Defeasance

The Bond Order provides that the Bonds may be defeased, refunded or discharged in any manner permitted by applicable law. Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

Amendments

The District may amend the Order without the consent of any beneficial owner in any manner not detrimental to the interests of the beneficial owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the beneficial owners of the Bonds then outstanding, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereof or in any other way modify the terms of payment of the principal or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the percentage of the aggregate principal amount of Bonds required to be held for beneficial owners for consent to any amendment, addition, or waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language.

Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

Payment Record

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

Legality

The Bonds are offered when, as, and if issued, and subject to the receipt of an approving opinion of the Attorney General of the State of Texas and the opinions of the District's Co-Bond Counsel, Walsh Gallegos Kyle Robinson & Roalson, PC, San Antonio, Texas, and Cantu Harden Montoya LLP, San Antonio, Texas.

Delivery

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

Future Issues

On November 4, 2025, the District's voters authorized the District to issue \$20,000,000 in unlimited ad valorem tax bonds (the "Election"), proceeds from which will be utilized to undertake the projects described under "PLAN OF FINANCING – Purpose". The Bonds will be the first installment of this authorization in the aggregate amount of \$20,000,000* (including par plus allocated premium) leaving \$0* authorization from the Election for future bond issues. See "AUTHORIZED BUT UNISSUED BONDS" in APPENDIX A hereto.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

Record Date for Interest Payment

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

In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United

* Preliminary, Subject to Change

States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC [nor its nominee], the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and

registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

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

Through December 31, 2026, an appraisal district may only increase 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 (collectively, the "Appraisal Cap"). The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value. After December 31, 2026, the value limitation provisions for non-homestead properties will expire unless extended by the State legislature.

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

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

State-Mandated Homestead Exemptions

State law grants, with respect to taxes for general elementary and secondary public school purposes, (1) a \$140,000 exemption of the appraised value of all residence homesteads (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions" herein for a discussion of a recent increase in this exemption), (2) a \$60,000 exemption of the appraised value of the residence homesteads of person sixty-five (65) years of age or older and the disabled (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions" herein for a discussion of a recent increase in this exemption), and (3) various exemptions for disabled veterans and their

families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

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

State-Mandated Freeze on School District Taxes

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

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

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. From and after the 2026 tax year, a person is entitled 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 fewer for the purpose of assembly, storage, manufacturing, processing or fabrication (“Freeport Property”) are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

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

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

Other Exempt Property

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

Temporary Exemption for Qualified Property Damaged by a Disaster

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

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

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

During the regular session of the 88th Texas Legislature, House Bill 5 (codified as Chapter 403, Texas Government Code, Subchapter T. Texas Jobs, Energy, Technology, and Innovation Act ("Chapter 403")) was enacted into law. Chapter 403 is intended as a replacement of former Chapter 313, Texas Tax Code ("Chapter 313"), but it contains significantly different provisions than the prior program under Chapter 313. The effective date of Chapter 403 was 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 services taxes securing the Bonds cannot be abated under Chapter 403. Eligible projects must relate to manufacturing, provision of utility services, dispatchable electric generation (such as non-renewable energy), development of natural resources, critical infrastructure, or research and development for high-tech equipment or technology, and projects must create and maintain jobs and meet certain minimum investment requirements. The District does not expect that Chapter 403 will have any material adverse effect on its ability to repay the Bonds or its finances or operations more generally.

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

District’s Rights in the Event of Tax Delinquencies

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT

The Appraisal District has the responsibility for appraising property in the District as well as other taxing units in the respective County. The Appraisal District is governed by a board of directors appointed by members of the governing bodies of various political subdivisions within the applicable County.

Property within the District is assessed as of January 1 of each year, taxes become due October 1 of the same year and become delinquent on February 1 of the following year.

The District does not tax personal property not used in the production of income, such as personal automobiles.

The District’s taxes are collected by the Taylor County and Jones County (the “Tax Assessor/Collector”).

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

The District has established a tax abatement program to encourage economic development. The District has not granted any tax abatements.

The District grants an additional local exemption of up to 20% of the market value of residence homesteads, minimum exemption \$5,000.

The District provides the State-mandated exemption to the market value of residence homesteads of \$140,000 (increased from \$100,000 to \$140,000 effective for tax years 2025 and thereafter).

The District grants a State-mandated \$60,000 residence homestead exemption for persons 65 years of age or older or the disabled (increased from \$10,000 to \$60,000 effective for tax years 2025 and thereafter)

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

The District does not tax non-business personal property.

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

The District has not taken action to tax freeport property.

The District taxes goods-in-transit.

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

Month	Cumulative Penalty	Cumulative Interest ^(a)	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	32% ^(a)	6%	38%

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

Litigation Relating to the Texas Public School Finance System

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

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

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

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

Possible Effects of Changes in Law on District Bonds

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System as it is currently structured. The information contained under the captions “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” is subject to change, and only reflects the District’s understanding based on information available to the District as of the date of this Official Statement. Certain of the information provided below is contingent on voter approval of a constitutional amendment that will be submitted to the voters at an election to be held on November 4, 2025. 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 funding for school districts is derived from collections of ad valorem taxes levied on property located within each school district’s boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations (“M&O”) tax to pay current expenses and an interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts are prohibited from levying an M&O tax at a rate intended to create a surplus in M&O tax revenues to pay the district’s debt service. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount. See “TAX RATE LIMITATIONS – I&S Tax Rate Limitations” herein. Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize, on a per student basis, local funding generated by a school district’s M&O tax rate.

2025 Legislative Sessions

The regular session of the 89th Texas Legislature commenced on January 14, 2025 and concluded on June 2, 2025. The Texas Legislature (the “Legislature”) meets in regular session in odd numbered years for 140 days. When the Legislature is not in session, the Governor may call special sessions when the Legislature is not in session, at the Governor’s discretion, each lasting no more than 30 days, and for which the Governor sets the agenda (such special sessions, together with the 89th Regular Session hereinafter referred to as the “2025 Legislative Sessions”).

The Governor called a first and second special session; the second began on August 15, 2025 and concluded on September 4, 2025. The agenda for the special session included the following items: (i) flood warning systems, (ii) flood emergency communications, (iii) relief funding for hill country floods, (iv) natural disaster preparation and recovery, (v) eliminating the STAAR test, (vi) cutting property taxes, (vii) protecting children from THC, (viii) regulating hemp-derived products, (ix) protecting unborn children, (x) banning taxpayer-funded lobbying, (xi) protecting human trafficking victims, (xii) police personnel records, (xiii) protecting women’s spaces, (xiv) attorney general election powers, (xv) redistricting, (xvi) title theft and deed fraud, (xvii) water project incentives, (xviii) camp safety, (xix) penalties for willfully absent legislators, (xx) purchasing Ivermectin at pharmacies, (xxi) authorizing a groundwater study of East Texas aquifers, (xxii) banning same day voter

registration, and (xxiii) authorizing certain contracts with sheriffs/constables and related transfers of funds.. The Governor also identified several bills that were vetoed or filed without signature that were placed on the special session agenda for further consideration. Additional special sessions may be called by the Texas Governor.

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. At an election held on November 4, 2025 voters approved of constitutional amendments necessary to implement legislation increasing: (1) effective January 1, 2025, the State mandated general homestead exemption of the appraised value for all homesteads from \$100,000 to \$140,000, (2) effective January 1, 2025, the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000, and (3) effective January 1, 2026, the exemption for tangible personal property used in the "production of income" from \$2,500 to \$125,000. Additionally, legislation signed into law authorizes roughly \$8.5 billion in funding for public schools and would provide districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as provide districts with additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation signed into law will create an education savings account ("ESA") program (commonly referred to as vouchers) for students that attend private schools or home school. The legislation became effective on September 1, 2025, when the state fiscal biennium began, though families will not receive ESA funds until the 2026-2027 school year. The amount spent for purposes of the program for the 2026-2027 biennium may not exceed \$1 billion. The legislation applies beginning with the 2026-2027 school year. Beginning on September 1, 2027, the legislation requires that the amount appropriated for purposes of the program for a state fiscal biennium must be established by the legislature by appropriation for that biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District's attendance-based funding.

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

Local Funding for School Districts

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

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

Maximum Compressed Tax Rate. The Maximum Compressed Tax Rate (the "MCR") is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the school district's current year SCP multiplied by \$1.00; or (2) a percentage determined by formula if the school district experienced a year-over-year increase in property value of at least 2.5% (if the increase in property value is less than 2.5%, then 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 maximum 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. Subject

to voter approval at a Statewide election to be held on November 4, 2025, the residential homestead exemption under Section 1-b(c), Article VIII, Texas Constitution would increase (1) the State mandated general homestead exemption from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000. If adopted, the proposed constitutional amendment takes effect for the tax year beginning January 1, 2025.

If the increase in the residence homestead as proposed by 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. Additionally, a school district's levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two" herein.

State Funding for School Districts

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

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

The Finance System also provides an Existing Debt Allotment ("EDA") to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment ("IFA") to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment ("NIFA") to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts. For the 2026-2027 State fiscal biennium, the Legislature appropriated funds in the amount of \$1,072,511,740 for the EDA, IFA, and NIFA.

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

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance, other than students in average daily attendance who do not reside in the district and are enrolled in a full-time virtual program, for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics and 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 a school district with a Tier One Tax Rate lower than the school district's MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), and (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive compensation allotment to increase teacher retention in disadvantaged or rural school districts. A school district's total Tier One funding divided by the district's Basic Allotment is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

The fast growth allotment weights 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 \$320 million for each year of the 2026-2027 state fiscal biennium.

Beginning with the 2026-2027 fiscal biennium, school districts will also receive an annual allotment of \$106 per enrolled student. The funds under this allotment may only be used for specific operational costs related to transportation, hiring retired teachers, providing health insurance and employee benefits and paying for payroll taxes, contributions and other costs related to member contributions under the Teacher Retirement System of Texas, utilities, and property and casualty insurance.

Tier Two.

Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the greater of (i) the local revenue per student in WADA per cent of tax effort available to a school district at the ninety-sixth (96th) percentile of wealth per student in WADA, or (ii) the Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.2084. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield of \$129.52 per student in WADA for each Golden Penny levied.

Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment (or a greater amount as may be provided by appropriation) multiplied by 0.008. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield of \$49.28 per student in WADA for each Copper Penny levied. For any school year in which the guaranteed yield of Copper Pennies per student in WADA exceeds the guaranteed yield of Copper Pennies per student in WADA for the preceding school year, a school district is required to reduce its Copper Pennies levied so as to generate no more revenue per student in WADA than was available to the school district for the preceding year.

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

State financial assistance is provided for certain existing eligible debt issued by school districts through the EDA program. The EDA guaranteed yield (the "EDA Yield") is the lesser of (i) \$40 per student in ADA or a greater amount for any year provided by appropriation; or (ii) the amount that would result in a total additional EDA of \$60 million more than the EDA to which school districts would have been

entitled to if the EDA Yield were \$35. The portion of a school district's local debt service rate that qualifies for EDA assistance is limited to the first \$0.29 of its I&S tax rate (or a greater amount for any year provided by appropriation by the Legislature). In general, a school district's bonds are eligible for EDA assistance if (i) the school district made payments on the bonds during the final fiscal year of the preceding State fiscal biennium, or (ii) the school district levied taxes to pay the principal of and interest on the bonds for that fiscal year. Each biennium, access to EDA funding is determined by the debt service taxes collected in the final year of the preceding biennium. A school district may not receive EDA funding for the principal and interest on a series of otherwise eligible bonds for which the school district receives IFA funding.

Since future-year IFA awards were not funded by the Legislature for the 2026-2027 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2026-2027 State fiscal biennium on new bonds issued by school districts in the 2026-2027 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption. See "State Funding for School Districts – Tax Rate and Funding Equity" below.

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

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

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

Local Revenue Level in Excess of Entitlement

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

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

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

local revenue level in excess of entitlement under options (3), (4), or (5) for the 2025-2026 school year and that has not previously held an election to exercise said options may request and may receive approval from the 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 Education Commissioner must reduce the school district's local revenue level to the level that would produce the school district's guaranteed entitlement, by detaching certain types of property from the school district and annexing the property to a property-poor school district or, if necessary, consolidate the school district with a property-poor school district. Provisions governing detachment and annexation of taxable property by the Education Commissioner do not provide for assumption of any of the transferring school district's existing debt.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2025-2026 fiscal year, the District was not designated as an "excess local revenue" district by the 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 districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts" herein.

TAX RATE LIMITATIONS

M&O Tax Rate Limitations

A school district is authorized to levy M&O taxes subject to approval of a proposition submitted to district voters. The maximum M&O tax rate that may be levied by a district cannot exceed the voted maximum rate or the maximum rate described in the succeeding paragraphs. The District is authorized to levy a M&O tax rate pursuant to the approval of the voters of the District at an election..

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

For the State fiscal year ending in 2026 (the 2025-2026 school year), the State Compression Percentage was set at \$0.6322 and the MCR for the District is \$0.5689 per \$100 taxable value. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts" herein.

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

I&S Tax Rate Limitations

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

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

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

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

DEBT LIMITATIONS

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

EMPLOYEE BENEFITS, RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District contributes to the Teacher Retirement System of Texas (the "System"), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. See "NOTES TO THE FINANCIAL STATEMENTS – IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS - W. DEFINED BENEFIT PENSION PLAN" as set out in the audited financial statements of the District for the year ended August 31, 2025, as set forth in APPENDIX B attached hereto.

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. See "NOTES TO THE FINANCIAL STATEMENTS – IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS - X. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS" in the audited financial statements of the District for the year ended August 31, 2025, as set forth in APPENDIX B attached hereto.

In June 2012, the Government Accounting Standards Board ("GASB") issued Statement No. 68 *Accounting and Financial Reporting for Pensions*, which was later amended by GASB Statement No. 71 *Pension Transition for Contributions Made Subsequent to the Measurement Date*, each in an effort to improve accounting and financial reporting by state and local governments related to pensions. GASB Statement No. 68 requires reporting entities, such as the District, to recognize their proportionate share of the net pension liability and operating statement activity related to changes in collective pension liability. Reporting entities, such as the District, that contribute to the TRS pension plan will report a liability on the face of their government-wide financial statements. See "CHANGE IN NET ASSETS" in APPENDIX B attached hereto. GASB Statement No. 68 applies only to pension benefits and does not apply to OPEB or TRS-Care related liabilities. At the conclusion of the 2024-2025 fiscal year, the District had a net pension liability of \$3,528,850.

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

INVESTMENT POLICIES

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

Legal Investments

Available District funds are invested as authorized by State law and in accordance with investment policies approved by the Board.

Under State law, the District is authorized to make investments meeting the requirements of the Public Funds Investment Act (Chapter 2256, Texas Government Code) (the "PFIA"), which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or designated investment committee of the District adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the District's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as the District's custodian of the banking deposits issued for the District's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission (the "SEC") and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1

et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than ten (10) years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Political subdivisions such as the District are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the District, held in the District's name and deposited at the time the investment is made with the District or a third party designated by the District; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

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

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

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

LEGAL MATTERS

The delivery of the Bonds is subject to receipt of the approving opinion of the Attorney General of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the opinion of Co-Bond Counsel, Walsh Gallegos Kyle Robinson & Roalson, PC, San Antonio, Texas, and Cantu Harden Montoya LLP, San Antonio, Texas, that the Bonds are valid and legally binding obligations of the District. Cantu Harden Montoya LLP, Tax Counsel, will deliver its opinion that interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103(a) of the Code and other matters as set forth under "TAX MATTERS" herein. Copies of the opinions of Co-Bond Counsel and Tax Counsel issued in connection with the issuance of the Bonds are attached hereto as APPENDIX C – FORMS OF CO-BOND COUNSEL OPINION AND TAX COUNSEL'S OPINION. The legal fees to be paid to Co-Bond Counsel and Tax Counsel are contingent upon the sale and delivery of the Bonds.

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

The legal opinions to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinions as to the legal issues expressly addressed therein. In rendering legal opinions, the attorneys do not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction nor does the rendering of such opinions guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

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

TAX MATTERS

Opinion

The delivery of the Bonds is subject to the opinion of Cantu Harden Montoya LLP, San Antonio, Texas, to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals. The statute, regulations, rulings, and court decisions on which such opinions are based are subject to change. A form of Cantu Harden Montoya LLP's legal opinion appears in APPENDIX C hereto.

In rendering the foregoing opinion, Cantu Harden Montoya LLP will rely upon the representations and certifications of the District made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Order by the District subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities and equipment financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the

reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Tax Changes

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

Ancillary Tax Consequences

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

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts) with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Bonds. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Bonds.

Tax Accounting Treatment of Discount Bonds

The initial public offering price to be paid for certain bonds may be less than the amount payable on such bonds at maturity (the "Discount Bonds"). An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bonds. A portion of such original issue discount, allocable to the holding period of a Discount Bond by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Bonds. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such accrued interest may be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

In the event of the sale or other taxable disposition of a Discount Bond prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

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

Tax Accounting Treatment of Premium Bonds

The initial public offering price to be paid for certain bonds may be greater than the stated redemption price on such bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE

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

Annual Reports

The District shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the District, financial information and operating data with respect to the District of the general type included in APPENDIX A of this Official Statement (except with respect

to "Table 6 - Estimated Overlapping Debt Statement"), and (2) if not provided as part of such financial information and operating data, audited financial statements of the District. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in APPENDIX C hereto or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in this Official Statement, and (ii) audited, if the District commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12.

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

Notice of Certain Events

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

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

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

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

Availability of Information from MSRB

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

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

WEATHER EVENTS

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

CYBERSECURITY

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

OTHER PERTINENT INFORMATION

Authenticity of Financial Information

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

complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

Registration and Qualification of Bonds for Sale

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

It is the obligation of the Initial Purchaser 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 Initial Purchaser's written request and sole expense, in registering or qualifying the Bonds or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the District shall not be required to qualify as a foreign corporation or to execute a general or special consent to service of process in any jurisdiction.

Municipal Bond Rating

The Bonds are expected to be rated "AAA" by S&P Global Ratings, Inc. ("S&P") by virtue of the guarantee of the Permanent School Fund of the State of Texas. The presently outstanding debt of the District, including the Bonds, is rated "A+" by S&P without regard to credit enhancement.

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

Municipal Advisor

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

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

Sale of Bonds

After requesting competitive bids for the Bonds, the District has accepted a bid tendered by _____ (the "Initial Purchaser") to purchase the Bonds at the rates shown on the inside cover page of this Official Statement at a price of \$ _____. No assurance can be given that any trading market will be developed for the Bonds after their initial sale by the District. The District has no control over the prices at which the Bonds will initially be re-offered to the public.

Use of Audited Financial Statements

James E. Rodgers and Company, P.C., Hamlin, Texas ("Rodgers"), the District's independent auditor, has not been engaged to perform and has not performed, since the date of the report included herein, any procedures on the financial statements addressed in that report. Rodgers has not performed any procedures relating to this Official Statement.

Forward-Looking Statements

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

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

Information from External Sources

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

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Initial Purchaser will be furnished a certificate, executed by a proper officer acting in his or her official capacity, substantially to the effect that to the best of his or her knowledge and belief: (a) no event affecting the District has occurred since the date of the Official Statement that should be disclosed in the Official Statement for the purpose for which it is to be used or which it is necessary to disclose therein in order to make the statements and information therein, in light of the circumstances under which they were made, not misleading in any material respect as of the closing date, and the information contained in the Official Statement is correct in all material respects and, as of the date of the Official Statement did not, and as of the Closing Date 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 made therein, in the light of the circumstances under which they were made, not misleading; and (b) there has been no material adverse change in the financial condition of the District since the date of the last audited financial statements of the District.

Authorization of the Official Statement

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

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

The Bond Order will approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and will authorize its further use in the reoffering of the Bonds by the Initial Purchaser.

MERKEL INDEPENDENT SCHOOL DISTRICT

/s/ _____
President, Board of Trustees

ATTEST:

/s/ _____
Secretary, Board of Trustees

APPENDIX A
SELECTED FINANCIAL INFORMATION REGARDING THE DISTRICT

TABLE 1 - Valuation, Exemption & Tax Supported Debt

2025 Net Taxable Valuation ⁽¹⁾	\$620,679,433
Outstanding Unlimited Tax Debt	\$6,665,000
Plus: The Bonds ⁽²⁾	<u>\$20,000,000</u>
Total Outstanding Unlimited Tax Debt ⁽³⁾	<u>\$26,665,000</u>
As a % of 2025 Assessed Valuation ⁽³⁾	4.30%

⁽¹⁾ Source: Taylor and Jones County Appraisal Districts.

⁽²⁾ Preliminary, subject to change.

⁽³⁾ Includes the Bonds. Preliminary, subject to change.

TABLE 2 - Assessed Valuation by Category⁽¹⁾

	Tax Year 2025	Tax Year 2024	Tax Year 2023	Tax Year 2022	Tax Year 2021
Real Property	\$974,275,006	\$839,600,848	\$801,443,784	\$668,558,638	\$583,082,469
Personal Property	260,687,882	240,760,630	213,968,489	183,241,949	148,986,011
Mineral Property	36,136,719	26,445,616	26,738,491	23,115,768	18,991,491
Gross Value	\$1,271,099,607	\$1,106,807,094	\$1,042,150,764	\$874,916,355	\$751,059,971
Less: Exemptions	650,420,174	504,803,441	475,210,390	335,681,281	269,011,129
Net Taxable Value	\$620,679,433	\$602,003,653	\$566,940,374	\$539,235,074	\$482,048,842

⁽¹⁾ Source: Taylor and Jones County Appraisal Districts.

TABLE 3 - Valuation and Tax Supported Debt History

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Net Taxable AV Per Capita	Unlimited Tax Supported Debt Outstanding	Ratio of Tax Supported Debt to Assessed Valuation	Tax Supported Debt Per Capita
2022	6,754	\$482,048,842	\$71,372	\$9,335,000	1.94%	\$1,382
2023	6,895	539,235,074	78,207	8,715,000	1.62%	1,264
2024	6,916	566,940,374	81,975	7,330,000	1.29%	1,060
2025	6,702	602,003,653	89,824	6,655,000	1.11%	993
2026	6,912	620,679,433	89,797	25,980,000 ⁽³⁾	4.19% ⁽³⁾	3,759 ⁽³⁾

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

⁽²⁾ Source: Taylor and Jones County Appraisal Districts.

⁽³⁾ Includes the Bonds. Preliminary, subject to change.

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

Fiscal Year Ended 08/31	Taxable Assessed Valuation	Total Tax Rate	Local Maintenance	I&S Fund	Tax Levy	Percent Collections	
						Current ⁽²⁾	Total ⁽²⁾
2022	\$482,048,842	\$1.1616	\$0.9587	\$0.2029	\$5,393,331	98.38%	101.20%
2023	539,235,074	1.0671	0.8843	0.1828	5,595,781	97.35%	98.60%
2024	566,940,374	0.8724	0.6896	0.1828	4,712,714	97.90%	98.89%
2025	602,003,653	0.8497	0.6669	0.1828	4,895,169	97.06%	98.04%
2026	620,679,433	0.8461	0.6633	0.1828	5,251,569	[In Process of Collections]	

⁽¹⁾ Source: Taylor and Jones County Appraisal Districts.

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

TABLE 5 - Largest Taxpayers ⁽¹⁾

Taxpayer Name	Property Type	AV	% of Total ⁽²⁾
Energy Transfer GC NGL Pipelines LP	Oil & Gas Pipeline	\$47,716,723	7.69%
Callahan Wind Divide LLC	Wind Farm/Turbine	18,151,783	2.92%
AEP Texas Inc	Oil & Gas	15,879,956	2.56%
Union Pacific Railroad Co.	Railroad	15,638,408	2.52%
West Texas LPG Pipeline LP	Oil & Gas Pipeline	15,252,603	2.46%
Martin Marietta Materials SW	Equipment	14,609,740	2.35%
Permian Express Partners	Oil & Gas	11,916,542	1.92%
BNSF Railway Co	Railroad	9,231,839	1.49%
J. H. Strain & Son Inc.	Equipment	9,086,854	1.46%
Bridgetex Pipeline	Oil & Gas Pipeline	8,804,571	1.42%
Top 10 Totals:		\$166,289,019	26.79%

⁽¹⁾ Source: Taylor and Jones County Appraisal Districts.

⁽²⁾ As shown in the table above, the ten largest taxpayers in the District currently account for over 26% of the District's tax base, including the District's top two taxpayers accounting for approximately 10% of the District's tax base with the majority of such property comprised of minerals and related business activities. Adverse developments in economic conditions, especially in the oil and gas industries, could adversely impact the businesses that own such properties in the District and the tax values in the District, resulting in less local tax revenue. If any major taxpayer were to default in the payment of taxes, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever.

TABLE 6 - Estimated Overlapping Debt Statement ⁽¹⁾

Taxing Body	Amount	As Of	Percent Overlapping	Amount Overlapping
Abilene, City of	\$390,555,000	1/31/2026	0.03%	\$117,167
Jones Co	4,080,000	1/31/2026	5.80%	236,640
Merkel, City of	5,444,000	1/31/2026	100.00%	5,444,000
Taylor Co	56,810,000	1/31/2026	4.45%	2,528,045
Tye, City of	2,962,000	1/31/2026	100.00%	2,962,000
Total Overlapping Debt				\$11,287,852
Merkel Independent School District ⁽²⁾				\$26,665,000
Total Direct and Overlapping Debt ⁽²⁾				\$37,952,852
Ratio of Net Direct & Overlapping Debt to Net Taxable Valuation ⁽²⁾				6.11%
Per Capita Direct & Overlapping Debt ⁽²⁾				\$5,490.86

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

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

TABLE 7 – Pro-Forma Tax Supported Debt Service Requirements

Fiscal Year Ending 08/31	Outstanding Debt Service	Principal	Interest	Total	New Total Debt Service Requirements
2026	\$922,356	\$ -	\$ -	\$ -	\$922,356
2027	828,744	250,000	1,284,256	1,534,256	2,363,000
2028	835,894	640,000	898,700	1,538,700	2,374,594
2029	841,944	675,000	860,300	1,535,300	2,377,244
2030	832,069	715,000	819,800	1,534,800	2,366,869
2031	841,381	760,000	776,900	1,536,900	2,378,281
2032	844,506	805,000	731,300	1,536,300	2,380,806
2033	846,197	855,000	683,000	1,538,000	2,384,197
2034	851,350	895,000	640,250	1,535,250	2,386,600
2035	280,800	940,000	595,500	1,535,500	1,816,300
2036	-	990,000	548,500	1,538,500	1,538,500
2037	-	1,040,000	499,000	1,539,000	1,539,000
2038	-	1,080,000	457,400	1,537,400	1,537,400
2039	-	1,125,000	414,200	1,539,200	1,539,200
2040	-	1,170,000	369,200	1,539,200	1,539,200
2041	-	1,215,000	322,400	1,537,400	1,537,400
2042	-	1,265,000	273,800	1,538,800	1,538,800
2043	-	1,315,000	223,200	1,538,200	1,538,200
2044	-	1,365,000	170,600	1,535,600	1,535,600
2045	-	1,420,000	116,000	1,536,000	1,536,000
2046	-	1,480,000	59,200	1,539,200	1,539,200
Total	\$7,925,241	\$20,000,000	\$10,743,506	\$30,743,506	\$38,668,747

Average Annual Debt Service Requirement

\$1,841,369

Maximum Debt Service Requirement

\$2,386,600

⁽¹⁾ Preliminary, subject to change.⁽²⁾ Interest calculated at assumed rates for purposes of illustration. Preliminary, subject to change.**TABLE 8 – Authorized but Unissued Bonds ⁽¹⁾**

A summary of the bonds authorized is as follows:

Date Authorized	Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue ⁽¹⁾⁽²⁾	Authorized but Unissued
11/4/2025	School Building	\$20,000,000	\$0	\$20,000,000	\$0

⁽¹⁾ Source: Preliminary, subject to change.⁽²⁾ Includes any premium allocations that the District intends to apply against voted authorization. Preliminary, subject to change.

TABLE 9 - Other Obligations ⁽¹⁾

As of August 31, 2025, other obligations of the District include the following notes and financed purchase obligations:

General Long-Term Debt Description:	Interest Rate	Final Maturity	Original Amount	Balance 08/31/2025	Purpose
Notes and Other Debt:					
Loan Payable	4.19%	2043	\$2,353,224	\$1,837,003	Energy Project
Total:				\$1,837,003	

The Debt Service requirements of the District's notes and financed purchase obligations are as follows:

Year Ended August 31,	Principal	Interest	Total
2026	\$99,098	\$77,044	\$176,142
2027	103,254	72,888	176,142
2028	107,585	68,557	176,142
2029	609,512	64,045	673,557
2030-2034	748,505	245,635	994,140
2035-2039	169,049	76,788	245,837
Totals	\$1,837,003	\$604,957	\$2,441,960

A summary of right -to-use lease liabilities activity during the current fiscal year follows:

Right-to-Use Lease Liability Description:	Interest Rate	Final Maturity	Original Amount	Balance 08/31/2025
Copiers - Benchmark	3.00%	2026	\$264,603	\$35,951
Copiers - Visual Edge IT	5.75%	2029	40,297	26,357
Total Right-To-Use Lease Liabilities:				\$62,308

Future minimum lease payments for the leases are as follows:

Year Ended August 31,	Total All Leases		
	Principal	Interest	Total
2026	\$43,544	\$1,724	\$45,268
2027	8,042	869	8,911
2028	8,516	394	8,910
2029	2,206	21	2,227
Totals	\$62,308	\$3,008	\$65,316

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

TABLE 10 - Schedule of General Fund Revenues and Expenditure History

For Fiscal Year ended August 31,	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
REVENUES:					
Total Local and Intermediate Sources	\$4,204,040	\$4,217,164	\$4,787,023	\$4,645,199	\$4,516,974
State Program Revenues	9,840,466	9,924,056	8,728,005	8,111,621	7,745,851
Federal Program Revenues	62,736	62,298	88,781	142,917	143,402
Total Revenues	\$14,107,242	\$14,203,518	\$13,603,809	\$12,899,737	\$12,406,227
EXPENDITURES:					
Instruction	\$7,443,298	\$6,688,925	\$5,905,381	\$6,040,120	\$6,323,129
Instructional Resources & Media Services	164,075	162,803	162,882	178,383	182,807
Curriculum and Instructional Staff Development	17,998	15,396	10,207	15,399	10,730
School Leadership	1,132,152	1,082,805	1,042,818	962,402	929,929
Guidance, Counseling & Evaluation Services	266,988	254,986	241,598	235,108	246,249
Health Services	249,269	244,219	231,107	199,387	147,316
Student Transportation	387,985	1,009,306	556,939	568,923	348,336
Food Services	2,662.00	-	-	-	-
Extracurricular Activities	887,261	1,260,554	851,068	524,125	390,746
General Administration	596,351	628,320	521,231	502,158	413,842
Facilities Maintenance & Operations	1,404,643	1,721,292	1,288,646	1,869,948	1,422,509
Security Monitoring and Services	66,078	154,971	92,112	81,650	72,023
Data Processing Services	594,068	539,188	894,428	489,849	475,053
Community Services	211,142	193,090	177,478	23,099	-
Debt Service:					
Principal on Long Term Debt	154,878	150,973	144,508	221,535	161,014
Interest on Long Term Debt	84,712	90,501	93,701	101,521	99,101
Bond Issuance Cost and Fees	-	-	-	-	-
Intergovernmental:					
Payments to Fiscal Agents/Member Districts of SSA	609,089	566,500	406,670	416,749	398,725
Total Expenditures	\$14,272,649	\$14,763,829	\$12,620,774	\$12,430,356	\$11,621,509
Excess (Deficiency) of Revenues Over (Under) Expenditures	(\$165,407)	(\$560,311)	\$983,035	\$469,381	\$784,718
Other Financing Sources and (Uses):					
Sale of Real or Personal Property	-	-	-	-	11,000
Right to Use Lease	-	-	40,297	-	-
Transfers In	-	-	-	-	-
Transfers Out (Use)	-	(244,562)	-	-	-
Total Other Financial Sources (Uses)	-	(244,562)	40,297	-	11,000
Net Change in Fund Balances	(165,407)	(804,873)	1,023,332	469,381	795,718
Fund Balances - Beginning	\$6,523,786	\$7,328,659	\$6,305,327	\$5,835,946	\$5,040,228
Fund Balances - Ending	\$6,358,379	\$6,523,786	\$7,328,659	\$6,305,327	\$5,835,946

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

⁽²⁾ The Estimated General Fund Balance as of August 31, 2026 is expected to be approximately \$6,358,380.

TABLE 11 - General Operating Fund Comparative Balance Sheet

For Fiscal Year Ended, August 31	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
ASSETS:					
Cash & Cash Equivalents	\$4,399,352	\$5,054,065	\$4,973,997	\$4,708,294	\$4,389,612
Investments - Current	1,334,623	1,267,395	1,202,229	1,185,138	1,189,609
Property Taxes - Delinquent	232,196	189,397	232,870	196,131	215,216
Allowance for Uncollectible Taxes (Credit)	(58,049)	(47,349)	(58,218)	(49,033)	(53,804)
Receivables from Other Governments	1,233,813	1,147,322	1,149,539	622,675	460,125
Accrued Interest	14,500	-	-	-	-
Due from Other Funds	164,756	217,971	1,256,038	526,548	262,596
Other Receivables	5,493	18,445	2,292	-	-
Prepayments	-	-	-	-	-
Total Assets	\$7,326,684	\$7,847,246	\$8,758,747	\$7,189,753	\$6,463,354
LIABILITIES					
Accounts Payable	24,735	466,207	558,704	111,706	43,736
Payroll Deductions and Withholdings Payable	1,091	2,982	2,982	25,324	2,977
Accrued Wages Payable	703,544	684,755	658,373	522,628	402,076
Due to Other Funds	-	-	-	-	6,720
Due to Other Governments	-	-	-	-	-
Accrued Expenditures	14,734	14,328	13,755	11,109	8,487
Deferred/Unearned Revenues	50,054	13,140	21,622	66,561	-
Total Liabilities	\$794,158	\$1,181,412	\$1,255,436	\$737,328	\$463,996
DEFERRED INFLOWS OF RESOURCES:					
Unavailable Revenue - Property Taxes	\$174,147	\$142,048	\$174,652	\$147,098	\$161,412
Total Deferred Inflows of Resources	\$174,147	\$142,048	\$174,652	\$147,098	\$161,412
FUND BALANCES:					
Restricted Fund Balances:					
Federal/State Funds Grant Restrictions	-	-	-	-	-
Retirement of Long-Term Debt	-	-	-	-	-
Committed Fund Balance:					
Construction	750,000	750,000	750,000	750,000	750,000
Self Insurance	500,000	500,000	500,000	500,000	500,000
Unassigned Fund Balance:	5,108,379	5,273,786	6,078,659	5,055,327	4,585,946
Total Fund Balances	\$6,358,379	\$6,523,786	\$7,328,659	\$6,305,327	\$5,835,946
Total Liabilities, Deferred Inflow of Resources and Fund Balances	\$7,326,684	\$7,847,246	\$8,758,747	\$7,189,753	\$6,461,354

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

TABLE 12 - Current Investments ⁽¹⁾

As of December 1, 2025 (unaudited) the District had the following investments:

	Percent	Book Value	Market Value
TexPool Money Market	82.71%	\$6,475,319	\$6,475,319
Certificates of Deposit - Raymond James	17.29%	\$1,353,454	\$1,353,454
Total Investments	100.00%	\$7,828,773	\$7,828,773

⁽¹⁾ Source: District's records as of December 1, 2025.

APPENDIX B

AUDITED FINANCIAL STATEMENTS

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

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

MERKEL
INDEPENDENT SCHOOL DISTRICT
TAYLOR COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2025



**MERKEL INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2025**

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	<u>FINANCIAL SECTION</u>	
	Certificate of Board	3
	Independent Auditor's Report	4
	Management's Discussion and Analysis (Required Supplementary Information)	7
	<u>Basic Financial Statements</u>	
	Government Wide Statements:	
A-1	Statement of Net Position	17
B-1	Statement of Activities	18
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	19
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	20
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balance	21
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Change in Fund Balance to the Statement of Activities	22
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Position	23
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	24
D-3	Statement of Cash Flows	25
	Fiduciary Fund Financial Statements:	
E-1	Statement of Fiduciary Net Position	26
E-2	Statement of Changes in Fiduciary Net Position	27
	Notes to the Financial Statements	28
	<u>Required Supplementary Information</u>	
G-1	Budgetary Comparison Schedule - General Fund	63
G-2	Schedule of the District's Proportionate Share of the Net Pension Liability (TRS)	64
G-3	Schedule of District Contributions for Pensions TRS	66
G-4	Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS)	68
G-5	Schedule of District's OPEB Contributions (TRS)	70
	Notes to Required Supplementary Information	72
	<u>Supplementary Information</u>	
	Combining Schedules: Nonmajor Governmental Funds:	
H-1	Combining Balance Sheet	75
H-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	77

**MERKEL INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2025**

Other Information

Required Texas Education Agency Schedules

J-1	Schedule of Delinquent Taxes	80
J-2	Budgetary Comparison Schedule – Child Nutrition Fund	82
J-3	Budgetary Comparison Schedule – Debt Service Fund	83
J-4	Use of Funds Report – Select State Allotment Programs	84

Reports on Compliance, Internal Controls, and Federal Awards

	Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	86
	Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance Required by the Uniform Guidance	88
	Schedule of Findings and Questioned Costs	91
	Schedule of Status of Prior Audit Findings	93
	Corrective Action Plan	94
K-1	Schedule of Expenditures of Federal Awards	95
	Notes to Schedule of Expenditures of Federal Awards	96
L-1	Schools First Questionnaire	98

CERTIFICATE OF BOARD

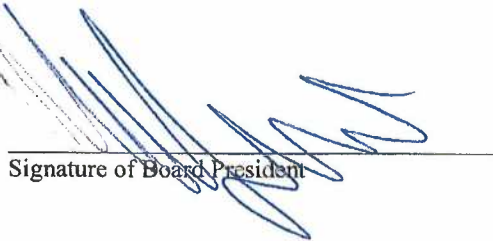
Merkel
Independent School District

Name of School District

Taylor
County

221904
County – District Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended **August 31, 2025**, at a meeting of the Board of Trustees of such school district on the **17th** day of **December, 2025**.


Signature of Board President


Signature of Board Secretary

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

James E. Rodgers and Company, P.C.

Certified Public Accountants

20 Southwest Third Street • PO Box 669 • Hamlin, Texas 79520 • Tel: 325-576-2356 • Fax: 325-576-3525

E-mail: rodgerscpa@att.net

Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

December 15, 2025

Unmodified Report on Financial Statements Issued in Accordance with *Government Auditing Standards* and a Single Audit Accompanied by Required Supplementary Information, Supplementary Information, and Other Information

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Merkel Independent School District
Merkel, Texas 79536

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 the Merkel Independent School District, as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the Merkel Independent School 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 Merkel Independent School District, as of August 31, 2025, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 Merkel Independent School District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

James E. Rodgers and Company, P.C.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 judgment 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 Merkel Independent School District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Merkel Independent School District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information reported in Exhibit G-1, and schedules for pension and OPEB liabilities and contributions reported in Exhibits G-2, G-3, G-4, and G-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

James E. Rodgers and Company, P.C.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Merkel Independent School District's basic financial statements. The accompanying combining nonmajor fund financial statements and the schedule of expenditures of federal awards as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, 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 nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information includes the required Texas Education Agency (TEA) schedules, and the Schools First Questionnaire (Schedule L) but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2025, on our consideration of the Merkel 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 the Merkel 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 Merkel Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



James E. Rodgers and Company, P.C.

MERKEL INDEPENDENT SCHOOL DISTRICT

PO Box 430 Merkel, Texas 79536 Telephone (325) 928-5813 Fax (325) 928-3910



Kelly West, Superintendent

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the administration of **Merkel Independent School District**, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2025. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

The District's summary financial information for the current fiscal year is as follows:

Highlights of Current Fiscal Year Finances

Government Wide Total Net Position at the End of the Year	\$	12,905,797
Government Wide Revenues for the Current Fiscal Year		16,608,933
Government Wide Expenses for the Current Fiscal Year		15,997,927
Fund Balance in the General Fund at the End of Year		6,358,379

Changes in the Government Wide Finances from the Previous Fiscal Year

	Increase (Decrease)	
	\$	%
<u>Change in Net Position:</u>		
Change in the Government Wide Total Net Position	\$ (130,712)	-1.00%
<u>Revenue Changes:</u>		
Change in the Government Wide Total Revenues	\$ (1,256,928)	-7.04%
Change in the Government Wide Property Tax Revenues	165,561	3.48%
Change in the Government Wide State Aid Formula Grants	130,945	1.46%
Change in Operating Grants and Contributions	(1,185,856)	-37.43%
<u>Expense Changes:</u>		
Change in the Government Wide Total Expenses	\$ (275,685)	-1.69%
<u>Other Information:</u>		
Change in General Fund Balance	\$ (165,407)	-2.54%
Excess (Deficit) of Actual Revenue over Budgeted Revenue	188,211	10.21%

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to that of a private sector business. The *statement of net position* presents information for all the District's assets and deferred outflows of resources, and liabilities and deferred inflows of resources with the difference between the two reported a *net position*. Over time, increases or decreases in net position may serve as a useful indicator as to whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected property tax and earned but unused sick and vacation leave.

The government-wide financial statements distinguish functions of the District that are principally supported by taxes, intergovernmental revenues, and user fees & charges (*governmental activities*). The governmental activities of the District include the education of District students and the programs necessary to support such education.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

The District maintains numerous individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund since they are major funds as defined by governmental accounting standards. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The District adopts an annual appropriated budget for the General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget. Supplementary budgetary comparison schedules have also been prepared for the Child Nutrition and Debt Service Funds and are included in the other supplementary information section of this report.

Proprietary funds. The District maintains proprietary funds. An *internal service fund* is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses this internal service fund to account for its workers compensation self-insurance program. Internal service funds are generally considered a *governmental activity* and are included in the government-wide financial statements. The District does not maintain other type of proprietary funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District maintains student activity accounts as fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

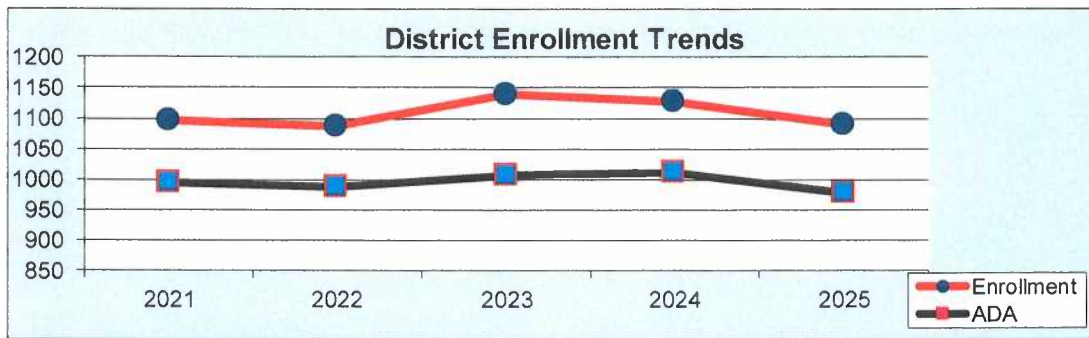
Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. In addition, certain information required by the Texas Education Agency and the federal government regarding tax collection and grant expenditures is also presented along with required supplementary information related to the District's contributions to cost-sharing pension and other post-employment benefit plans with the Teacher Retirement System of Texas.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

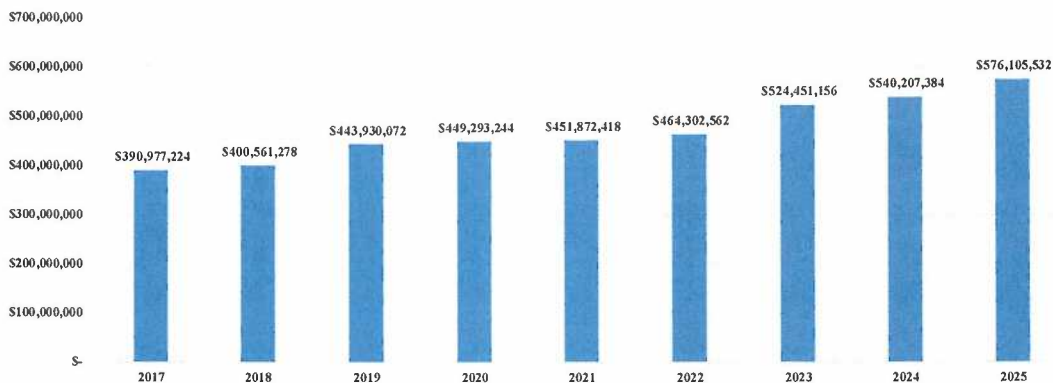
State funding for public education in Texas is based upon the District's average daily attendance, thus the District's revenue is highly dependent on enrollment trends. The District receives additional weighted funding for students enrolled in career and technology coursework, gifted and talented, special education, bilingual, and compensatory education programs. The demographics of the District and the types of coursework students pursue are continuing to evolve in the District. The following charts detail enrollment and property valuation trends of the District.

ENROLLMENT TRENDS

Year	Enrollment	ADA
2021	1097	995
2022	1087	987
2023	1140	1007
2024	1127	1011
2025	1090	979



Assessed Valuation for School Tax Purposes



Both student enrollment and local property values for taxation purposes are important attributes for District finances.

The following table indicates the net position of the District at the end of the current and prior fiscal years.

Table I Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2024	2025	2024	2025	2024	2025
Current and other assets	\$ 8,611,459	\$ 8,251,303	\$ -	\$ -	\$ 8,611,459	\$ 8,251,303
Capital assets	21,891,016	21,455,125	-	-	21,891,016	21,455,125
Deferred outflow of resources	2,363,918	2,898,972	-	-	2,363,918	2,898,972
Total assets & deferred outflows	\$ 32,866,393	\$ 32,605,400	\$ -	\$ -	\$ 32,866,393	\$ 32,605,400
Long-term liabilities	\$ 9,783,589	\$ 9,689,977	\$ -	\$ -	\$ 9,783,589	\$ 9,689,977
Other current liabilities	1,277,121	891,398	-	-	1,277,121	891,398
Net pension liability	3,661,743	3,528,850	-	-	3,661,743	3,528,850
Net OPEB liability	1,910,789	2,925,162	-	-	1,910,789	2,925,162
Deferred inflow of resources	3,196,642	2,664,216	-	-	3,196,642	2,664,216
Total liabilities & deferred inflows	\$ 19,829,884	\$ 19,699,603	\$ -	\$ -	\$ 19,829,884	\$ 19,699,603
Net Position:						
Net Investment in Capital Assets	\$ 12,176,849	\$ 12,593,190	\$ -	\$ -	\$ 12,176,849	\$ 12,593,190
Restricted	599,082	759,377	-	-	599,082	759,377
Unrestricted	260,578	(446,770)	-	-	260,578	(446,770)
Total net position	\$ 13,036,509	\$ 12,905,797	\$ -	\$ -	\$ 13,036,509	\$ 12,905,797

The following table indicates the changes in net position of the District during the current and prior fiscal years.

Table II Changes in Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2024	2025	2024	2025	2024	2025
Program Revenues:						
Charges for Services	\$ 74,634	\$ 84,037			\$ 74,634	\$ 84,037
Operating grants & contributions	3,167,798	1,981,942			3,167,798	1,981,942
General Revenues:						
Maintenance & operations taxes	3,773,327	3,874,097			3,773,327	3,874,097
Debt service taxes	980,646	1,045,437			980,646	1,045,437
State aid - formula grants	8,947,262	9,078,207			8,947,262	9,078,207
Other State and Federal Aid	463,735	200,642			463,735	200,642
Investment earnings	360,288	334,350			360,288	334,350
Miscellaneous	98,171	10,221			98,171	10,221
Total Revenues	\$ 17,865,861	\$ 16,608,933	\$ -	\$ -	\$ 17,865,861	\$ 16,608,933
Expenses						
Instruction	\$ 8,612,769	\$ 8,245,698			\$ 8,612,769	\$ 8,245,698
Instructional Resources & Media Services	160,276	156,846			160,276	156,846
Curriculum & Instructional Staff Development	15,396	17,998			15,396	17,998
School Leadership	1,061,494	1,076,061			1,061,494	1,076,061
Guidance, Counseling & Evaluation Services	250,021	253,330			250,021	253,330
Health Services	239,132	236,577			239,132	236,577
Student (Pupil) Transportation	533,028	535,388			533,028	535,388
Food Services	752,984	832,262			752,984	832,262
Extracurricular Activities	622,347	674,095			622,347	674,095
General Administration	620,686	585,677			620,686	585,677
Facilities Maintenance and Operations	1,348,781	1,559,044			1,348,781	1,559,044
Security and Monitoring Services	207,208	137,584			207,208	137,584
Data Processing Services	560,949	569,392			560,949	569,392
Community Services	189,396	199,802			189,396	199,802
Debt Service - Interest on Long Term Debt	360,345	308,084			360,345	308,084
Debt Service Fees	11,300	1,000			11,300	1,000
Payments Related to Shared Services Arrangements	727,500	609,089			727,500	609,089
Total Expenses	\$ 16,273,612	\$ 15,997,927	\$ -	\$ -	\$ 16,273,612	\$ 15,997,927
Increase in Net Position before transfers and special items	\$ 1,592,249	\$ 611,006	\$ -	\$ -	\$ 1,592,249	\$ 611,006
Prior Period Adjustments	(267,241)	(741,718)			(267,241)	(741,718)
Net position at 9/1	11,711,501	13,036,509			11,711,501	13,036,509
Total Net Position	\$ 13,036,509	\$ 12,905,797	\$ -	\$ -	\$ 13,036,509	\$ 12,905,797

A reconciliation of the change in fund balance for the governmental fund to the change in net position for the government wide statements follows:

Change in Government Wide Net Position:	
Excess of Revenues Over Expenditures for Governmental Funds	\$ (19,127)
Net Income (Loss) of Internal Service Funds	2,525
Current Year Purchases of Capital Assets and Debt Principal Payments	1,494,016
Depreciation	(1,110,029)
Other Modified to Full Accrual Revenue Adjustments	57,621
Net Adjustment to Pension Expense per GASB 68	(185,001)
Net Adjustments for OPEB Plan required by GASB 75	371,001
Change in Net Position of Governmental Activities	<u>\$ 611,006</u>

THE DISTRICT'S FUNDS

A financial summary of the District's funds for the current year is as follows:

Governmental Fund Financial Statements					
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Revenues	\$ 14,107,242	\$ 1,721,329	\$ 1,204,866	\$ 181	\$ 17,033,618
Expenditures	(14,272,649)	(1,854,402)	(925,694)	-	(17,052,745)
Net Change in Fund Balance	\$ (165,407)	\$ (133,073)	\$ 279,172	\$ 181	\$ (19,127)
Beginning Fund Balance	6,523,786	183,482	446,694	2,367	7,156,329
Ending Fund Balance					
All Governmental Funds	\$ 6,358,379	\$ 50,409	\$ 725,866	\$ 2,548	\$ 7,137,202

The District modified its budget during the year. Changes by function for the General Fund, Child Nutrition Fund, and the Debt Service Fund are presented in Exhibits G-1, J-2, and J-3 of this Annual Financial Report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the current fiscal year, the District had invested in a broad range of capital assets, including transportation, security, athletics, administration, and maintenance. Significant additions during the current fiscal year are as follows:

Current Year Capital Assets Additions:

Football Stadium Lighting	\$ 295,055
Safety Doors - High School	139,912
Security Cameras	168,686
Water Heater	13,000
Phone System	28,856
Convection Steamer	28,629
Total Additions	\$ 674,138

Debt

The District's long-term debt as of the end of the current fiscal year is as follows:

Long-Term Debt				
	Amounts Original Issue	Interest Current Year	Outstanding End of Year	Next Year's Total Principal and Interest Requirement
General Obligation Bonds	\$ 13,640,000	\$ 259,694	\$ 6,665,000	\$ 922,356
Notes and Loans Payable	2,353,224	81,033	1,837,003	176,142
Right-To-Use Lease Liabilities	304,900	3,679	62,308	45,268
TOTALS	\$ 16,298,124	\$ 344,406	\$ 8,564,311	\$ 1,143,766

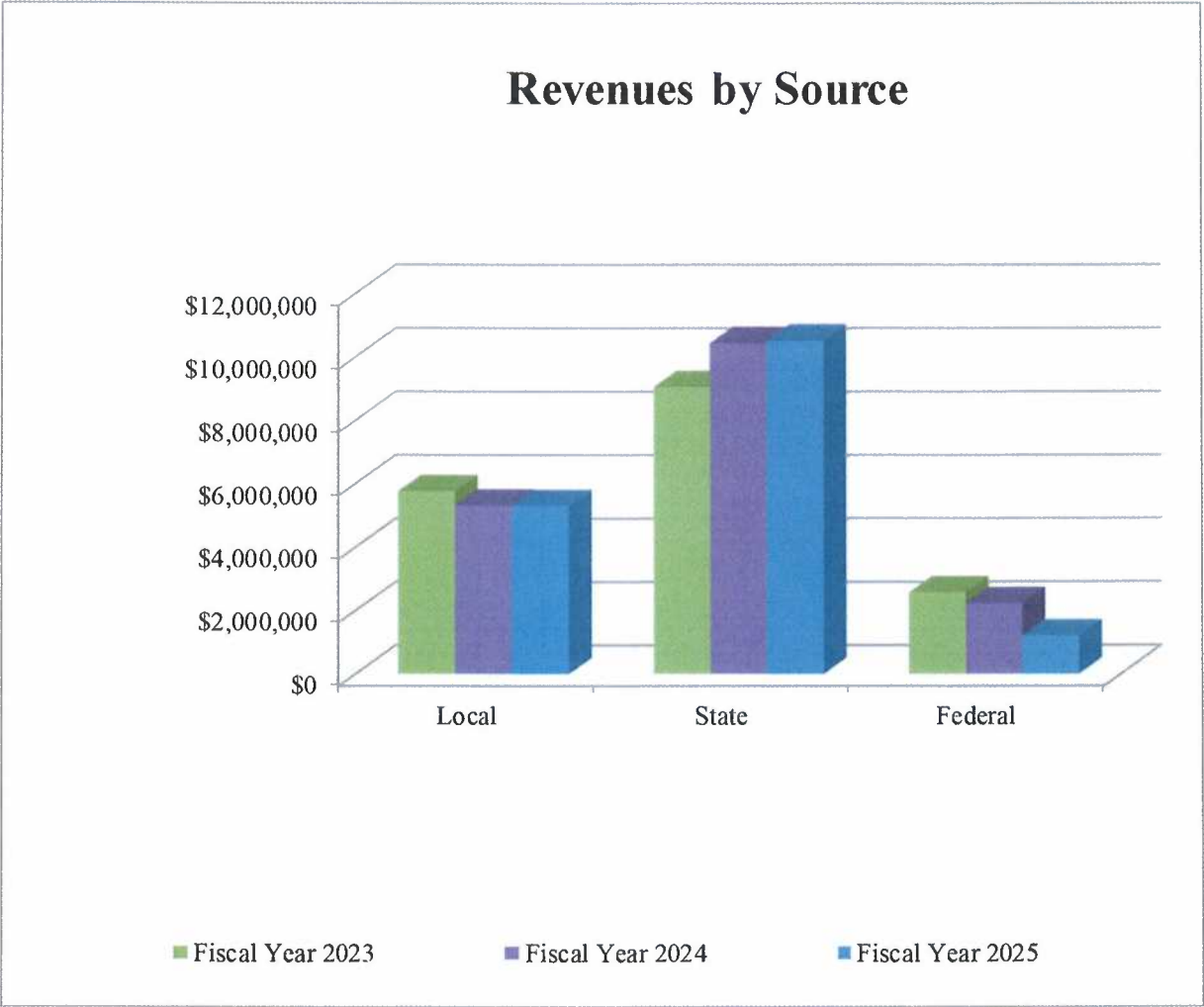
ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the next fiscal year budget and tax rates. Expected student enrollment and property values were implicit in the expected revenue and appropriations when adopting the budget for next year. A summary of the subsequent fiscal year budget for funds legally required to be budgeted is as follows:

Fiscal Year 2025 - 2026 Adopted Budget			
	General Fund	Child Nutrition Fund	Debt Service Fund
Estimated Revenues	\$ 15,285,474	\$ 750,000	\$ 930,000
Appropriations	<u>(15,285,474)</u>	<u>(750,000)</u>	<u>(930,000)</u>
Projected Net Change in Fund Balance	\$ -	\$ -	\$ -
Beginning of Year Fund Balance	6,358,379	38,127	725,866
Projected End of Year Fund Balance	\$ 6,358,379	\$ 38,127	\$ 725,866

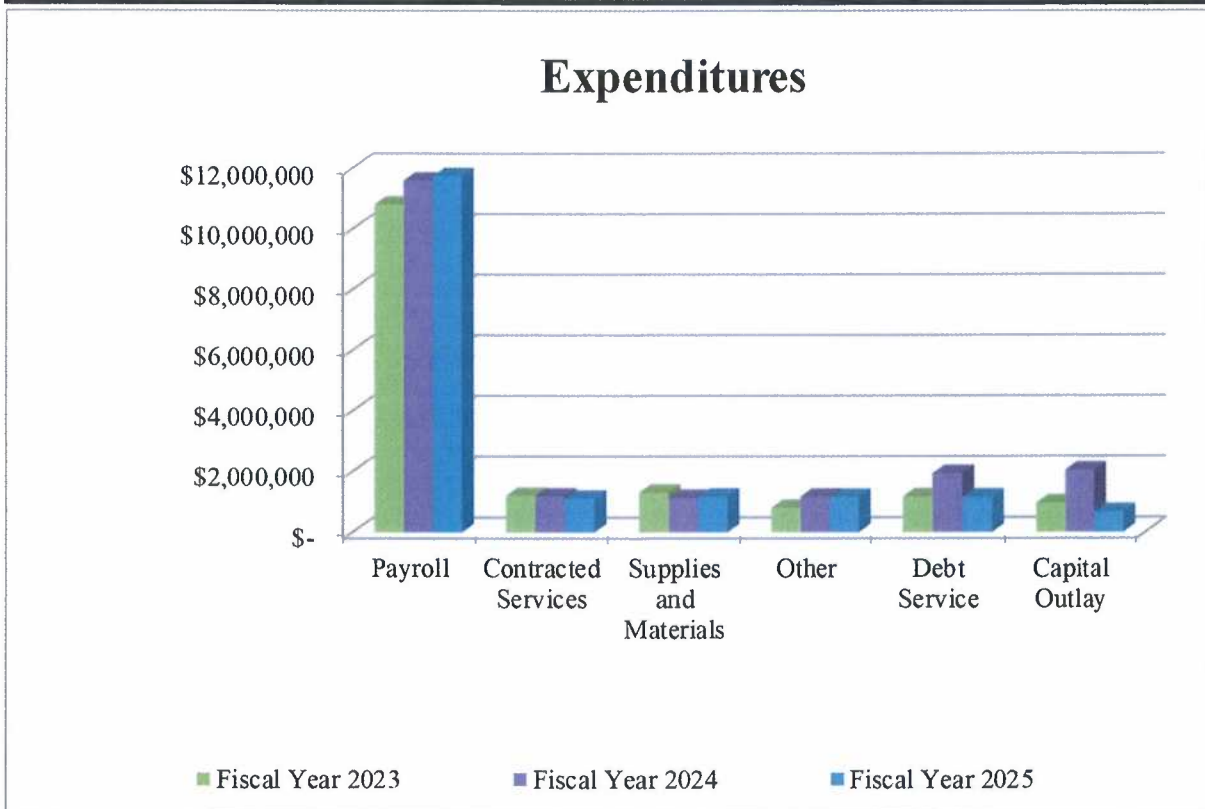
The following graph indicates the District’s revenues by source for the last three years.

REVENUES BY SOURCE			
	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
ADA	1007	1011	979
Local	\$5,770,689	\$5,320,896	\$5,305,460
State	9,064,594	10,445,549	10,524,380
Federal	2,577,061	2,229,692	1,203,778
Total	\$17,412,344	\$17,996,137	\$17,033,618



The following graph indicates the District's expenditures by object for the last three years.

Expenditures By Type			
	Fiscal Year 2023	Fiscal Year 2024	Fiscal Year 2025
Total Staff	198	201	203
Payroll	\$ 10,819,810	\$ 11,609,187	\$ 11,754,917
Contracted Services	1,212,957	1,189,808	1,118,443
Supplies and Materials	1,317,287	1,143,136	1,178,003
Other	813,435	1,173,393	1,161,960
Debt Service	1,183,465	1,944,229	1,165,284
Capital Outlay	972,540	2,054,810	674,138
Total	\$ 16,319,494	\$ 19,114,563	\$ 17,052,745



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students and parents, and other stakeholders 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 **Merkel Independent School District, P.O. Box 430, Merkel, Texas 79536; (325) 928-2004** or visit us at our website at <http://www.merkelisd.net>.

BASIC FINANCIAL STATEMENTS

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2025

EXHIBIT A-1

Data Control Codes	Primary Government <u>Governmental Activities</u>
ASSETS	
1110 Cash and Cash Equivalents	\$ 5,161,665
1120 Current Investments	1,334,623
1220 Property Taxes - Delinquent	285,401
1230 Allowance for Uncollectible Taxes	(71,350)
1240 Due from Other Governments	1,488,389
1250 Accrued Interest	14,500
1267 Due from Fiduciary Funds	31,492
1290 Other Receivables, Net	6,583
Capital Assets:	
1510 Land	424,133
1520 Buildings, Net	18,333,348
1530 Equipment and Vehicles, Net	2,640,537
1550 Right-to-Use Leased Assets, Net	57,107
1000 Total Assets	<u>29,706,428</u>
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	1,153,264
1706 Deferred Outflow Related to TRS OPEB	1,745,708
1700 Total Deferred Outflows of Resources	<u>2,898,972</u>
LIABILITIES	
2110 Accounts Payable	43,540
2150 Payroll Deductions and Withholdings	1,091
2160 Accrued Wages Payable	771,553
2200 Accrued Expenses	25,160
2300 Unearned Revenue	50,054
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	1,083,743
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	8,606,234
2540 Net Pension Liability (District's Share)	3,528,850
2545 Net OPEB Liability (District's Share)	2,925,162
2000 Total Liabilities	<u>17,035,387</u>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS Pension	89,950
2606 Deferred Inflow Related to TRS OPEB	2,574,266
2600 Total Deferred Inflows of Resources	<u>2,664,216</u>
NET POSITION	
3200 Net Investment in Capital Assets and Right-to-Use Lease Assets	12,593,190
Restricted:	
3820 Restricted for Federal and State Programs	50,409
3850 Restricted for Debt Service	700,316
3890 Restricted for Other Purposes	8,652
3900 Unrestricted	(446,770)
3000 Total Net Position	<u><u>\$ 12,905,797</u></u>

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2025

EXHIBIT B-1

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		3	4	6	
		Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 8,245,698	\$ -	\$ 728,416	\$ (7,517,282)
12	Instructional Resources and Media Services	156,846	-	3,696	(153,150)
13	Curriculum and Instructional Staff Development	17,998	-	-	(17,998)
23	School Leadership	1,076,061	-	27,191	(1,048,870)
31	Guidance, Counseling, and Evaluation Services	253,330	-	6,796	(246,534)
33	Health Services	236,577	-	5,886	(230,691)
34	Student (Pupil) Transportation	535,388	-	5,595	(529,793)
35	Food Services	832,262	24,411	672,348	(135,503)
36	Extracurricular Activities	674,095	30,102	6,532	(637,461)
41	General Administration	585,677	-	11,726	(573,951)
51	Facilities Maintenance and Operations	1,559,044	-	465,635	(1,093,409)
52	Security and Monitoring Services	137,584	-	25,972	(111,612)
53	Data Processing Services	569,392	-	16,098	(553,294)
61	Community Services	199,802	29,524	6,051	(164,227)
72	Debt Service - Interest on Long-Term Debt	308,084	-	-	(308,084)
73	Debt Service - Bond Issuance Cost and Fees	1,000	-	-	(1,000)
93	Payments Related to Shared Services Arrangements	609,089	-	-	(609,089)
[TP] TOTAL PRIMARY GOVERNMENT:		\$ 15,997,927	\$ 84,037	\$ 1,981,942	(13,931,948)
Data Control Codes	General Revenues:				
	Taxes:				
MT	Property Taxes, Levied for General Purposes				3,874,097
DT	Property Taxes, Levied for Debt Service				1,045,437
SF	State Aid - Formula Grants				9,078,207
GC	Other State and Federal Aid				200,642
IE	Investment Earnings				334,350
MI	Miscellaneous Local and Intermediate Revenue				10,221
TR	Total General Revenues				14,542,954
CN	Change in Net Position				611,006
NB	Net Position - Beginning as Previously Reported				13,036,509
PA	Prior Period Adjustment				(741,718)
	Net Position - Beginning as Restated and Adjusted				12,294,791
NE	Net Position - Ending				\$ 12,905,797

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2025

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 4,399,352	\$ 750,899	\$ 5,150,251
1120 Investments - Current	1,334,623	-	1,334,623
1220 Property Taxes - Delinquent	232,196	53,205	285,401
1230 Allowance for Uncollectible Taxes	(58,049)	(13,301)	(71,350)
1240 Due from Other Governments	1,233,813	254,576	1,488,389
1250 Accrued Interest	14,500	-	14,500
1260 Due from Other Funds	164,756	-	164,756
1290 Other Receivables	5,493	1,090	6,583
1000 Total Assets	<u>\$ 7,326,684</u>	<u>\$ 1,046,469</u>	<u>\$ 8,373,153</u>
LIABILITIES			
2110 Accounts Payable	\$ 24,735	\$ 18,805	\$ 43,540
2150 Payroll Deductions and Withholdings Payable	1,091	-	1,091
2160 Accrued Wages Payable	703,544	68,009	771,553
2170 Due to Other Funds	-	133,264	133,264
2200 Accrued Expenditures	14,734	7,664	22,398
2300 Unearned Revenue	50,054	-	50,054
2000 Total Liabilities	<u>794,158</u>	<u>227,742</u>	<u>1,021,900</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	174,147	39,904	214,051
2600 Total Deferred Inflows of Resources	<u>174,147</u>	<u>39,904</u>	<u>214,051</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	50,409	50,409
3480 Retirement of Long-Term Debt	-	725,866	725,866
Committed Fund Balance:			
3510 Construction	750,000	2,548	752,548
3540 Self Insurance	500,000	-	500,000
3600 Unassigned Fund Balance	5,108,379	-	5,108,379
3000 Total Fund Balances	<u>6,358,379</u>	<u>778,823</u>	<u>7,137,202</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,326,684</u>	<u>\$ 1,046,469</u>	<u>\$ 8,373,153</u>

The notes to the financial statements are an integral part of this statement.

MERKEL 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	\$ 7,137,202
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance for workers compensation, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase reported net position.	8,652
2 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 net cost of these assets (historical cost less accumulated depreciation) is included in net position. In addition, long-term liabilities, including bonds payable, 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 increase reported net position.	12,107,427
3 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 current year capital outlays and debt principal payments is to increase net position.	1,494,016
4 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, a deferred resource inflow related to TRS, and a deferred resource outflow related to TRS. This amounted to a decrease in reported net position.	(2,465,536)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75, a deferred resource inflow related to TRS OPEB, and a deferred resource outflow related to TRS OPEB. This amounted to a decrease in reported net position.	(3,753,720)
6 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,110,029)
7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	(512,215)
29 Net Position of Governmental Activities	\$ 12,905,797

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 4,204,040	\$ 1,101,420	\$ 5,305,460
5800 State Program Revenues	9,840,466	683,914	10,524,380
5900 Federal Program Revenues	62,736	1,141,042	1,203,778
5020 Total Revenues	14,107,242	2,926,376	17,033,618
EXPENDITURES:			
Current:			
0011 Instruction	7,443,298	523,626	7,966,924
0012 Instructional Resources and Media Services	164,075	-	164,075
0013 Curriculum and Instructional Staff Development	17,998	-	17,998
0023 School Leadership	1,132,152	-	1,132,152
0031 Guidance, Counseling, and Evaluation Services	266,988	-	266,988
0033 Health Services	249,269	-	249,269
0034 Student (Pupil) Transportation	387,985	-	387,985
0035 Food Services	2,662	849,893	852,555
0036 Extracurricular Activities	887,261	-	887,261
0041 General Administration	596,351	4,958	601,309
0051 Facilities Maintenance and Operations	1,404,643	449,109	1,853,752
0052 Security and Monitoring Services	66,078	24,250	90,328
0053 Data Processing Services	594,068	2,566	596,634
0061 Community Services	211,142	-	211,142
Debt Service:			
0071 Principal on Long-Term Liabilities	154,878	665,000	819,878
0072 Interest on Long-Term Liabilities	84,712	259,694	344,406
0073 Bond Issuance Cost and Fees	-	1,000	1,000
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	609,089	-	609,089
6030 Total Expenditures	14,272,649	2,780,096	17,052,745
1200 Net Change in Fund Balances	(165,407)	146,280	(19,127)
0100 Fund Balance - September 1 (Beginning)	6,523,786	632,543	7,156,329
3000 Fund Balance - August 31 (Ending)	\$ 6,358,379	\$ 778,823	\$ 7,137,202

The notes to the financial statements are an integral part of this statement.

MERKEL 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

Total Net Change in Fund Balances - Governmental Funds	\$ (19,127)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance for workers compensation, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase the change in net position.	2,525
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 current year capital outlays and debt principal payments is to increase the change in net position.	1,494,016
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 the change net position.	(1,110,029)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of long-term debt issues, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change net position.	57,621
GASB 68 requires that certain expenditures be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date caused the change in the ending net position to increase. Contributions made before the measurement date and during the previous fiscal year were also expensed and recorded as a reduction in the net pension liability. This caused a decrease in the change in net position. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded as an expense, resulting in a decrease in change in net position. The combined net result of these amounts is to decrease the change in net position.	(185,001)
GASB 75 requires that certain plan expenditures be de-expensed and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase. Contributions made before the measurement date and during the previous fiscal year were also expensed and recorded as a reduction in net OPEB liability. This caused a decrease the change in net position. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position. The net result is an increase in the change in net position.	371,001
Change in Net Position of Governmental Activities	\$ 611,006

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2025

	Governmental Activities -
	Internal Service Fund
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 11,414
Total Assets	<u>11,414</u>
LIABILITIES	
Current Liabilities:	
Accrued Expenses	<u>2,762</u>
Total Liabilities	<u>2,762</u>
NET POSITION	
Restricted for Other Purposes	<u>8,652</u>
Total Net Position	<u><u>\$ 8,652</u></u>

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 2,559
Total Operating Revenues	2,559
OPERATING EXPENSES:	
Other Operating Costs	547
Total Operating Expenses	547
Operating Income	2,012
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	513
Total Nonoperating Revenues (Expenses)	513
Change in Net Position	2,525
Total Net Position September 1 (Beginning)	6,127
Total Net Position August 31 (Ending)	\$ 8,652

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

EXHIBIT D-3

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ -
Cash Payments for Insurance Claims	(547)
Net Cash Used for Operating Activities	(547)
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	513
Net Decrease in Cash and Cash Equivalents	(34)
Cash and Cash Equivalents at Beginning of Year	11,448
Cash and Cash Equivalents at End of Year	\$ 11,414
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income:	\$ 2,012
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accrued Claims Liability	(2,559)
Net Cash Used for Operating Activities	\$ (547)
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 11,414
Pooled Cash and Cash Equivalents on Balance Sheet	-
Total Cash and Cash Equivalents	\$ 11,414

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2025

	Private Purpose Trust Fund	Custodial Fund
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 228,532
Investments - Current	161,991	-
Total Assets	<u>161,991</u>	<u>\$ 228,532</u>
LIABILITIES		
Accounts Payable	-	16,751
Due to Other Funds	-	31,492
Total Liabilities	<u>-</u>	<u>48,243</u>
NET POSITION		
Restricted for Scholarships	161,991	-
Restricted for Other Purposes	-	180,289
Total Net Position	<u>\$ 161,991</u>	<u>\$ 180,289</u>

The notes to the financial statements are an integral part of this statement.

MERKEL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

	Private Purpose Trust Fund	Custodial Fund
ADDITIONS:		
Cocurricular Services or Activities	\$ -	\$ 289,011
Earnings from Temporary Deposits	16,735	8,762
Total Additions	<u>16,735</u>	<u>297,773</u>
DEDUCTIONS:		
Professional and Contracted Services	1,893	-
Other Deductions	3,596	298,441
Total Deductions	<u>5,489</u>	<u>298,441</u>
Change in Fiduciary Net Position	11,246	(668)
Total Net Position September 1 (Beginning)	<u>150,745</u>	<u>180,957</u>
Total Net Position August 31 (Ending)	<u><u>\$ 161,991</u></u>	<u><u>\$ 180,289</u></u>

The notes to the financial statements are an integral part of this statement.

**MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2025**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Merkel 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 accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District also complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District applies current GASB criteria to potential component units and other related entities in evaluating the potential inclusion in the reporting entity. The criteria for inclusion in the reporting entity involves whether the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the District such that exclusion of such information would cause the District's financial statements to be incomplete. For the current fiscal year, the reporting entity of the District does not include any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the **Merkel Independent School District** non-fiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

Inter-fund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and 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 inter-fund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Inter-

fund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as Inter-fund transfers. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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 and enterprise funds major and report their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

C. 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 a 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 current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

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 unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all 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 sometimes 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. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

General Fund – The general fund is the District's primary operating fund. This fund accounts for all financial resources except those required to be accounted for in another fund.

There were no changes in major funds reported for this fiscal year when compared to the prior fiscal year. The District's General Fund was the only reported major governmental fund for both the current year and the prior fiscal year. The District does not report any major enterprise funds.

Additionally, the District reports the following fund types:

Governmental Funds:

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

Debt Service Funds – 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 Funds – 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.

Proprietary Funds:

Enterprise Funds – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund when applicable. The District did not utilize Enterprise Funds during the year.

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis (such as workers' compensation) are accounted for in an internal service fund.

Fiduciary Funds:

Private Purpose Trust Funds – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. When applicable, the District maintains a private purpose trust fund to provide scholarships for students that have graduated from the District.

Custodial Funds – The District accounts for resources held for others in a custodial capacity in custodial funds including funds used to account for student activities.

Transactions between funds that are representative of lending / borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to / from other funds”. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included in the governmental activities column. Similarly, balances between the funds included in any business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased.
2. The District reports inventories of supplies using the first-in, first-out inventory cost method. The supplies include consumable maintenance, instructional, office, athletic, and transportation items. Under the purchase method, supplies are recorded as expenditures when they are purchased. Inventories of food commodities are recorded at market values supplied by the Department of Agriculture. Although commodities are received at no cost, their fair market value is supplied by the Department of Agriculture and recorded as revenue and expenditures when received. Material inventories (if any) including food commodities would be recorded as an asset and a corresponding amount of expenditures are reduced at year-end. Any inventories at the end of the fiscal year were considered immaterial.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditures in the year the related debt is issued.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities 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 fair market value at the date of donation.

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

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

ASSETS	YEARS
Buildings	40
Building Improvements	30
Vehicles and Equipment	10
Right-to-Use Lease Assets	Lease Term
Subscription Based Information Technology Arrangements (SBITA) Assets	Subscription Term

6. Since Internal Service Funds in the District support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. Restricted assets, if applicable, of the District are limited to cash and certificates of deposit which have been gifted to the District with the stipulation that only the earnings are available for current and future scholarship recipients.
8. The District participates in a self-funded workers' compensation program that executes inter-local agreements that define the responsibilities of the parties. The program provides statutory workers' compensation benefits to its members and their injured employees.
9. Net Position and Fund Balances:

Government-wide and Proprietary Fund Net Position:

Government-wide and proprietary fund net position is divided into three components:

- Net investment in capital assets—consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position—consist of assets that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted—all other net position is reported in this category.

Governmental Fund Balances:

In the governmental fund financial statements, fund balances are classified as follows:

- Non-spendable—Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.

- Restricted—Amounts that can be spent only for specific purposes because of the District's state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed—Amounts that can be used only for specific purposes determined by a formal action by Board of Trustees' ordinance.
- Assigned—Amounts that are designated by the Superintendent for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Trustees.
- Unassigned—All amounts not included in other spendable classification.

10. Use of Restricted Resources:

When an expenditure/expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expenditure/expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

11. The District applies Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Market Value Measurement and Application for applicable investments. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.
12. Investment income reported in one fund has not been assigned directly to another fund by the District.
13. The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.
14. Deferred Outflows of Resources: The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. No deferred outflows of resources affect the governmental funds financial statements in the current year. Deferred outflows relating to pension and other post-employment benefits plans are reported in the government-wide statements.
15. Deferred Inflow of Resources: The District's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to future periods. The District will not recognize the related revenues until a future event occurs. The District has deferred property taxes which occur because those governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting. Accordingly, deferred property taxes are reported in the governmental funds balance sheet. Deferred inflows are also reported relating to pension and other post-employment benefits plans in the government-wide statements.
16. Pensions: The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in

accordance with the benefit terms. Investments are reported at fair value.

17. 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 new OPEB liability, deferred outflows of resources and deferred inflows or resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments and all funds are held in a cash account.
18. Change in Accounting Principles: As the result of implementing GASB Statement No. 101 for Compensated Absences, the District has restated the beginning net position in the government-wide Statement of Net Position and Statement of Activities, decreasing net position as of September 1, 2024. The decrease results from including estimated accumulated leave for employees that will **more likely than not** be used in the future as a long-term liability on the government-wide Statement of Net Position. The change is reported as a change in accounting principle according to the provisions of GASB Statement No 100. Specific disclosures of changes in accounting principles are provided in Note U.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the Year	Historical Cost	Accumulated Depreciation	Net Value at Beginning of Year	Adjustment to Net Position
Land	\$ 424,133		\$ 424,133	
Buildings and Improvements	32,620,579	(13,948,175)	18,672,404	
Equipment and Vehicles	5,252,947	(2,574,035)	2,678,912	
Right-to-Use Lease Assets	339,854	(224,287)	115,567	
Change in Net Position	\$ 38,637,513	\$ (16,746,497)		\$ 21,891,016

Long-Term Liabilities at the Beginning of the Year	Payable at Beginning of Year
Bonds Payable	\$ 7,330,000
Maintenance Notes Payable	1,932,112
Unamortized Premium on Bonds	329,978
Right-to-Use Lease Liabilities	122,077
Accrued Interest - Long-Term Obligations	69,422
Change in Net Position	9,783,589
Net Adjustment to Net Position	\$ 12,107,427

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position shown in Exhibit C-2 and Exhibit C-4. The details of this adjustment are as follows:

	Amount	Adjustments to Net Position	Adjustments To Changes in Net Position
Current Year Capital Outlay			
Buildings & Improvements	\$ 434,967		
Equipment and Vehicles	239,171		
Total Capital Outlay	\$ 674,138	\$ 674,138	\$ 674,138
Debt Principal Payments			
Bond Principal	\$ 665,000		
Maintenance Notes Principal	95,109		
Right-to-Use Lease Liabilities Principal	59,769		
Total Principal Payments	\$ 819,878	819,878	819,878
Total Adjustment to Net Position		\$ 1,494,016	\$ 1,494,016

Another element of the reconciliation on Exhibits C-2 and C-4 are described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details of this adjustment are as follows:

	Amount	Adjustments to Net Position	Adjustments to Change in Net Position
<u>Adjustments to Revenue, Unearned Revenue, Beginning Net Position</u>			
Begin Year Unearned Property Tax Revenue	\$ 171,882	\$ 171,882	\$ -
Modified to Full Accrual Property Tax Adjustments	42,169	42,169	42,169
Beginning Compensated Absences Liability (GASB 101)	741,718	(741,718)	-
<u>Expenditure Adjustments to Full Accrual From Modified Accrual:</u>			
Adjust Interest Expense on Long-term Debt	3,968	3,968	3,968
Current Year Amortization of Bond Premium	32,354	32,354	32,354
Change in Accrued Compensated Absences Liability	20,870	(20,870)	(20,870)
Totals		\$ (512,215)	\$ 57,621

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. 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 are in the J Exhibits as reported in the required Texas Education Agency Exhibits.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the board. 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. Significant amendments were made in the instruction and transportation function.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as adopted and amended by the Board of Trustees. All budget appropriations lapse at year-end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

	<u>End of Year Fund Balance</u>
<u>Appropriated Special Revenue Funds:</u>	
Child Nutrition Fund	\$ 38,127
<u>Non-appropriated Special Revenue Funds:</u>	
Others	<u>12,282</u>
<u>All Special Revenue Funds</u>	\$ 50,409

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Budget accountability and compliance is disclosed in Section C of the Notes to Required Supplementary Information.

C. DEFICIT FUND EQUITY

The District did not incur a deficit fund balance in any fund during the current fiscal year.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The carrying amount of the District's cash and temporary investments at the end of the fiscal year follows:

Cash and Cash Equivalents	End of Fiscal Year
Cash in Bank (Demand Deposit, Money Market, etc)	\$ 5,390,197
Total Cash and Cash Equivalents	\$ 5,390,197

Cash and Cash Equivalents by Fund Type	End of Fiscal Year
General Fund	\$ 4,399,352
Special Revenue Funds	23,575
Debt Service Funds	724,776
Capital Project Funds	2,548
Internal Service Funds	11,414
Custodial Funds	228,532
Total Cash and Cash Equivalents by Fund	\$ 5,390,197

District 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. The District's cash deposits subject to custodial credit risk at the date of the highest cash balance and at year end were:

Custodial Credit Risk	Date of Highest Cash Balance	End of Fiscal Year
Name of Depository Bank: First Financial Bank		
Total amount of FDIC Insurance (FDIC)	\$ 500,000	\$ 500,000
Securities Pledged (Fair Value)	8,999,580	8,753,190
Total FDIC, Securities Pledged, Letters of Credit	\$ 9,499,580	\$ 9,253,190
Cash Deposits and Cash Investments in Bank	\$ 7,870,856	\$ 5,554,844
Excess or (Shortage) of Deposits compared to FDIC and Letter of Credit	\$ 1,628,724	\$ 3,698,346
The District's cash deposits were entirely covered by FDIC insurance, letters of credit, or other pledged securities by the Depository	YES	YES

Foreign Currency Risk: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by limiting all deposits denominated in a foreign currency.

Investments

District Policies and Legal and Contractual Provisions Governing Investments and Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires 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, (9) and 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 than 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 not 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 as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for 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 in commercial paper, corporate bonds, and mutual bond funds to the top 2 or 3 ratings issued by nationally recognized statistical rating organizations (NRSROs). As of the current fiscal year, the district's investments were rated by Standard & Poor's, Fitch Ratings, etc.

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 and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer to 20% when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government.

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding all investments denominated in a foreign currency.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. 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 below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, 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.

As of the end of the current fiscal year, the District had the following investments:

Investments	Fair Value Measurements Using		Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk
	End of Fiscal Year Value	Significant Other Observable Inputs (Level 2)			
Investments measured at amortized cost - Investment pools:					
None	\$ -	\$ -	0.00%		
Investments measured by fair value level -					
Certificates of Deposit	1,334,623	1,334,623	89.18%	49	BBB+ to AA-
Restricted Investments- Scholarship Funds - Brokerage Account	161,991	161,991	10.82%	60	BBB+ to AA-
Total Investments	\$ 1,496,614	\$ 1,496,614	100.00%		

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due 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.

C. 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 and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Inter-fund balances at year end consisted of the following amounts:

FUND TYPE	Due From Other Funds	Due To Other Funds	Purpose of Interfund Receivable / Payable
Governmental Fund Types			
General Fund	\$ 164,756	\$ -	Due from other funds detailed below: Unreimbursed grant costs that are pending reimbursement from grantor agencies; pooled cash account results in due to General Fund.
Special Revenue Funds	-	133,264	
Debt Service Fund	-	-	
Capital Projects Fund	-	-	
Fiduciary Fund Types			
Custodial Funds	-	31,492	Prior year custodials fund cost paid by the General Fund and thus still due.
Private Purpose Trust Funds	-	-	
Total Interfund Receivables / Payables	\$ 164,756	\$ 164,756	

There were no inter-fund transfers for the current year.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at year end were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Accrued Interest and Other	Total Receivables
Governmental Activities:					
General Fund	\$ 232,196	\$ 1,233,813	\$ 164,756	\$ 19,993	\$ 1,650,758
Special Revenue Funds	-	254,576	-	-	254,576
Debt Service Funds	53,205	-	-	1,090	54,295
Internal Service Funds	-	-	-	-	-
Total Governmental Activities	\$ 285,401	\$ 1,488,389	\$ 164,756	\$ 21,083	\$ 1,959,629
Amounts not scheduled for collection during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -

Payables at year end were as follows:

	Accounts Payable	Accrued Wages Payable	Due To Other Funds	Payroll Liabilities and Accrued Expenditures	Total Payables
Governmental Activities:					
General Fund	\$ 24,835	\$ 703,544	\$ -	\$ 15,825	\$ 744,204
Special Revenue Funds	18,805	68,009	133,264	7,664	227,742
Debt Service Funds	-	-	-	-	-
Capital Projects Funds	-	-	-	-	-
Internal Service Funds	-	-	-	2,762	2,762
Total Governmental Type Activities	\$ 43,640	\$ 771,553	\$ 133,264	\$ 26,251	\$ 974,708
Amounts not scheduled for payment during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the current year was as follows:

Primary Government				
	Beginning Balance	Additions	Deletions, Reclassifications	Ending Balance
Governmental Activities:				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 424,133	\$ -	\$ -	\$ 424,133
Construction In Progress	-	-	-	-
<u>Capital Assets Being Depreciated:</u>				
Buildings and Improvements	32,620,579	434,967	-	33,055,546
Equipment and Vehicles	5,252,947	239,171	-	5,492,118
Right-to-Use Lease Assets	339,854	-	-	339,854
Totals at Historic Cost	\$ 38,637,513	\$ 674,138	\$ -	\$ 39,311,651
Less Accumulated Depreciation / Amortization:				
Buildings and Improvements	\$ 13,948,175	\$ 774,023	\$ -	\$ 14,722,198
Equipment and Vehicles	2,574,035	277,546	-	2,851,581
Right-to-Use Lease Assets	224,287	58,460	-	282,747
Total Accumulated Depreciation	\$ 16,746,497	\$ 1,110,029	\$ -	\$ 17,856,526
Governmental Activities Capital Assets- Net	\$ 21,891,016	\$ (435,891)	\$ -	\$ 21,455,125

Depreciation expense was charged to governmental activities functions as follows:

Instruction	\$ 698,119
Instructional Leadership	-
Student (Pupil) Transportation	157,699
Food Services	19,823
Extracurricular Activities	96,337
General Administration	625
Facilities Maintenance and Operations	86,799
Security and Monitoring	50,627
Total Depreciation Expense - Governmental Activities	\$ 1,110,029

The District has no capital assets that are not being depreciated as of the current fiscal year end except for land as listed previously.

The District applies the guidance in **GASBS No. 87, Leases**, recognizing the value of copiers leased under long-term contracts. In prior years, the District entered into lease agreements for copiers. The terms of the leases require amortization and payments over 5 years. The lease agreements meet the criteria as established in **GASB 87**.

The District also applies the guidance in **GASBS 96 Subscription Based Information Technology Arrangements (SBITA's)**. No material software arrangements were identified by the District. As such, no SBITA assets were recorded and amortized over the subscription term.

G. SHORT-TERM DEBT PAYABLE

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from loans are shown in the governmental fund financial statements as Other Resources and principal payments are shown as Other Uses. The District had no short-term debt obligations at any time during the current fiscal year.

H. LONG-TERM DEBT OBLIGATIONS and AMOUNTS DUE IN ONE YEAR

The following is a summary of the District's current activity for long-term obligations:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Long-Term Obligations:					
General Obligation Bonds	\$ 7,330,000	\$ -	\$ 665,000	6,665,000	\$ 685,000
Notes Payable	1,932,112	-	95,109	1,837,003	99,098
Right-to-use Lease Liabilities	122,077	-	59,769	62,308	43,544
Total Long-Term Obligations	\$ 9,384,189	\$ -	\$ 819,878	\$ 8,564,311	\$ 827,642
Other Liabilities:					
Compensated Absences (a)	\$ 741,718	\$ 20,870	\$ -	762,588	\$ 190,647
Premium on Bond Issuance	329,978	-	32,354	297,624	-
Accrued Interest Payable	69,422	340,438	344,406	65,454	65,454
Total Other Liabilities	\$ 1,141,118	\$ 361,308	\$ 376,760	\$ 1,125,666	\$ 256,101
Total Governmental Activities					
Long-Term Obligations	\$10,525,307	\$ 361,308	\$1,196,638	\$ 9,689,977	\$ 1,083,743

(a) Compensated absences beginning balance restated in accordance with GASB 101.

Details of individual long-term obligation issues are as follows:

Description	Interest Rate	Original Issue / NPV at Origination	Interest Current Year	Begin Year Balance	Additions	Reductions	End of Fiscal Year Balance
General Obligation Bonds:							
2014 Building Bonds	2% - 3.625%	\$ 9,750,000	\$ 162,219	\$ 4,870,000	\$ -	\$ 480,000	\$ 4,390,000
2015 Building Bonds	2% - 4%	3,890,000	97,475	2,460,000	-	185,000	2,275,000
Total General Obligation Bonds			\$ 259,694	\$ 7,330,000	\$ -	\$ 665,000	\$ 6,665,000
Notes and Other Debt							
Loan Payable (Energy Prj)	4.19%	2,353,224	81,033	1,932,112	-	95,109	1,837,003
Total Notes and Other Debt			\$ 81,033	\$ 1,932,112	\$ -	\$ 95,109	\$ 1,837,003
Right-to-Use Lease Liabilities							
Copiers - Benchmark	3.00%	\$ 264,603	\$ 1,938	\$ 88,550	\$ -	\$ 52,599	\$ 35,951
Copier - Visual Edge IT	5.75%	40,297	1,741	33,527	-	7,170	26,357
Total Right-To-Use Lease Liabilities			\$ 3,679	\$ 122,077	\$ -	\$ 59,769	\$ 62,308
Total Long-Term Obligations - Governmental Activities			\$ 344,406	\$ 9,384,189	\$ -	\$ 819,878	\$ 8,564,311

Reconciliation of long-term obligations and debt service expenditures reported are as follows:

Reconciliation of amounts reported on Exhibit A-1 for Long-Term Obligations

Long-Term Obligations - Amounts due within one year	\$ 1,083,743
Long-Term Obligations - Amounts due after one year	<u>8,606,234</u>
Total Long - Term Obligations Payable	<u>\$ 9,689,977</u>

Reconciliation of amounts reported on Exhibit C-3 for Debt Service Expenditures

Debt Service Principal	\$ 819,878
Debt Service Interest	<u>344,406</u>
Total Debt Service Expenditures	<u>\$ 1,164,284</u>

Future annual debt service requirements by long-term obligation type are as follows:

	General Obligation Bonds		Notes and Other Debt		Finance Purchase Obligations	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 685,000	\$ 237,356	\$ 99,098	\$ 77,044	\$ -	\$ -
2027	615,000	213,744	103,254	72,888	-	-
2028	645,000	190,894	107,585	68,557	-	-
2029	675,000	166,944	112,097	64,045	-	-
2030	690,000	142,069	116,798	59,344	-	-
2031-2035	3,355,000	309,234	661,710	219,000	-	-
2036-2040	-	-	636,461	44,079	-	-
Subsequent						
Totals	<u>\$ 6,665,000</u>	<u>\$ 1,260,241</u>	<u>\$ 1,837,003</u>	<u>\$ 604,957</u>	<u>\$ -</u>	<u>\$ -</u>

	RTU Lease Liabilities		SBITA Liabilities		Totals	
	Principal	Interest	Principal	Interest	Principal	Interest
2026	\$ 43,544	\$ 1,724	\$ -	\$ -	\$ 827,642	\$ 316,124
2027	8,042	869	-	-	726,296	287,501
2028	8,516	394	-	-	761,101	259,845
2029	2,206	21	-	-	789,303	231,010
2030	-	-	-	-	806,798	201,413
2031-2035	-	-	-	-	4,016,710	528,234
2036-2040	-	-	-	-	636,461	44,079
Subsequent	-	-	-	-	-	-
	<u>\$ 62,308</u>	<u>\$ 3,008</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,564,311</u>	<u>\$ 1,868,206</u>

Right-to-Use Lease Liabilities:

The District applies the guidance of GASBS No. 87, Leases, for accounting and reporting leases that had previously been reported as operating leases. Details of leases meeting GASB 87 criteria for reporting are as follows:

Right-to-Use Lease Liabilities

Description	Interest Rate	Net Present Value at Origination	Interest Current Year	Begin Year Balance	Lease Additions	Lease Principal Payments	Lease Terminations	End of Fiscal Year Balance
Copiers - Benchmark	3.00%	264,603	1,938	88,550	-	52,599	-	35,951
Visual Edge - Copier	5.75%	40,297	1,741	33,527	-	7,170	-	26,357
Total Right-to-Use Lease Liabilities			<u>\$ 3,679</u>	<u>\$ 122,077</u>	<u>\$ -</u>	<u>\$ 59,769</u>	<u>\$ -</u>	<u>\$ 62,308</u>

Future lease payment obligations by obligation are as follows:

	Copiers - Benchmark		Visual Edge - Copier	
	Principal	Interest	Principal	Interest
2026	\$ 35,951	\$ 406	\$ 7,593	\$ 1,318
2027	-	-	8,042	869
2028	-	-	8,516	394
2029	-	-	2,206	21
Totals	\$ 35,951	\$ 406	\$ 26,357	\$ 2,602

Totals All Leases

	Total	
	Principal	Total Interest
2026	\$ 43,544	\$ 1,724
2027	8,042	869
2028	8,516	394
2029	2,206	21
2030	-	-
Totals	\$ 62,308	\$ 3,008

I. COMMITMENTS UNDER SHORT-TERM LEASES

Commitments under short-term lease agreements for equipment are reported as rental expenditures in appropriate functional categories depending on the related usage of the equipment. Those leases provide for month-to-month or other short term rental obligations of 12 months or less.

J. COMPENSATED ABSENCES

Employees of the District are entitled to leave depending on their length of employment and contractual provisions. The District's liability for compensated absences of leave earned, not yet used, but more likely than not to be used in the future is based on historical data. The liability has been calculated using pay rates in effect at the balance sheet date. The District records a liability for leave in the government-wide financial statements.

At August 31, 2025, the liability for accrued compensated absences is reported in the government-wide financial statements was \$762,588. This liability is expected to be liquidated by the particular fund that pays the staff using the leave, which is primarily the General Fund except for staff funded from grant programs.

K. HEALTH CARE COVERAGE

The District provided health insurance coverage for employees under the provisions of the Teacher Retirement System of Texas (TRS) active care health insurance plan during the current year. The District paid premiums per month per employee as set by District policy to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for the excess of employee's total premium over the amount funded by the District. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

L. DEFERRED INFLOWS / UNEARNED REVENUE— GOVERNMENTAL FUND STATEMENTS

Deferred Inflows and Unearned Revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
<u>Deferred Inflows:</u>				
Unavailable Revenue - Property Taxes	\$ 174,147	\$ -	\$ 39,904	\$ 214,051
<u>Unearned Revenue:</u>				
State and Federal Grants	-	-	-	-
Other Local Grants	50,054	-	-	50,054
Total Deferred Inflows / Unearned Revenues	\$ 224,201	\$ -	\$ 39,904	\$ 264,105

M. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments at year end are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as "Due from State Agencies" except for some federal programs which are received directly from the federal government.

FUND	State Foundation Revenue	Federal and State Grants	Other	TOTAL
General	\$ 1,232,743	\$ -	\$ 1,070	\$ 1,233,813
Special Revenue	-	254,576	-	254,576
Debt Service	-	-	-	-
Totals	\$ 1,232,743	\$ 254,576	\$ 1,070	\$ 1,488,389

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 3,783,641	\$ -	\$ 1,035,366	\$ -	\$ 4,819,007
Property Tax Penalty and Interest	58,356	-	-	-	58,356
Investment Income	302,062	-	31,594	181	333,837
Charges - Food Service & Athletic Events	30,102	24,411	-	-	54,513
Other Miscellaneous Revenues	29,879	9,868	-	-	39,747
Totals	\$ 4,204,040	\$ 34,279	\$ 1,066,960	\$ 181	\$ 5,305,460

O. LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is aware of pending exposure to claims related to these areas; however, legal counsel and the District do not expect any financial exposure to assets of the District.

P. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District at year end had not incurred or made any additional commitments and/or contingencies relating to facilities improvements or other areas of significance.

Q. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District is a member of various shared services arrangements (SSA's) that are accounted for using Model 3 in the Texas Education Agency (TEA) accounting guide for school districts. The SSA's provides services for member districts. Other districts serve as the fiscal agent for the SSA's. In addition to the District, other member districts participate in the shared services arrangements also. The fiscal agent for each SSA provides SSA services. The member districts provide the funds to the fiscal agent. According to guidance provided in the TEA's Resource Guide, the fiscal agent for each SSA has accounted for the fiscal agent's activities of the SSA in special revenue funds. The Shared Services Arrangements listed below have been accounted for using Model 3 in the SSA section of the Resource Guide. The District has accounted for the payments to the fiscal agent in the General Fund No. 199 as intergovernmental expenditures (function 93). A chart detailing the District's participation in those shared services arrangement is as follows:

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal Agent Special Revenue Fund	District Fund	Program Expenditures Current Year
Taylor Callahan SSA	Special Education	Jim Ned CISD	Special Education	437	199	\$ 432,250
Taylor Callahan SSA	504 Services	Jim Ned CISD	Local	437	199	161,000
One AISD Center	Special Education	Abilene ISD	Special Education	n/a	198	15,839
Total Function 93 Expenditures						\$ 609,089

The District also participates in shared service arrangements with other school districts / education service centers for various educational activities. In addition to the District, other member districts participate in the educational cooperatives and the fiscal agent provides SSA services. The funding for each activity is received by the fiscal agent from the grantor agency. The fiscal agent then provides the funds to the member districts. According to guidance provided in TEA's Resource Guide, the Fiscal Agent has accounted for the fiscal agent's activities of the SSA in a Special Revenue Fund. The Shared Services Arrangements has been accounted for using Model 1 in the SSA section of the TEA Resource Guide. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the shared service arrangements in which the District participates and the extent of funding received and expended under each program.

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	District Special Revenue Fund	Program Expenditures Current Year
Region 14 ESC	Head Start	Region 14	Head Start	205	\$ 115,865
Region 14 ESC	General Education	Region 14	ESEA, Title II, Part A	255	31,301
Region 14 ESC	General Education	Region 14	ESEA, Title IV, Part A	289	17,109

R. SUBSEQUENT EVENTS

In preparing the basic financial statements, District administration has evaluated events and transactions for potential recognition or disclosure through **December 15, 2025** the date this Annual Financial Report was available to be issued. No material subsequent events were identified.

S. RELATED ORGANIZATIONS

The District at present does not maintain an educational foundation and it does not receive material support from related entities as defined under current governmental accounting standards. These entities are usually established as not-for-profit entities to provide assistance and support for teachers and students to develop special programs and projects and other school district support activities. Booster clubs and parent teacher organizations that support the District are considered immaterial to the financial statements.

T. RELATED PARTY TRANSACTIONS

The District did not incur any material reportable related party transactions or balances as of and during the current year.

U. ACCOUNTING CHANGES and ERROR CORRECTIONS

The District reports accounting changes and error corrections according to the provisions of GASB 100 as follows:

	Beginning Balance as Previously Reported	Change within the Reporting Entity	Change in Accounting Principle	Error Correction	Beginning Balance as Restated
Net Position - Government Wide Statements					
Governmental Activities	\$ 13,036,509	\$ - (a)	\$ (741,718)	\$ -	\$ 12,294,791
Business-Type Activities	-	-	-	-	-
Total Government Wide Net Position	\$ 13,036,509	\$ -	\$ (741,718)	\$ -	\$ 12,294,791
Fund Balance - Governmental Funds					
General Fund	\$ 6,523,786	\$ -	\$ -	\$ -	\$ 6,523,786
Other Major Governmental Funds	-	-	-	-	-
Nonmajor Funds	632,543	-	-	-	632,543
Total Fund Balance Governmental Funds	\$ 7,156,329	\$ -	\$ -	\$ -	\$ 7,156,329

(a) Beginning compensated absences liability per the provisions of GASB 101.

V. RISK FINANCING AND OTHER COVERAGE

Workers' Compensation Program

The District in prior years maintained a self-insurance plan for workers' compensation benefits as authorized by Section 504.011 of the Labor Code. The District participated in this plan (School Comp. self-funded workers' compensation program) along with other participating entities. The District contributed annual amounts determined by School Comp. As claims arose, they were submitted to and paid by School Comp. on behalf of the District under terms of a contractual agreement. According to state statute, the District is protected against unanticipated catastrophic claims and aggregate loss by coverage carried through a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Coverage was in effect for specific occurrences exceeding \$350,000 and aggregate retention at \$5,000,000. The costs associated with this self-insurance plan are reported as interfund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Fund and operating expenditures of the General Fund. The liabilities of the plan include incurred but not reported claims. These remaining liabilities reported in the funds at year end, are based on the requirements of Governmental Accounting Standards Board No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an amount for claims that have been incurred but not reported.

Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary and are reported at their present value using an expected future investment yield assumption.

Estimates of claims payable and of claims incurred, but not reported at August 31 are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due. Changes in the balances of claims liabilities during the past year are as follows:

	Previous Fiscal Year	Current Fiscal Year
Unpaid claims, beginning of year	\$ 5,321	\$ 5,321
Incurred claims (including IBNR'S)	620	-
Changes in provisions for prior year insured events	-	(2,012)
Claim Payments	(620)	(547)
Unpaid claims, end of year	\$ 5,321	\$ 2,762

W. DEFINED BENEFIT PENSION PLAN

Summary of Significant Accounting Policies. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS 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.

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

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report (ACFR) 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, PO Box 149676, Austin, TX, 78714-0185; or by calling 1-800-223-8778.

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

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

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

Cost-of-Living Adjustment - A cost-of-living adjustment (COLA) was dependent on Texas voters approving a constitutional amendment (Proposition 9) to authorize the COLA. Voters approved the

amendment in the November 2023 election, and the following COLA was applied to eligible annuitants' payments beginning with their January 2024 payment.

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

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

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

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

The following table shows contribution rates by type of contributor for the measurement year 2024 and the contributions by type of contributions reported by TRS which were received by TRS during the TRS measurement year 2024. The reported contributions from the member and the employers are included in the calculation of the district's proportionate share of the net pension liability.

	<u>Contribution Rates</u>	
	<u>2024</u>	<u>2025</u>
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
Current fiscal year employer contributions		\$ 360,928
Current fiscal year member contributions		\$ 754,885
2024 measurement year NECE on-behalf contributions		\$ 546,789
<u>Payments made by the State On-Behalf of the District for Medicare, Part D:</u>		
Fiscal year 2023 Medicare, Part D On-Behalf		\$ 44,861
Fiscal year 2024 Medicare, Part D On-Behalf		\$ 45,693
Fiscal year 2025 Medicare, Part D On-Behalf		\$ 62,668

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that

fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities, or the State of Texas as the employer for senior 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 the new member's first 90 days of employment.
- 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.

In addition to the employer contributions listed above, there is a surcharge and employer is subject to:

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

Net Pension Liability

Components of the net pension liability of the plan as of August 31, 2024, are disclosed below: (From TRS Annual Comprehensive Financial Report 2024, p. 88.)

Table 11.E.1: Net Pension Liability	
Components of Liability	Amount
Total Pension Liability	\$ 271,627,434,294
Less: Plan Fiduciary Net Position	(210,543,258,495)
Net Pension Liability	\$ 61,084,175,799
Net Position as Percentage of Total Pension Liability	77.51 %

Actuarial Assumptions.

The total pension liability in the August 31, 2024, actuarial valuation was determined using the following actuarial assumptions:

Table 11.F.1: Actuarial Methods and Assumptions	
Component	Result
Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term Expected Rate	7.00%
Municipal Bond Rate as of August 2024	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 ending August 31 in Projection Period (100 years)	2123
Inflation	2.30%
Salary Increases	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 TRS actuarial valuation report dated November 21, 2023.

Discount Rate. A single discount rate of 7.00 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 9.54 percent 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 percent. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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 Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.0 %	4.4 %	1.0 %
Non-US Developed	13.0	4.2	0.8
Emerging Markets	9.0	5.2	0.7
Private Equity	14.0	6.7	1.2
Stable Value			
Government Bonds	16.0	1.9	0.4
Stable Value Hedge Funds	5.0	3.0	0.2
Absolute Return*	0.0	4.0	0.0
Real Return			
Real Estate	15.0	6.6	1.2
Energy, Natural Resources & Infrastructure	6.0	5.6	0.4
Commodities	0.0	2.5	0.0
Risk Parity	8.0	4.0	0.4
Asset Allocation Leverage			
Cash	2.0	1.0	0.0
Asset Allocation Leverage	(6.0)	1.3	(0.1)
Inflation Expectation			2.4
Volatility Drag****			(0.7)
Expected Return	100.0 %		7.9 %
*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.			

Discount Rate Sensitivity Analysis. The following table presents the District's net pension liability of the plan using the discount rate of 7.00 percent, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) 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:	\$ 5,636,468	\$ 3,528,850	\$ 1,782,539

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. As of August 31, 2025, Merkel Independent School District reported a liability of \$3,528,850 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Merkel Independent School District. The amount recognized by Merkel Independent School 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 Merkel Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 3,528,850
State's proportionate share that is associated with the District	5,926,896
Total	<u>\$ 9,455,746</u>

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

As of August 31, 2024, the employer's proportion of the collective net pension liability was 0.0057770289%, which was an increase(decrease) of 0.0004462320% from its proportion measured as of August 31, 2023.

Changes In Actuarial Assumptions 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.

Changes in Benefits - The 2023 Texas Legislature passed Senate Bill 10 (SB10), 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 on-time stipends and \$3,355 billion for COLAs. This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

For the year ended August 31, 2025, Merkel Independent School District recognized pension expense of \$1,254,292 and revenue of \$708,363 for support provided by the State in the Government Wide Statement of Activities.

Year Ended August 31, 2025 pension expense	\$ 1,254,292
Revenue for support provided by the State	\$ 708,363

As of August 31, 2025, Merkel Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources: (The amounts shown below will be the cumulative layers from the current and prior years combined.)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 194,505	\$ 27,552
Changes in actuarial assumptions	182,202	24,427
Differences between projected and actual investment earnings	21,451	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	394,178	37,971
Total as of August 31, 2024 measurement date	\$ 792,336	\$ 89,950
Contributions paid to TRS subsequent to the measurement date	360,928	
Total as of fiscal year-end	\$ 1,153,264	\$ 89,950

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to pensions will be recognized by the district in pension expense as follows:

Fiscal year ended August 31,	Pension Expense Amount
2026	\$ 92,894
2027	479,136
2028	127,488
2029	(35,621)
2030	38,490
Thereafter	(1)

X. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLANS

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

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

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

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

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

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

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

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

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

Texas Insurance Code, Section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of salary. Section 1575.204 establishes a public-school contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the school. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act which is 0.75 percent of each active employee's pay for fiscal year 2024. The following table shows contributions to the TRS-Care plan by type of contributor as reported for the district by TRS for the TRS measurement year. The district and member contributions reported are included in the calculation of the district's proportionate share of the Net TRS-Care liability for the measurement period.

	Contribution Rates	
	<u>2024</u>	<u>2025</u>
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 90,872
Current fiscal year member contributions		\$ 58,950
2024 measurement year NECE on-behalf contributions		\$ 109,690

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

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

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

Rates of Mortality
Rates of Retirement
Rates of Termination

Rates of Disability
General Inflation
Wage Inflation

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

Table 9.F.1: Actuarial Methods and Assumptions	
Component	Result
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
Aging Factors	Based on the Society of Actuaries' 2013 Study "Health Care Costs - From Birth to Death".
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Salary Increases	2.95% to 8.95%, including inflation
Ad Hoc Post-Employment Benefit Changes	None

From 2024 TRS ACFR, Note 9, page 79.

The initial medical trend rate was 6.75 percent for non-Medicare retirees. For Medicare retirees, trend rates are higher in the first two years due to anticipated growth but thereafter match those of non-Medicare retirees. The initial prescription drug trend rate was 7.25 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 percent over a period of 11 years.

Discount Rate. A single discount rate of 3.87 percent was used to measure the total OPEB liability. This was a decrease of 0.26 percent in the discount rate from the previous year. Because the investments are held in cash and there is no intentional objective to advance funding the benefits, the Single Discount Rate is equal to the prevailing municipal bond rate. The source of the municipal bond rate is the Bond Buyers'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.

Sensitivity of the Net OPEB Liability:

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

	1% Decrease in Discount Rate (2.87%)	Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
Proportionate share of the net OPEB liability	\$ 3,475,229	\$ 2,925,162	\$ 2,480,699

Healthcare Cost Trend Rates Sensitivity Analysis - The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 2,382,110	\$ 2,925,162	\$ 3,632,813

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2025, Merkel Independent School District reported a liability of \$2,925,162 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with Merkel Independent School District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 2,925,162
State's proportionate share that is associated with the District	3,665,188
Total	<u>\$ 6,590,350</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, through August 31, 2024.

As of August 31, 2024, the employer's proportion of the collective net OPEB liability was 0.0096376089%. This is an increase (decrease) of 0.0000100646% from its proportion measured as of August 31, 2023.

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

- a) 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.
- b) The tables used to model the impact of aging on the underlying claims were revised.

Changes in Benefit Terms: There were no changes in benefit terms since the prior measurement date.

For the year ended August 31, 2025, Merkel Independent School District recognized OPEB expense of \$(756,536) and revenue of \$(476,407) for support provided by the State.

At August 31, 2025, Merkel Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 560,655	\$ 1,459,814
Changes in actuarial assumptions	374,386	954,447
Differences between projected and actual investment earnings	-	8,191
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	719,795	151,814
Contributions paid to TRS subsequent to the measurement date	90,872	
Total as of fiscal year-end	\$ 1,745,708	\$ 2,574,266

The net amounts of the employer's balances of deferred outflows and inflows (not including the deferred contribution paid subsequent to the measurement date) of resources related to OPEBs will be recognized by the district in OPEB expense as follows:

Fiscal year ended August 31,	OPEB Expense Amount
2026	\$ (354,904)
2027	(222,420)
2028	(271,461)
2029	(171,598)
2030	(88,442)
Thereafter	189,395

Y. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS - STATEMENT OF ACTIVITIES

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting. Following are the effect on the Statement of Activities resulting from negative on-behalf accruals:

Function		Operating Grants And Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (Excluding On-Behalf
11	Instruction	\$ 728,416	\$ (385,008)	\$ 1,113,424
12	Instructional Resources and Media Services	3,696	(7,314)	11,010
23	School Leadership	27,191	(53,797)	80,988
31	Guidance, Counseling, and Evaluation Services	6,796	(13,446)	20,242
33	Health Services	5,886	(11,645)	17,531
34	Student (Pupil) Transportation	5,595	(11,070)	16,665
35	Food Services	672,348	-	672,348
36	Extracurricular Activities	6,532	(12,924)	19,456
41	General Administration	11,726	(13,391)	25,117
51	Facilities Maintenance and Operations	465,635	(32,695)	498,330
52	Security and Monitoring Services	25,972	(3,409)	29,381
53	Data Processing Services	16,098	(26,774)	42,872
61	Community Services	6,051	(11,971)	18,022
Totals		\$ 1,981,942	\$ (583,444)	\$ 2,565,386

REQUIRED SUPPLEMENTARY INFORMATION

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 4,072,307	\$ 4,232,851	\$ 4,204,040	\$ (28,811)
5800	State Program Revenues	9,771,724	9,586,180	9,840,466	254,286
5900	Federal Program Revenues	75,000	100,000	62,736	(37,264)
5020	Total Revenues	13,919,031	13,919,031	14,107,242	188,211
EXPENDITURES:					
Current:					
0011	Instruction	7,128,267	7,428,267	7,443,298	(15,031)
0012	Instructional Resources and Media Services	187,102	169,102	164,075	5,027
0013	Curriculum and Instructional Staff Development	31,750	21,750	17,998	3,752
0023	School Leadership	1,116,831	1,131,831	1,132,152	(321)
0031	Guidance, Counseling, and Evaluation Services	265,653	267,653	266,988	665
0033	Health Services	246,726	250,726	249,269	1,457
0034	Student (Pupil) Transportation	556,752	406,752	387,985	18,767
0035	Food Services	-	-	2,662	(2,662)
0036	Extracurricular Activities	651,000	901,000	887,261	13,739
0041	General Administration	650,000	600,000	596,351	3,649
0051	Facilities Maintenance and Operations	1,347,000	1,397,000	1,404,643	(7,643)
0052	Security and Monitoring Services	115,200	60,200	66,078	(5,878)
0053	Data Processing Services	585,000	595,000	594,068	932
0061	Community Services	252,500	212,500	211,142	1,358
Debt Service:					
0071	Principal on Long-Term Liabilities	88,000	178,000	154,878	23,122
0072	Interest on Long-Term Liabilities	89,000	89,000	84,712	4,288
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	608,250	610,250	609,089	1,161
6030	Total Expenditures	13,919,031	14,319,031	14,272,649	46,382
1200	Net Change in Fund Balances	-	(400,000)	(165,407)	234,593
0100	Fund Balance - September 1 (Beginning)	6,523,786	6,523,786	6,523,786	-
3000	Fund Balance - August 31 (Ending)	\$ 6,523,786	\$ 6,123,786	\$ 6,358,379	\$ 234,593

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
District's Proportion of the Net Pension Liability (Asset)	0.005777703%	0.005330797%	0.005077239%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 3,528,850	\$ 3,661,743	\$ 3,014,226
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	5,926,896	7,071,707	6,317,085
Total	<u>\$ 9,455,746</u>	<u>\$ 10,733,450</u>	<u>\$ 9,331,311</u>
District's Covered Payroll	\$ 8,575,718	\$ 8,271,290	\$ 7,758,451
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered Payroll	41.15%	44.27%	38.85%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	77.51%	73.15%	45.62%

Note: GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2024 for year 2025, August 31, 2023 for year 2024, August 31, 2022 for year 2023, August 31, 2021 for year 2022, August 31, 2020 for year 2021, August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, and August 31, 2015 for year 2016.

<u>FY 2022</u> <u>Plan Year 2021</u>	<u>FY 2021</u> <u>Plan Year 2020</u>	<u>FY 2020</u> <u>Plan Year 2019</u>	<u>FY 2019</u> <u>Plan Year 2018</u>	<u>FY 2018</u> <u>Plan Year 2017</u>	<u>FY 2017</u> <u>Plan Year 2016</u>	<u>FY 2016</u> <u>Plan Year 2015</u>
0.004613677%	0.004427625%	0.00472658%	0.005243166%	0.005295238%	0.0059196%	0.0062873%
\$ 1,174,940	\$ 2,371,345	\$ 2,457,024	\$ 2,885,966	\$ 1,693,132	\$ 2,236,945	\$ 2,222,477
2,944,382	6,228,232	6,025,210	6,651,712	4,057,230	5,033,591	5,035,669
<u>\$ 4,119,322</u>	<u>\$ 8,599,577</u>	<u>\$ 8,482,234</u>	<u>\$ 9,537,678</u>	<u>\$ 5,750,362</u>	<u>\$ 7,270,536</u>	<u>\$ 7,258,146</u>
\$ 7,603,875	\$ 7,401,551	\$ 7,152,810	\$ 7,254,221	\$ 7,191,539	\$ 7,270,536	\$ 7,258,146
15.45%	32.04%	34.35%	39.78%	23.54%	30.22%	30.26%
88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2025

	2025	2024	2023
Contractually Required Contribution	\$ 360,928	\$ 319,690	\$ 274,016
Contribution in Relation to the Contractually Required Contribution	(360,928)	(319,690)	(274,016)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 9,150,123	\$ 8,575,718	\$ 8,271,290
Contributions as a Percentage of Covered Payroll	3.94%	3.73%	3.31%

Note: GASB Codification, Vol. 2, P20.183 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

2022	2021	2020	2019	2018	2017	2016
\$ 236,922	\$ 195,793	\$ 180,778	\$ 165,436	\$ 176,629	\$ 173,546	\$ 188,082
(236,922)	(195,793)	(180,778)	(165,436)	(176,629)	(173,546)	(188,082)
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 7,758,451	\$ 7,603,875	\$ 7,401,551	\$ 7,152,810	\$ 7,254,221	\$ 7,191,539	\$ 7,401,447
3.05%	2.57%	2.44%	2.31%	2.43%	2.41%	2.54%

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2025

	FY 2025 Plan Year 2024	FY 2024 Plan Year 2023	FY 2023 Plan Year 2022
District's Proportion of the Net Liability (Asset) for Other Postemployment Benefits	0.009637609%	0.008631145%	0.008503291%
District's Proportionate Share of Net OPEB Liability (Asset)	\$ 2,925,162	\$ 1,910,789	\$ 2,036,028
State's Proportionate Share of the Net OPEB Liability (Asset) Associated with the District	3,665,188	2,305,661	2,483,635
Total	<u>\$ 6,590,350</u>	<u>\$ 4,216,450</u>	<u>\$ 4,519,663</u>
District's Covered Payroll	\$ 8,575,718	\$ 8,271,290	\$ 7,758,451
District's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	34.11%	23.10%	26.24%
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	13.70%	14.94%	11.52%

Note: GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. For example, the amounts for FY 2025 are for the measurement date of August 31, 2024, etc.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

FY 2022 Plan Year 2021		FY 2021 Plan Year 2020		FY 2020 Plan Year 2019		FY 2019 Plan Year 2018		FY 2018 Plan Year 2017	
0.008417143%		0.008484483%		0.007916889%		0.008531477%		0.008410638%	
\$	3,246,868	\$	3,225,335	\$	3,743,993	\$	4,259,845	\$	3,657,471
4,350,080		4,334,077		4,974,931		6,253,386		5,635,560	
\$	7,596,948	\$	7,559,412	\$	8,718,924	\$	10,513,231	\$	9,293,031
\$	7,603,875	\$	7,401,551	\$	7,152,810	\$	7,254,221	\$	7,191,539
42.70%		43.58%		52.34%		58.72%		50.86%	
6.18%		4.99%		2.66%		1.57%		0.91%	

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT'S CONTRIBUTIONS FOR OTHER POSTEMPLOYMENT BENEFITS (OPEB)
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2025

	2025	2024	2023
Contractually Required Contribution	\$ 90,872	\$ 86,179	\$ 74,873
Contribution in Relation to the Contractually Required Contribution	(90,872)	(86,179)	(74,873)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -
District's Covered Payroll	\$ 9,150,123	\$ 8,575,718	\$ 8,271,290
Contributions as a Percentage of Covered Payroll	0.99%	1.00%	0.91%

Note: GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

Information in this schedule should be provided only for the years where data is available. Eventually 10 years of data should be presented.

2022	2021	2020	2019	2018	
\$ 69,841	\$ 65,186	\$ 64,230	\$ 56,188	\$ 58,855	
(69,841)	(65,186)	(64,230)	(56,188)	(58,855)	
\$ -	\$ -	\$ -	\$ -	\$ -	
\$ 7,758,451	\$ 7,603,875	\$ 7,401,551	\$ 7,152,810	\$ 7,254,221	
0.90%	0.86%	0.87%	0.79%	0.81%	

**MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
YEAR ENDED AUGUST 31, 2025**

A. Notes to Schedules for the TRS Pension

Changes of Benefit Terms:

The Texas 2023 Legislature passed Senate Bill 10 (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1,645 billion for one-time stipends and \$3,355 billion for COLAs. This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

Changes of Assumptions:

- There were no changes in assumptions.

B. Notes to Schedules for the TRS OPEB Plan

Benefits, Actuarial Methods, and Assumptions:

Changes of Benefits:

- There were no changes of benefits terms since the prior measurement date

Changes of Assumptions:

- The single discount rate changed from 4.13 percent as of August 31, 2023 to 3.87 percent as of August 31, 2024. Revised demographic and economic assumptions were made based on the TRS experience study. This change decreased the total OPEB liability.

C. Stewardship, Compliance and Accountability

Budget

The Board of Trustees (local school board) is legally required to adopt an annual budget (on a 12-month basis) for the general fund, the food service fund, and the debt service fund. The budgets must be prepared by August 20 and adopted by the local school board before expenditures are made and, if applicable, before the tax rate for the year is adopted. The required supplementary information is reported as follows:

Exhibit G-1	Budgetary Comparison Schedule – General Fund
Exhibit J-2	Budgetary Comparison Schedule – Child Nutrition Fund
Exhibit J-3	Budgetary Comparison Schedule – Debt Service Fund

Once a budget is approved, it can be amended at the fund and function level only by a majority vote of the members of the Board of Trustees.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under State of Texas law, appropriations lapse at year end August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget.

It is a violation of Texas State Law for expenditures to exceed the budget in any function of the general fund, the food service fund, or the debt service fund.

**MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (RSI)
YEAR ENDED AUGUST 31, 2025**

Expenditures Exceeding Appropriation

The following is disclosed related to expenditures and budget appropriations:

- The current year expenditures did not exceed appropriations in material amounts for any function of the general fund as detailed in Exhibit G-1 "Budgetary Comparison Schedule -General Fund". Immaterial excesses are reported in functions for instruction, school leadership, food services, facilities maintenance and operations, and security and monitoring services.
- The current year expenditures did exceed appropriations in function 35 in the child nutrition fund as by a material amount as detailed in Exhibit J-2 "Budgetary Comparison Schedule -Child Nutrition Fund".
- The current year expenditures did not exceed appropriations in any functions in the debt service fund as detailed in Exhibit J-3 "Budgetary Comparison Schedule -Debt Service Fund".

**SUPPLEMENTARY INFORMATION –
COMBINING SCHEDULES**

MERKEL INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2025

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ 21,486	\$ -
1220 Property Taxes - Delinquent	-	-	-	-
1230 Allowance for Uncollectible Taxes	-	-	-	-
1240 Due from Other Governments	42,247	64,436	60,255	-
1290 Other Receivables	-	-	-	-
1000 Total Assets	<u>\$ 42,247</u>	<u>\$ 64,436</u>	<u>\$ 81,741</u>	<u>\$ -</u>
LIABILITIES				
2110 Accounts Payable	\$ 4,394	\$ 426	\$ 13,718	\$ -
2160 Accrued Wages Payable	11,674	29,326	27,009	-
2170 Due to Other Funds	24,829	31,257	-	-
2200 Accrued Expenditures	1,350	3,427	2,887	-
2000 Total Liabilities	<u>42,247</u>	<u>64,436</u>	<u>43,614</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	-	-	-	-
2600 Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	38,127	-
3480 Retirement of Long-Term Debt	-	-	-	-
Committed Fund Balance:				
3510 Construction	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>38,127</u>	<u>-</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 42,247</u>	<u>\$ 64,436</u>	<u>\$ 81,741</u>	<u>\$ -</u>

289 Other Federal Special Revenue Funds	397 Advanced Placement Incentives	410 State Instructional Materials	429 Other State Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	699 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 2,089	\$ -	\$ -	\$ 23,575	\$ 724,776	\$ 2,548	\$ 750,899
-	-	-	-	-	53,205	-	53,205
-	-	-	-	-	(13,301)	-	(13,301)
17,740	-	16,372	53,526	254,576	-	-	254,576
-	-	-	-	-	1,090	-	1,090
<u>\$ 17,740</u>	<u>\$ 2,089</u>	<u>\$ 16,372</u>	<u>\$ 53,526</u>	<u>\$ 278,151</u>	<u>\$ 765,770</u>	<u>\$ 2,548</u>	<u>\$ 1,046,469</u>
\$ -	\$ -	\$ -	\$ 267	\$ 18,805	\$ -	\$ -	\$ 18,805
-	-	-	-	68,009	-	-	68,009
17,740	-	6,179	53,259	133,264	-	-	133,264
-	-	-	-	7,664	-	-	7,664
<u>17,740</u>	<u>-</u>	<u>6,179</u>	<u>53,526</u>	<u>227,742</u>	<u>-</u>	<u>-</u>	<u>227,742</u>
-	-	-	-	-	39,904	-	39,904
-	-	-	-	-	39,904	-	39,904
-	2,089	10,193	-	50,409	-	-	50,409
-	-	-	-	-	725,866	-	725,866
-	-	-	-	-	-	2,548	2,548
<u>-</u>	<u>2,089</u>	<u>10,193</u>	<u>-</u>	<u>50,409</u>	<u>725,866</u>	<u>2,548</u>	<u>778,823</u>
<u>\$ 17,740</u>	<u>\$ 2,089</u>	<u>\$ 16,372</u>	<u>\$ 53,526</u>	<u>\$ 278,151</u>	<u>\$ 765,770</u>	<u>\$ 2,548</u>	<u>\$ 1,046,469</u>

MERKEL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 34,279	\$ -
5800 State Program Revenues	-	-	2,573	-
5900 Federal Program Revenues	115,865	306,992	669,775	31,301
5020 Total Revenues	115,865	306,992	706,627	31,301
EXPENDITURES:				
Current:				
0011 Instruction	115,865	306,992	-	26,343
0035 Food Services	-	-	849,893	-
0041 General Administration	-	-	-	4,958
0051 Facilities Maintenance and Operations	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
0053 Data Processing Services	-	-	-	-
Debt Service:				
0071 Principal on Long-Term Liabilities	-	-	-	-
0072 Interest on Long-Term Liabilities	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
6030 Total Expenditures	115,865	306,992	849,893	31,301
1200 Net Change in Fund Balance	-	-	(143,266)	-
0100 Fund Balance - September 1 (Beginning)	-	-	181,393	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 38,127	\$ -

289 Other Federal Special Revenue Funds	397 Advanced Placement Incentives	410 State Instructional Materials	429 Other State Special Revenue Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	699 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 34,279	\$ 1,066,960	\$ 181	\$ 1,101,420
-	-	21,326	522,109	546,008	137,906	-	683,914
17,109	-	-	-	1,141,042	-	-	1,141,042
17,109	-	21,326	522,109	1,721,329	1,204,866	181	2,926,376
14,543	-	11,133	48,750	523,626	-	-	523,626
-	-	-	-	849,893	-	-	849,893
-	-	-	-	4,958	-	-	4,958
-	-	-	449,109	449,109	-	-	449,109
-	-	-	24,250	24,250	-	-	24,250
2,566	-	-	-	2,566	-	-	2,566
-	-	-	-	-	665,000	-	665,000
-	-	-	-	-	259,694	-	259,694
-	-	-	-	-	1,000	-	1,000
17,109	-	11,133	522,109	1,854,402	925,694	-	2,780,096
-	-	10,193	-	(133,073)	279,172	181	146,280
-	2,089	-	-	183,482	446,694	2,367	632,543
\$ -	\$ 2,089	\$ 10,193	\$ -	\$ 50,409	\$ 725,866	\$ 2,548	\$ 778,823

OTHER INFORMATION
REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2025

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2016 and prior years	Various	Various	\$ Various
2017	1.040000	0.24250	390,977,224
2018	1.040000	0.24250	400,561,278
2019	1.040000	0.22750	443,930,072
2020	0.970000	0.21550	449,293,244
2021	0.966400	0.21240	451,872,418
2022	0.958700	0.20290	464,302,562
2023	0.884300	0.18280	524,451,156
2024	0.689600	0.18280	540,207,384
2025 (School year under audit)	0.666900	0.18280	576,105,532
1000 TOTALS			
8000 Total Taxes Refunded Under Section 26.1115, Tax Code			

(10) Beginning Balance 9/1/2024	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2025	(99) Taxes Refunded Under Section 26.1115c
\$ 41,163	\$	\$ 548	\$ 77	\$ 66	\$ 40,604	
6,293		192	45	81	6,137	
8,767		262	61	81	8,525	
11,319		357	78	48	10,932	
10,888		943	209	227	9,963	
6,010		1,894	416	(26)	3,674	
16,635		9,800	2,074	7,916	12,677	
28,917		8,646	1,787	(3,615)	14,869	
99,183		31,765	8,420	(24,714)	34,284	
	4,895,169	3,729,234	1,022,199	-	143,736	
<u>\$ 229,175</u>	<u>\$ 4,895,169</u>	<u>\$ 3,783,641</u>	<u>\$ 1,035,366</u>	<u>\$ (19,936)</u>	<u>\$ 285,401</u>	

\$ _____

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 75,000	\$ 75,000	\$ 34,279	\$ (40,721)
5800 State Program Revenues	3,000	3,000	2,573	(427)
5900 Federal Program Revenues	620,000	730,000	669,775	(60,225)
5020 Total Revenues	698,000	808,000	706,627	(101,373)
EXPENDITURES:				
Current:				
0035 Food Services	698,000	808,000	849,893	(41,893)
6030 Total Expenditures	698,000	808,000	849,893	(41,893)
1200 Net Change in Fund Balances	-	-	(143,266)	(143,266)
0100 Fund Balance - September 1 (Beginning)	181,393	181,393	181,393	-
3000 Fund Balance - August 31 (Ending)	\$ 181,393	\$ 181,393	\$ 38,127	\$ (143,266)

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 946,000	\$ 946,000	\$ 1,066,960	\$ 120,960
5800 State Program Revenues	-	-	137,906	137,906
5020 Total Revenues	946,000	946,000	1,204,866	258,866
EXPENDITURES:				
Debt Service:				
0071 Principal on Long-Term Liabilities	600,000	665,000	665,000	-
0072 Interest on Long-Term Liabilities	345,000	280,000	259,694	20,306
0073 Bond Issuance Cost and Fees	1,000	1,000	1,000	-
6030 Total Expenditures	946,000	946,000	925,694	20,306
1200 Net Change in Fund Balances	-	-	279,172	279,172
0100 Fund Balance - September 1 (Beginning)	446,694	446,694	446,694	-
3000 Fund Balance - August 31 (Ending)	\$ 446,694	\$ 446,694	\$ 725,866	\$ 279,172

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

Section A: Compensatory Education Programs

AP1	Did your district expend any state compensatory education program state allotment funds during the district's fiscal year?	Yes
AP2	Does the district have written policies and procedures for its state compensatory education program?	Yes
AP3	Total state allotment funds received for state compensatory education programs during the district's fiscal year.	\$ 758,695
AP4	Actual direct program expenditures for state compensatory education programs during the district's fiscal year. (PICs 24,26,28,29,30)	\$ 482,982

Section B: Bilingual Education Programs

AP5	Did your district expend any bilingual education program state allotment funds during the district's fiscal year?	Yes
AP6	Does the district have written policies and procedures for its bilingual education program?	Yes
AP7	Total state allotment funds received for bilingual education programs during the district's fiscal year.	\$ 16,047
AP8	Actual direct program expenditures for bilingual education programs during the district's fiscal year. (PIC 25)	\$ 11,269

**REPORTS ON COMPLIANCE, INTERNAL CONTROLS, and
FEDERAL AWARDS**

James E. Rodgers and Company, P.C.

Certified Public Accountants

20 Southwest Third Street • PO Box 669 • Hamlin, Texas 79520 • Tel: 325-576-2356 • Fax: 325-576-3525

E-mail: rodgerscpa@att.net

Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

December 15, 2025

Independent Auditor's Report on Internal Control Over Financial Reporting and On Compliance and Other Matters Based on An Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Trustees
Merkel Independent School District
Merkel, Texas 79536

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Merkel Independent School District, as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise Merkel Independent School District's basic financial statements, and have issued our report thereon dated December 15, 2025.

Report On Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Merkel Independent School District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Merkel Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Merkel Independent School District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

James E. Rodgers and Company, P.C.

Report On Compliance and Other Matters

As part of obtaining reasonable assurance about whether Merkel Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as finding 2025-001.

Merkel Independent School District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Merkel Independent School District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

Respectfully submitted,



James E. Rodgers and Company, P.C.

James E. Rodgers and Company, P.C.

Certified Public Accountants

20 Southwest Third Street • PO Box 669 • Hamlin, Texas 79520 • Tel: 325-576-2356 • Fax: 325-576-3525

E-mail: rodgerscpa@att.net

Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

December 15, 2025

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

To the Board of Trustees
Merkel Independent School District
Merkel, Texas 79536

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

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

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

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

James E. Rodgers and Company, P.C.

Auditor's Responsibilities for the Audit of Compliance

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

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

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

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

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

James E. Rodgers and Company, P.C.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



James E. Rodgers and Company, P.C.

James E. Rodgers and Company, P.C.

Certified Public Accountants

20 Southwest Third Street • PO Box 669 • Hamlin, Texas 79520 • Tel: 325-576-2356 • Fax: 325-576-3525

E-mail: rodgerscpa@att.net

Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

MERKEL INDEPENDENT SCHOOL DISTRICT SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED AUGUST 31, 2025

I. Summary of the Auditor's Results:

1.	The type of auditor's report opinion on whether the financial statements of the District were prepared in accordance with GAAP (generally accepted accounting standards):	Unmodified	
2.	Internal control over financial reporting during the audit of the financial statements:		
(a)	Significant deficiencies in internal control identified that are not considered to be material weaknesses.		No
(b)	Material weaknesses identified.		No
3.	Noncompliance, which is material to the financial statements.		Yes
4.	Internal Control over major federal programs:		
(a)	Significant deficiencies in internal control identified that are not considered to be material weaknesses.		No
(b)	Material weaknesses identified.		No
5.	Type of auditor's report opinion on compliance with major programs.	Unmodified	
6.	Audit findings that are required to report under Uniform Guidance 2 CFR Section 200.516(a).		No
7.	Identification of major programs: Child Nutrition Cluster <ul style="list-style-type: none">National School Lunch Program (Assistance Listing #10.555)School Breakfast Program (Assistance Listing #10.553)		
8.	Dollar threshold used to distinguish between Type A and Type B programs.	\$750,000	
9.	District qualified as a low-risk auditee.	Yes	

II. Findings Relating to the Financial Statements Which Are Required to Be Reported in Accordance with Generally Accepted Government Auditing Standards (GAGAS)

Finding 2025-001: Expenditures exceeded appropriations in the Child Nutrition Program

a.	Condition:	Expenditures exceeded appropriations in a material amount in the Child Nutrition Fund for fiscal year 2025.
b.	Criteria:	The Texas Education code provides that a) public funds of the school district may not be spent in any manner other than as provided for in the budget adopted by the board of trustees, but the board may amend a budget or adopt a supplementary emergency budget to cover necessary unforeseen expenses; b) any amendment or supplementary budget must be prepared and filed according to rules adopted by the State Board of Education. Material excesses of expenditures over budgeted amounts (appropriations) are consider a violation of law.
c.	Cause:	The District failed to record non-cash food commodities received during the year. Inclusion of those amounts resulted in expenditures in excess of appropriations.
d.	Effect:	Final expenditures exceeded appropriations by a material amount as presented in the Statement of Revenues and Expenditures – Budget and Actual – Child Nutrition Fund (Exhibit J-2 – Page 82)
e.	Recommendation:	The District should record non-cash commodities expenditures in conjunction with regular monitoring of actual expenditures when compared with authorized appropriations. Amendments to the Child Nutrition Program budget should be made as needed during the year.
f.	District Response:	The District will regularly compare and update projected expenditures for the year as compared to budgeted amounts. Any expected excesses will be provided for with timely budget amendments for the legally required budgeted funds (General Fund, Child Nutrition Fund, Debt Service Fund).

III. Findings and Questioned Costs Related to the Federal Awards

Finding 2025-002: No Federal Awards Findings Identified.

a.	Condition:	N/A
b.	Criteria:	N/A
c.	Cause:	N/A
d.	Effect:	N/A
e.	Recommendation:	N/A
f.	District Response:	N/A

MERKEL INDEPENDENT SCHOOL DISTRICT

PO Box 430 Merkel, Texas 79536 Telephone (325) 928-5813 Fax (325) 928-3910



Kelly West, Superintendent

Schedule of Status of Prior Year Findings

The District's prior year findings were as follows:

Finding 2024-001: No findings identified in fiscal year 2024.

a.	Condition:	n/a
b.	Criteria:	n/a
c.	Cause:	n/a
d.	Effect:	n/a

Current Year Status of Prior Year Finding:

Not applicable.

MERKEL INDEPENDENT SCHOOL DISTRICT

PO Box 430 Merkel, Texas 79536 Telephone (325) 928-5813 Fax (325) 928-3910



Kelly West, Superintendent

Corrective Action Plan Year Ended August 31, 2025

The name of the contact person responsible for corrective action:

Lane Petty, Business Manager

District Phone Number: 325-928-5813

The corrective action for Finding 2025-001:

The District will regularly compare and update projected expenditures in the Child Nutrition Fund for the year as compared to budgeted amounts. Any expected excesses will be provided for with timely budget amendments prior to the expenditure of funds that legally required budgeted fund.

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2025

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal Assistance Listing No.	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through Texas Education Agency</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	25610101221904	\$ 306,992
ESEA, Title II, Part A, Teacher Principal Training	84.367A	25694501221950	31,301
Other Federally Funded Special Revenue Funds	84.424A	24680101221950	17,109
Total Passed Through Texas Education Agency			355,402
TOTAL U.S. DEPARTMENT OF EDUCATION			355,402
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Region 14 Education Srvc Center</u>			
*Head Start	93.600	06CH011543-03	87,890
*Head Start	93.600	06CH013127-01	27,975
Total Assistance Listing Number 93.600			115,865
			115,865
Total Passed Through Region 14 Education Srvc Center			115,865
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			115,865
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the Texas Department of Agriculture</u>			
*School Breakfast Program	10.553	71402501	204,747
*National School Lunch Program - Cash Assistance	10.555	71302501	421,410
*National School Lunch Prog. - Non-Cash Assistance	10.555	71302501	43,618
Total Assistance Listing Number 10.555			465,028
Total Child Nutrition Cluster			669,775
Total Passed Through the Texas Department of Agriculture			669,775
TOTAL U.S. DEPARTMENT OF AGRICULTURE			669,775
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,141,042
*Clustered Programs			

**MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2025**

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "SEFA") includes the federal award activity of the Merkel Independent School District (the "District") under programs of the federal government for the year ended August 31, 2025. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, change in net position, or cash flows of the District.

ACCOUNTING POLICIES

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.
3. The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.
4. Federal grant funds are recorded as earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.
5. The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in the Uniform Guidance.

6. Indirect Costs

The District did not elect to use a de minimis cost rate of 10% as described at 2CFR §200.414(f) – Indirect (F&A) Costs.

**MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2025**

7. Reconciliation of Federal Awards

The following is a reconciliation of expenditures of federal awards in the SEFA and federal program Revenues in the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental funds.

Reconciliation of Federal Revenue Reported (C-3) to Schedule of Expenditures of Federal Awards (SEFA):	
Total Federal Revenue reported per Exhibit C-3	\$ 1,203,778
Reconciling Items:	
Less School Health and Related Services (SHARS) reimbursements	(62,736)
Total Federal Expenditures per SEFA (Exhibit K-1)	\$ 1,141,042

8. Amounts Passed Through to Subrecipients

No amounts of federal awards were passed through to subrecipients.

SCHOOLS FIRST QUESTIONNAIRE

Merkel Independent School District

Fiscal Year 2025

SF1	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF3	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? (If payments were not made or warrant hold not cleared within 30 days of when due, then payments are NOT timely.)	Yes
SF4	Was the school district issued a warrant hold? (Even if the issue surrounding the initial warrant hold was resolved and cleared within 30 days, answer is still YES.)	No
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds and/or substantial doubt about the district's ability to continue as a going concern?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district post the required financial information on its website in accordance with Government Code, Local Government Code, Texas Education Code, Texas Administrative Code and other statutes, laws and rules that were in effect at the school district's fiscal year end?	Yes
SF8	Did the school district's administration and school board members discuss any changes and/or impact to local, state, and federal funding at a board meeting within 120 days before the school district adopted its budget?	Yes
SF9	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year end.	\$ 0

APPENDIX C

FORMS OF CO-BOND COUNSEL'S OPINION

AND

TAX COUNSEL'S OPINION



WALSH GALLEGOS
KYLE ROBINSON & DE LOS SANTOS P.C.

DRAFT

IN REGARD to the authorization and issuance of the “Merkel Independent School District Unlimited Tax School Building Bonds, Series 2026” (the *Bonds*), dated March 15, 2026, in the aggregate principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Merkel Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of August 15 in the years 20__ through 20__, and a Stated Maturity of February 15 in the year 20__, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

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

Legal Opinion of Walsh Gallegos Kyle Robinson & De los Santos, P.C., San Antonio, Texas, in connection with the authorization and issuance of MERKEL INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

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

Walsh Gallegos Kyle Robinson & De Los Santos, P.C.



DRAFT

IN REGARD to the authorization and issuance of the “Merkel Independent School District Unlimited Tax School Building Bonds, Series 2026” (the *Bonds*), dated March 15, 2026, in the aggregate principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the Board of Trustees of the Merkel Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of August 15 in the years 20__ through 20__, and a Stated Maturity of February 15 in the year 20__, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability

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

thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the Code), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals; however, such interest is taken into account in determining the "adjusted financial statement income" (as defined in section 56A of the Code) of "applicable corporations" (as defined in section 59(k) of the Code) for the purpose of computing the alternative minimum tax imposed on corporations for tax years beginning after December 31, 2022.

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

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

Cantu Harden Montoya LLP

APPENDIX 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 Boards's roles and responsibilities in managing and administering the Fund, see the IPS and Board meeting materials (available on the PSF Corporation's website).

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

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

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

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

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

The Total Return Constitutional Amendment

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

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

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

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

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

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

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

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

PSF Corporation Strategic Asset Allocation

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

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

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

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

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

Comparative Investment Schedule – PSF(CORP)

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

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

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

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2024

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

Changes in SBOE-determined multiplier for State Capacity Limit

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

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

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

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

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

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

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

Charter District Risk Factors

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

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

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

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

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

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

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

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

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

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

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

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

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

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

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

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

PSF Returns Fiscal Year Ended 8-31-2024¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(CORP) Portfolio	10.12	9.28
Domestic Large Cap Equities	27.30	27.14
Domestic Small/Mid Cap Equities	18.35	18.37
International Equities	18.82	18.08
Private Credit	1.41	0.93
Core Bonds	7.08	7.30
Absolute Return	11.50	8.87
Real Estate	(6.42)	(7.22)
Private Equity	4.62	4.23
High Yield	12.03	12.53
Natural Resources	12.36	6.42
Infrastructure	4.41	3.63
Bank Loans	3.02	3.23
Short Term Investment Portfolio	2.42	2.28

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

² Benchmarks are as set forth in the Annual Report for year ended August 31, 2024.

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

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

Other Events and Disclosures

State ethics laws govern the ethics and disclosure requirements for financial advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the

TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

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

PSF Continuing Disclosure Undertaking

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

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

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

Annual Reports

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

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

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

The PSF Corporation reports as a special-purpose government engaged in business-type activities and reports to the State of Texas as a discretely presented component unit accounted for on an economic resources measurement focus and the accrual basis of accounting. Measurement focus refers to the definition of the resource flows measured. Under the accrual basis of accounting, all revenues reported are recognized in the period they are earned or when the PSF Corporation has a right to receive them. Expenses are recognized in the period they are incurred, and the subsequent amortization of any deferred outflows. Additionally, costs related to capital assets are capitalized and subsequently depreciated over the useful life of the assets. Both current and long-term assets and liabilities are presented in the statement of net position.

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

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

Event Notices

The TEA and the PSF Corporation will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA or the PSF Corporation will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other

material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption, or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

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

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

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

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

Compliance with Prior Undertakings

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

SEC Exemptive Relief

On February 9, 1996, the TEA received a letter from the Chief Counsel of the SEC that pertains to the availability of the "small issuer exemption" set forth in paragraph (d)(2) of Rule 15c2-12. The letter provides that Texas school districts which offer municipal securities that are guaranteed under the Guarantee Program may undertake to comply with the provisions of paragraph (d)(2) of Rule 15c2-12 if their offerings otherwise qualify for such exemption, notwithstanding the guarantee of the school district securities under the Guarantee Program. Among other requirements

established by Rule 15c2-12, a school district offering may qualify for the small issuer exemption if, upon issuance of the proposed series of securities, the school district will have no more than \$10 million of outstanding municipal securities.

