

PRELIMINARY OFFICIAL STATEMENT

Dated July 21, 2026

Ratings:

Moody's: "Aaa"/"Aa1"

S&P: "AAA"/"AA+"

PSF Guaranteed

(See "OTHER INFORMATION – Ratings" & "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$63,790,000*
MCKINNEY INDEPENDENT SCHOOL DISTRICT
(Collin County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2026

Dated: August 1, 2026

Interest Accrues from Delivery Date

Due: February 15, as shown on page 2

PAYMENT TERMS . . . Interest on the \$63,790,000* McKinney Independent School District Unlimited Tax Refunding Bonds, Series 2026 (the "Bonds") will accrue from the Delivery Date (defined below) and will be payable semi-annually on February 15 and August 15 of each year, commencing on February 15, 2027, until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as fully registered obligations in the denomination of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in authorized denominations thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (identified below) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapters 1207 and 1371, Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on May 18, 2026 (the "Bond Order"), in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). The Bonds are direct obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District (see "THE BONDS - Authority for Issuance"). **An application has been filed and the District has received conditional approval for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas (see "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) refunding certain outstanding bonds of the District (the "Refunded Bonds", see "SCHEDULE I – SCHEDULE OF REFUNDED BONDS") for debt service savings, and (ii) payment of the costs associated with the issuance of the Bonds.

MATURITY SCHEDULE

See page 2

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriter listed below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel (see Appendix D, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriter by its counsel McCall Parkhurst & Horton, L.L.P., Dallas, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on August 25, 2026 (the "Delivery Date").

JEFFERIES

* Preliminary, subject to change.

MATURITY SCHEDULE***CUSIP Prefix: 581664⁽¹⁾**

<u>Amount</u>	<u>Maturity (2-15)</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 47,680,000	2027			
2,345,000	2028			
2,465,000	2029			
2,605,000	2030			
2,750,000	2031			
2,900,000	2032			
3,045,000	2033			

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor nor the Underwriter take any responsibility for the selection or correctness of the CUSIP numbers set forth herein.

NO REDEMPTION . . . The Bonds are not subject to redemption prior to maturity.

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission, as amended ("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.

This document, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a "final official statement" of the District with respect to the Bonds, as such term is defined in the Rule.

No dealer, broker, salesman or other person has been authorized by the District 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 does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Financial Advisor. Any information and expressions of opinion herein contained 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 affairs of the District or other matters described herein since the date hereof. See "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

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

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

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

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

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER 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 OR THE AFFAIRS OF THE TEA DESCRIBED IN "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC AND TEA, RESPECTIVELY.

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 OFFERING DOCUMENT.

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

PRELIMINARY 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 the entire Official Statement.

THE DISTRICT	The District is a political subdivision located in Collin County, Texas. The District is approximately 102 square miles in area (see "INTRODUCTION - Description of the District").
THE BONDS	The \$63,790,000* Unlimited Tax Refunding Bonds, Series 2026 shall mature on the dates and in the amounts indicated on page 2 of this Official Statement (see "THE BONDS - Description of the Bonds").
PAYMENT OF INTEREST	Interest on the Bonds accrues from the Delivery Date and is due semi-annually on February 15 and August 15 of each year commencing on February 15, 2027 until maturity (see "THE BONDS - Description of the Bonds" and "THE BONDS – No Redemption").
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapters 1207 and 1371, Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on May 18, 2026 (the "Bond Order"), in which the Board delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order") (see "THE BONDS - Authority for Issuance").
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District (see "THE BONDS - Security and Source of Payment").
PERMANENT SCHOOL FUND	
GUARANTEE	The District has applied for and has received conditional approval from the Texas Education Agency for the payment of the Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
NO REDEMPTION	The Bonds are not subject to redemption prior to maturity.
TAX EXEMPTION	In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS - Tax Exemption" herein.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for the purposes of (i) refunding certain outstanding bonds of the District (the "Refunded Bonds", see "SCHEDULE I – SCHEDULE OF REFUNDED BONDS") for debt service savings, and (ii) payment of the costs associated with the issuance of the Bonds.
RATINGS	The Bonds are expected to be rated "Aaa" and "AAA" by Moody's Investors Service, Inc. ("Moody's") and S&P Global Ratings, a division of S&P Global Inc. ("S&P"), respectively, by virtue of the guarantee of the Bonds by the Texas Permanent School Fund, as Moody's and S&P generally rate all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa" and "AAA", respectively. See "APPENDIX C –THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM." The District has also made application to Moody's and S&P for a rating on the Bonds without regard to credit enhancement and the Bonds have been assigned underlying ratings of "Aa1" and "AA+" by Moody's and S&P respectively (see "OTHER INFORMATION - Ratings" herein).
BOOK-ENTRY-ONLY SYSTEM	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").
PAYMENT RECORD	The District has never defaulted in the payment of its tax supported debt.

* Preliminary, subject to change.

SELECTED FINANCIAL INFORMATION

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- (1) Source: District Staff
- (2) As reported by the Collin Central Appraisal District on the District's annual State Property Tax Report and is subject to changes during ensuing year.
- (3) Projected, includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.
- (4) Collections through June 1, 2026.

For additional information regarding the District, please contact:

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Marlene Harbeson - Chief Financial Officer
McKinney Independent School District
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McKinney, Texas 75069
(469) 302-4131

Nick Bulaich
Steven Murray
Hilltop Securities Inc.
777 Main Street, Suite 1525
or Fort Worth, Texas 76102
(817) 332-9710

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Amy Dankel President Trustee Member, Place 4	16 Years	May, 2027	Retired Educator
Harvey Oaxaca Vice President Trustee Member, Place 7 (at-large)	5 Years	May, 2029	Retired Educator
Lynn Sperry Secretary Trustee Member, Place 5	44 Years	May, 2027	Magazine Publisher
Larry Jagours Trustee Member, Place 1	5 Years	May, 2029	Retired Pastor
Kenneth Ussery Trustee Member, Place 2	1 Year	May, 2029	Realtor
Corey Homer Trustee Member, Place 3	1 Year	May, 2029	Realtor
Stephanie O'Dell Trustee Member, Place 6 (at-large)	13 Years	May, 2027	Homemaker

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Shawn Pratt	Superintendent MISD Administrator	3 Years 31 Years
Dennis Womack	Assistant Superintendent of Business Operations	30 Years
Marlene Harbeson	Chief Financial Officer	22 Years

CONSULTANTS AND ADVISORS

AuditorsEide Bailly LLP
Abilene, Texas

Bond CounselNorton Rose Fulbright US LLP
Dallas, Texas

Financial Advisor.....Hilltop Securities Inc.
Fort Worth, Texas

**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$63,790,000*
McKINNEY INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX REFUNDING BONDS, SERIES 2026**

INTRODUCTION

This Official Statement, which includes Schedule I and the Appendices hereto, provides certain information regarding the issuance of \$63,790,000* McKinney Independent School District Unlimited Tax Refunding Bonds, Series 2026 (the "Bonds"). In the bond order authorizing the issuance of the Bonds (the "Bond Order"), the Board of Trustees (the "Board") delegated pricing of the Bonds and certain other matters to a "Pricing Officer" who will approve a "Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Bonds (the Bond Order and the Pricing Certificate are jointly referred to as the "Order"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Order, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the McKinney Independent School District (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 from the District's Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), Fort Worth, Texas.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision located in Collin County, Texas. The District is governed by a seven-member Board, the members of which serve staggered four-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 102 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) refunding certain outstanding bonds of the District (the "Refunded Bonds", see "SCHEDULE I – SCHEDULE OF REFUNDED BONDS") for debt service savings, and (ii) payment of the costs associated with the issuance of the Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the scheduled redemption date of such Refunded Bonds, from funds to be deposited pursuant to an escrow agreement (the "Escrow Agreement") between the District and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Order provides that from a portion of proceeds of the sale of the Bonds received from the Underwriter of the Bonds, together with other funds of the District, if any, the District will deposit with the Escrow Agent the amount that, when invested, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on the redemption date set forth in "Schedule I - Schedule of Refunded Bonds". Such funds will be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will be used to purchase certain direct noncallable obligations of the United States of America (the "Escrowed Securities"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal and interest on the Refunded Bonds and amounts therein will not be available to pay the Bonds.

Frost CPA LLC, in conjunction with Public Finance Partners LLC (together, the "Verification Agent"), will verify at the time of delivery of the Bonds to the Underwriter of the Bonds, the mathematical accuracy of the schedules that demonstrate that the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds in the Escrow Fund, will be sufficient to pay, when due, the amount necessary to accomplish the discharge and final payment of principal of and interest on the Refunded Bonds on their redemption date (see "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations").

By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the legal defeasance of the Refunded Bonds, pursuant to Chapter 1207 and the proceedings authorizing the issuance of the Refunded Bonds. It is the opinion of Bond Counsel that, as a result of such defeasance, and in reliance upon the report of the Verification Agent, the Refunded Bonds will no longer be payable from ad valorem taxes or other sources of security, if any, but will be payable solely from the principal of and interest on the Escrowed Securities and cash, if any, on deposit in the Escrow Fund and held for such purpose by the Escrow Agent, and that the Refunded Bonds will be defeased and are not to be included in or considered to be indebtedness of the District for the purpose of a limitation of indebtedness or for any other purpose. See "APPENDIX D - Form of Bond Counsel's Opinion" herein.

* Preliminary, subject to change.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied approximately as follows:

Sources of Funds

Par Amount of Bonds	\$	-
Initial Reoffering Premium		-
Total Sources of Funds	\$	-

Uses of Funds

Deposit to Escrow Account	\$	-
Costs of Issuance ⁽¹⁾		-
Total Uses of Funds	\$	-

⁽¹⁾ Includes Underwriter's Discount.

[REMAINDER OF THIS PAGE LEFT BLANK INTENTIONALLY]

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be dated August 1, 2026 and will mature on February 15 in each of the years and in the amounts shown on page 2 of this Official Statement. Interest will accrue on the Bonds from the date of delivery (the "Delivery Date") to the underwriter listed on the cover page hereof (the "Underwriter") and will be computed on the basis of a 360-day year of twelve 30-day months. Such interest will be payable on February 15, 2027 and semiannually thereafter on August 15 and February 15 of each year, commencing on February 15, 2027, until maturity. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. **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 initial paying agent/registrar, The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania (the "Paying Agent/Registrar") to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued and the tax levied for their payment pursuant to authority conferred by the Constitution and the laws of the State of Texas, including particularly Chapters 1207 and 1371, Texas Government Code, as amended, and the Order.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on the Bonds. 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 C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM")

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Bonds, the District has submitted an application to the Texas Education Agency and has received conditional approval from the Commissioner of Education for guarantee of the Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed in "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default by the District in the scheduled payments of the Bonds, registered owners will receive all payments due from the corpus of the Permanent School Fund.

TAX RATE LIMITATION . . . There is no limitation on the tax rate levied for payment of unlimited tax bonds (Sections 45.001 and 45.003(b)(1) Texas Education Code, as amended); provided, however, with respect to "new debt", the District must demonstrate to the Attorney General of Texas at the time of issuance of bonds that it has the ability to pay all debt service on the proposed bonds and its outstanding unlimited tax debt with a debt service tax not to exceed \$0.50 per \$100 assessed valuation in compliance with Section 45.0031, Texas Education Code, as amended. The Bonds are issued as refunding bonds and, therefore, are not subject to the \$0.50 threshold tax rate test; however, taxes levied to pay debt service on the Bonds are included in the calculation of the \$0.50 tax rate test as applied to subsequent issues of "new debt". For a more detailed description of the \$0.50 test and "new debt", see "TAX RATE LIMITATIONS – I&S Tax Rate Limitations" herein.

REDEMPTION . . . The Bonds are not subject to redemption prior to maturity.

DEFEASANCE . . . The Order provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities certified by an independent certified public accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or another qualified third party to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds. The Order provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchaser by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchaser by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. The Pricing Officer may restrict the categories of Government Securities in connection with the pricing of the Bonds. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Order or treated as debt of the District for purposes of taxation or applying any limitation on the District's ability to issue debt or for any other purpose. Defeasance of the Bonds will cancel the Permanent School Fund Guarantee with respect to the defeased Bonds.

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

BOOK-ENTRY-ONLY SYSTEM . . . *This section 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, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Underwriter believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The District and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds or any 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 any 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

All payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC 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 on the Bonds 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, Bonds 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.

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District, the Financial Advisor or the Underwriter.

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Pittsburgh, Pennsylvania. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at the stated maturity upon presentation and surrender to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "Book-Entry-Only System" herein. If the date for any payment on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to the registered owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS – Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the last business day of the preceding month.

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

BONDHOLDERS' REMEDIES . . . The Order does not establish specific events of default with respect to the Bonds. If the District defaults in the payment of principal or interest 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 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 Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court has 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. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, although the District is using Chapter 1371 as legal authority in connection with its issuance of the Bonds, the District has not waived sovereign immunity pursuant to the legal authority provided by Chapter 1371. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

See "APPENDIX C - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due. Also see "THE BONDS - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of Bonds. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's partnership nominee.

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM...On seven occasions in the last thirty years, the Texas Supreme Court (the “Court”) has issued decisions assessing the constitutionality of the Texas public school finance system (the “Finance System”). The litigation has primarily focused on whether the Finance System, as amended by the Texas Legislature (the “State Legislature”) from time to time (i) met the requirements of article VII, section 1 of the Texas Constitution, which requires the State 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 State 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 State 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 State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State 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 State 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 public school 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, 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.

Local funding is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: a maintenance and operations (“M&O”) tax to pay current expenses and an interest and sinking fund (“I&S”) tax to pay debt service on bonds. School districts may not levy an M&O tax rate for the purpose of creating a surplus in M&O tax revenues for the purpose of paying the school district's debt service. School districts are required to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (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 local funding generated by a school district's M&O tax rate.

2025 Legislative Sessions

The regular session of the 89th Texas Legislature convened on January 14, 2025 and concluded on June 2, 2025 (the “89th Regular Session”). The State Legislature meets in regular session in odd numbered years for 140 days. When the State Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. The Governor called a first special session, which began on July 21, 2025 and ended on August 15, 2025. The Governor called a second special session, which began on August 15, 2025 and ended on September 4, 2025.

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

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

LOCAL FUNDING FOR SCHOOL DISTRICTS

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

State Compression Percentage. The “State Compression Percentage” is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district’s Maximum Compressed Tax Rate (described below). The State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State 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 “State Compression Percentage” (as discussed above) 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 set to 90% of such other school district’s MCR until TEA determines that the difference between the school district’s MCR and any other school district’s MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. For the 2025-2026 school year, the MCR was established with \$0.6254 for the maximum rate and \$0.5628 as the floor.

In calculating and making available school districts’ MCRs for the 2025-2026 school year, the TEA calculated and made available the rates as if the increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 89th Legislature, Regular Session, 2025, took effect. Such calculation for the 2025-2026 school year expires September 1, 2026. Pursuant to voter approval at a Statewide election held on November 4, 2025, (1) the residential homestead exemption under Section 1-b(c), Article VIII, Texas Constitution was increased 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 and the disabled under Section 1-b(c), Article VIII, Texas Constitution was increased from \$10,000 to \$60,000. Both constitutional amendments took effect for the tax year beginning January 1, 2025.

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

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

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

STATE FUNDING FOR SCHOOL DISTRICTS

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

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

The current public school finance system also provides an Existing Debt Allotment (“EDA”) to subsidize debt service on eligible outstanding school district bonds, an Instructional Facilities Allotment (“IFA”) to subsidize debt service on newly issued bonds, and a New Instructional Facilities Allotment (“NIFA”) to subsidize operational expenses associated with the opening of a new instructional facility. IFA primarily addresses the debt service needs of property-poor school districts.

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

Tier One. Tier One funding is the basic level of funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance, other than students in average daily attendance who do not reside in the district and are enrolled in a full-time virtual program, for each State-mandated day of instruction divided by the number of State-mandated days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon unique school district characteristics and demographics of students in ADA, to make up most of a school district's Tier One entitlement under the Foundation School Program. The Basic Allotment for a school district 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), (iii) a college, career and military readiness allotment to further the State's goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher compensation incentive allotment to increase teacher retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by the school district's Basic Allotment, is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

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

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 Basic Allotment multiplied by 0.02084. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield on each Golden Penny levied of \$129.52 per student in WADA. Copper Pennies generate a guaranteed yield per student in WADA equal to the school district's Basic Allotment multiplied by 0.008. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield on each Copper Penny levied of \$49.72 per student in WADA.

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

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

Since future-year IFA awards were not funded by the State Legislature for the 2026-2027 State fiscal biennium and debt service assistance on school district bonds that are not yet eligible for EDA is not available, debt service payments during the 2026-2027 State fiscal biennium on new bonds issued by school districts in the 2026-2027 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent 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 “ – Tax Rate and Funding Equity” below.

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

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

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

LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2026-2027 fiscal year, the District was designated as an "excess local revenue" district by the TEA. According to currently available information from TEA, the District is subject to recapture and, therefore, the District is required to exercise one of the wealth equalization options permitted under applicable State law. The District has notified the TEA that it intends to reduce its wealth per student pursuant to Option 3, an agreement to purchase attendance credits pursuant to Chapter 49, Texas Education Code, as amended (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level in Excess of Entitlement" herein). The District has historically used Option 3 to reduce its excess local revenue. On May 1, 2021, voters in the District approved the option to continue to pay recapture by purchasing attendance credits with local tax revenue; this election was required due to changes imposed by H.B. 3 which was passed during the 2019 legislative session. This election is a one-time permanent election unless State law is amended to require a subsequent election. A district's "excess local revenue" 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 may be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district. For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts" herein.

AD VALOREM PROPERTY TAX INFORMATION

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

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

Unless extended by future legislation, through December 31, 2026, an appraisal district may only increase the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5.32 million (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20% of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property (collectively, the "Appraisal Cap"). The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. 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 PROPERTY TAX INFORMATION – District and Taxpayer Remedies").

STATE MANDATED HOMESTEAD EXEMPTIONS. . . State law grants, with respect to each school district in the State, (1) a \$140,000 exemption of the appraised value of all homesteads, (2) a \$60,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

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

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

PERSONAL PROPERTY. . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the “production of income” is taxed based on the property’s market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Legislation passed by the State Legislature during the 89th Regular Session and approved by the voters provides a person an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit. Such exemption is applicable from and after the 2026 tax year.

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

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

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

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGE BY A DISASTER. . . The Property Tax Code entitles the owner of certain (i) qualified tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. The Texas Legislature amended Section 11.35, Property Tax Code, to clarify that “damage” for purposes of such statute is limited to “physical damage.” For more information on the exemption, reference is made to Section 11.35 of the Tax Code.

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

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

TAX LIMITATION AGREEMENTS. . . The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district could only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87th Texas Legislature did not vote to extend this program, which expired by its terms effective December 31, 2022.

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

In the 88th Legislative Session, House Bill 5 ("HB 5" or "The Texas Jobs, Energy, Technology, and Innovation Act") was adopted to create an economic development program, subject to state oversight, which would attract jobs and investment to Texas through school district property tax abatement agreements with businesses. HB5 was codified as Chapter 403, Subchapter T, Texas Government Code ("Chapter 403") and had an effective date of January 1, 2024. Under Chapter 403, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. Chapter 403 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt service tax securing a series of bonds cannot be abated under Chapter 403. Eligible projects must involve manufacturing, dispatchable power generation facilities, technology research/development facilities, or critical infrastructure projects and projects must create and maintain jobs, as well as meet certain minimum investment requirements. The District is still in the process of reviewing Chapter 403 and cannot make any representations as to what impact, if any, Chapter 403 will have on its finances or operations.

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM PROPERTY TAX INFORMATION – District Application of Tax Code" herein.

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

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of 1.2 million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$62,883,169 for the 2026 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

LEVY AND COLLECTION OF TAXES. . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and 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.

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.

TAX RATE LIMITATIONS

M&O TAX RATE LIMITATIONS. . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on May 9, 1964 in accordance with the provisions of Article 2784c-1, Texas Revised Civil Statutes Annotated, as amended.

The maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 and the school district's MCR. A school district's MCR is, generally, inversely proportional to the change in taxable property values both within the school district and the State, and is subject to recalculation annually.

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").

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

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, 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 Section 44.004(b), (c), (c-1), (c-2), and (d), and, if applicable, subsection (i), and if such failure to comply was not in good faith. Section 44.004(e) further provides the action to enjoin the collection of taxes must be filed before the date the school district delivers substantially all of its tax bills. A school district that elects to adopt a tax rate before the adoption of a budget for the fiscal year that begins in the current tax year may adopt a tax rate for the current tax year before receipt of the certified appraisal roll, so long as the chief appraiser of the appraisal district in which the school district participates has certified to the assessor for the school district an estimate of the taxable value of property in the school district. If a school district adopts its tax rate prior to the adoption of its budget, both the no-new-revenue tax rate and the Voter-Approval Tax Rate of the school district shall be calculated based on the school district’s certified estimate of taxable value. A school district that adopts a tax rate before adopting its budget must hold a public hearing on the proposed tax rate followed by another public hearing on the proposed budget rather than holding a single hearing on the two items.

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

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DISTRICT APPLICATION OF TAX CODE . . . The District does not grant an exemption to the market value of the residence homestead of persons 65 years of age or older and the disabled.

The District grants a State-mandated \$140,000 general residence homestead exemption.

The District grants a State-mandated \$60,000 residence homestead exemption for persons 65 years of age or older.

The District grants a State-mandated \$60,000 residence homestead exemption for the disabled.

The District does not grant any part of the additional local-option exemption of up to 20% of the market value of residence homesteads.

See "Table 1 – Valuation, Exemptions and Tax Supported Debt" for a listing of the amounts of the exemptions described above that are granted by the District.

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

The District does not tax nonbusiness personal property, and the Collin County Tax Assessor/Collection collects the District's ad valorem taxes.

The District does not permit split payments of taxes, and discounts for the early payment of taxes are not allowed.

The District does not tax freeport property.

The District does tax "goods-in-transit".

The District has adopted a tax abatement policy, but has no outstanding tax-abatement agreements.

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2025/26 Market Valuation Established by Collin Central Appraisal District (excluding totally exempt property)		\$41,857,356,076
Less Exemptions/Reductions at 100% Market Value: ⁽¹⁾		
Residential Homestead Exemptions (State Mandated, General, Over 65 & Disabled)	\$ 5,126,973,848	
Disabled Veterans	282,148,484	
Freeport Loss	413,808,776	
Homestead Cap Loss	1,065,876,325	
Productivity Loss	1,431,812,246	
Pollution Control	1,244,340	
Solar	3,181,818	
Charitable Housing	16,821,120	
Other	135,235,942	
Totally Exempt Property	<u>3,182,447,818</u>	<u>11,659,550,717</u>
2025/26 Taxable Assessed Valuation		<u><u>\$ 30,197,805,359</u></u>
Debt Payable from Ad Valorem Taxes (as of 6-1-26)		
Unlimited Tax Bonds	\$ 273,485,000 ⁽³⁾	
The Bonds	<u>63,790,000 ⁽⁴⁾</u>	
Debt Payable from Ad Valorem Taxes		<u><u>\$ 337,275,000</u></u>
Interest and Sinking Fund Balance (as of 6-1-26)		\$ 51,554,927
Ratio Tax Supported Debt to 2025/26 Taxable Assessed Valuation		1.12%
2026 Estimated Population - 153,268		
Per Capita Taxable Assessed Valuation - \$197,026		
Per Capita Funded Debt - \$2,201		

(1) Exemptions do not include the values on which taxes are frozen for persons 65 years of age or older and disabled taxpayers, which total \$3,187,989,336 for 2025/2026.

(2) See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2025 Legislative Session" herein for a discussion of an increase in the general State mandated homestead exemption from \$100,000 to \$140,000, an increase in the State mandated homestead exemption of persons sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000, and an increased exemption for tangible personal property used in the "production of income" from \$2,500 to \$125,000.

(3) Excludes the Refunded Bonds. Preliminary, subject to change.

(4) Preliminary, subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended June 30,					
	2026		2025		2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 24,016,893,183	57.38%	\$ 22,424,478,409	63.11%	\$ 21,134,934,303	64.46%
Real, Residential, Multi-Family	2,801,233,148	6.69%	2,383,822,542	6.71%	2,022,138,947	6.17%
Real, Vacant Lots/Tracts	512,176,595	1.22%	484,377,946	1.36%	450,994,842	1.38%
Real, Acreage (Land Only)	1,439,922,716	3.44%	1,399,926,492	3.94%	1,348,431,093	4.11%
Real, Farm and Ranch Improvements	470,558,377	1.12%	446,511,334	1.26%	593,603,689	1.81%
Real, Commercial and Industrial	5,850,953,883	13.98%	5,324,444,679	14.98%	4,426,287,258	13.50%
Real and Intangible Personal, Utilities	316,085,397	0.76%	284,467,563	0.80%	262,503,395	0.80%
Tangible Personal, Commercial	2,319,445,918	5.54%	2,046,916,785	5.76%	1,950,357,402	5.95%
Tangible Personal, Industrial	49,760,562	0.12%	40,012,637	0.11%	36,352,117	0.11%
Tangible Personal, Other	19,156,086	0.05%	18,069,784	0.05%	18,461,546	0.06%
Real Property, Inventory	550,081,668	1.31%	538,813,376	1.52%	410,914,466	1.25%
Special Inventory	164,688,859	0.39%	141,863,003	0.40%	131,837,480	0.40%
Totally Exempt Property	3,346,399,684	7.99%	-	0.00%	-	0.00%
Total Appraised Value Before Exemptions	\$ 41,857,356,076	100.00%	\$ 35,533,704,550	100.00%	\$ 32,786,816,538	100.00%
Less: Total Exemptions/Reductions	(11,659,550,717)		(7,067,397,286)		(7,843,846,488)	
Less: Adjustments	-		(1,477,839,064)		(1,685,802,511)	
Taxable Assessed Value	<u>\$ 30,197,805,359</u>		<u>\$ 26,988,468,200</u>		<u>\$ 23,257,167,539</u>	

Category	Taxable Appraised Value for Fiscal Year Ended June 30,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 17,911,284,639	64.59%	\$ 13,328,262,982	61.42%
Real, Residential, Multi-Family	1,602,184,384	5.78%	1,341,399,705	6.18%
Real, Vacant Lots/Tracts	430,520,384	1.55%	315,502,651	1.45%
Real, Acreage (Land Only)	1,189,488,085	4.29%	1,157,159,022	5.33%
Real, Farm and Ranch Improvements	500,126,562	1.80%	326,288,995	1.50%
Real, Commercial	3,798,579,961	13.70%	3,326,177,028	15.33%
Real and Tangible Personal, Utilities	249,081,400	0.90%	226,117,913	1.04%
Tangible Personal, Commercial	1,649,197,679	5.95%	1,354,559,094	6.24%
Tangible Personal, Industrial	31,702,283	0.11%	25,684,405	0.12%
Tangible Personal, Other	17,694,837	0.06%	9,705,491	0.04%
Real Property, Inventory	226,634,563	0.82%	191,503,297	0.88%
Special Inventory	125,016,397	0.45%	98,373,239	0.45%
Total Appraised Value Before Exemptions	\$ 27,731,511,174	100.00%	\$ 21,700,733,822	100.00%
Less: Total Exemptions/Reductions	(5,035,679,891)		(2,348,006,801)	
Less: Adjustments	(283)		(669,245,798)	
Taxable Assessed Value	<u>\$ 22,695,831,000</u>		<u>\$ 18,683,481,223</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Collin Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2025 Legislative Session” herein for a discussion of an increase in the general State mandated homestead exemption from \$100,000 to \$140,000 and an increase in the State mandated homestead exemption of persons sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Unlimited Tax Supported Debt Outstanding as of 12/31	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2022	134,151	\$ 18,683,481,223	\$ 139,272	\$ 533,850,000	2.86%	\$ 3,979
2023	131,368	22,695,831,000	172,765	492,835,000	2.17%	3,752
2024	143,406	23,257,167,539	162,177	478,860,000	2.06%	3,339
2025	148,257	26,988,468,200	182,038	431,975,000	1.60%	2,914
2026	153,268	30,197,805,359	197,026	337,275,000 ⁽³⁾	1.12% ⁽³⁾	2,201 ⁽³⁾

(1) Source: District Officials.

(2) As reported by the Appraisal District on District's annual State Property Tax Reports, subject to change during the ensuing year. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - 2025 Legislative Session" herein for a discussion of an increase in the general State mandated homestead exemption from \$100,000 to \$140,000 and an increase in the State mandated homestead exemption of persons sixty-five (65) years of age or older and the disabled from \$10,000 to \$60,000.

(3) Projected; includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 6/30	Tax Rate ⁽¹⁾	Local Maintenance	Interest and Sinking Fund	Tax Levy ⁽²⁾	% Current Collections	% Total Collections
2022	\$ 1.37670	\$ 1.00670	\$ 0.37000	\$257,215,486	99.27%	101.40%
2023	1.31290	0.94290	0.37000	287,931,880	99.08%	100.40%
2024	1.12750	0.75750	0.37000	262,224,564	99.26%	100.80%
2025	1.12520	0.75520	0.37000	297,786,991	98.96%	99.66%
2026	1.10430	0.73430	0.37000	333,343,010 ⁽⁴⁾	95.25% ⁽³⁾	95.45% ⁽³⁾

(1) The District's fiscal year begins on July 1, and the tax rate is set after the certified tax roll has been received.

(2) The levies shown are those reported annually in September to the State Comptroller. The levies are subject to change during the ensuing year due to settlement of contested valuations.

(3) Collections through June 1, 2026.

(4) Projected; includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Raytheon TI Systems Inc.	Technology	\$ 369,578,976	1.22%
Raytheon Company	Technology	321,467,717	1.06%
Encore Wire Corporation	Wire Products	269,844,354	0.89%
Columbia Medical Center of McKinney Subsidiary LP	Healthcare	190,899,712	0.63%
Oncor Electric Delivery Company	Electric Utility	120,860,300	0.40%
1200 Trinity Falls Investments LLC'	Apartments	92,067,389	0.30%
Yamasa Next Co LTD	Apartments	88,301,327	0.29%
1500 Trinity Falls Investments LLC'	Apartments	85,607,242	0.28%
Atmos Energy/Mid-Tex Distribution	Electric Utility	84,906,848	0.28%
McKinney Terrace LLC	Apartments	84,260,557	0.28%
		<u>\$ 1,707,794,422</u>	<u>5.66%</u>

TABLE 6 - TAX ADEQUACY ⁽¹⁾

2026 Principal and Interest Requirements for Debt	\$ 110,766,191
\$0.3706 Tax Rate at 99.00% Collection Produces	\$ 110,793,936
Average Annual Principal and Interest Requirements for Debt, 2026 - 2044	\$ 27,510,205
\$0.0921 Tax Rate at 99.00% Collection Produces	\$ 27,534,057
Maximum Principal and Interest Requirements for Debt, 2026	\$ 110,766,191
\$0.3706 Tax Rate at 99.00% Collection Produces	\$ 110,793,936

(1) Includes the Bonds, excludes the Refunded Bonds. The District's fiscal year end is June 30th. Due to the timing of tax collection receipts, the District budgets for August payments in the previous fiscal year. Debt service requirements shown above are based on the calendar year rather than the District's fiscal year. Based on 2025/26 Taxable Assessed Valuation. Preliminary, subject to change.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the District are paid out of ad valorem taxes levied by such entities on properties within the District. Such entities are independent of the District and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt ("Tax Debt") was developed from information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the District.

Taxing Jurisdiction	2025/26 Taxable Assessed Value	2025/26 Tax Rate	Total Tax - Supported Debt As of 6-1-26	Estimated % Applicable	District's Overlapping Tax - Supported Debt As of 6-1-26	Authorized But Unissued Debt As Of 6-1-26
McKinney Independent School District	\$ 30,197,805,359	\$ 1.127500	\$ 337,275,000 ⁽¹⁾	100.00%	\$ 337,275,000 ⁽¹⁾	\$ -
City of Allen	23,225,184,012	0.415000	191,120,000	0.25%	477,800	53,000,000
Collin County	270,998,282,005	0.149000	910,405,000	12.51%	113,891,666	272,532,864
Collin County Community College District	245,013,219,037	0.081000	438,250,000	12.51%	54,825,075	-
East Fork FWSD #1-A	88,286,512	0.850000	10,935,000	100.00%	10,935,000	300,115,000
Town of Fairview	3,584,724,117	0.317000	20,190,000	36.48%	7,365,312	-
City of Lucas	2,750,744,512	0.256000	14,335,000	9.75%	1,397,663	-
McKinney Municipal Utility District No. 1	1,048,244,373	0.985000	118,765,000	100.00%	118,765,000	585,545,000
McKinney Municipal Utility District No. 2	615,630,148	1.050000	81,705,000	100.00%	81,705,000	805,520,000
City of McKinney	45,117,213,609	0.412000	560,625,000	64.72%	362,836,500	351,300,000
City of Melissa	4,653,964,110	0.454000	147,045,000	0.01%	14,705	4,080,000
City of Princeton	4,788,891,687	0.440000	153,500,000	7.80%	11,973,000	54,050,000
Total Direct and Overlapping Tax-Supported Debt					\$ 1,101,461,720	
Ratio of Direct and Overlapping Tax-Supported Debt to Taxable Assessed Valuation					3.65%	
Per Capita Overlapping Tax-Supported Debt					\$ 7,186.51	

(1) Includes the Bonds and excludes the Refunded Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 - PRO FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

Year Ending 8-31 ⁽¹⁾	Outstanding Debt ⁽²⁾			The Bonds ⁽³⁾			Total Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2026	\$ 93,755,000	\$ 17,011,191	\$ 110,766,191	\$ -	\$ -	\$ -	\$ 110,766,191	
2027	35,515,000	11,287,431	46,802,431	47,680,000	1,908,903	49,588,903	96,391,334	
2028	23,830,000	9,840,756	33,670,756	2,345,000	746,875	3,091,875	36,762,631	
2029	23,395,000	8,735,181	32,130,181	2,465,000	626,625	3,091,625	35,221,806	
2030	20,035,000	7,687,531	27,722,531	2,605,000	499,875	3,104,875	30,827,406	58.38%
2031	18,980,000	6,737,081	25,717,081	2,750,000	366,000	3,116,000	28,833,081	
2032	17,240,000	5,882,456	23,122,456	2,900,000	224,750	3,124,750	26,247,206	
2033	18,070,000	5,052,681	23,122,681	3,045,000	76,125	3,121,125	26,243,806	
2034	18,950,000	4,182,356	23,132,356	-	-	-	23,132,356	
2035	19,020,000	3,290,556	22,310,556	-	-	-	22,310,556	81.80%
2036	18,415,000	2,481,969	20,896,969	-	-	-	20,896,969	
2037	18,415,000	1,770,600	20,185,600	-	-	-	20,185,600	
2038	11,355,000	1,213,459	12,568,459	-	-	-	12,568,459	
2039	8,940,000	856,650	9,796,650	-	-	-	9,796,650	
2040	7,690,000	592,400	8,282,400	-	-	-	8,282,400	96.84%
2041	7,930,000	357,025	8,287,025	-	-	-	8,287,025	
2042	3,770,000	157,325	3,927,325	-	-	-	3,927,325	
2043	950,000	58,400	1,008,400	-	-	-	1,008,400	
2044	985,000	19,700	1,004,700	-	-	-	1,004,700	100.00%
	<u>\$ 367,240,000</u>	<u>\$ 87,214,750</u>	<u>\$ 454,454,750</u>	<u>\$ 63,790,000</u>	<u>\$ 4,449,153</u>	<u>\$ 68,239,153</u>	<u>\$ 522,693,903</u>	

- (1) The District's fiscal year end is June 30th. Due to the timing of tax collection receipts, the District budgets for August payments in the previous fiscal year.
- (2) Excludes the Refunded Bonds. Preliminary, subject to change.
- (3) Average life of the issue – 1.395 years. Interest on the Bonds has been calculated at the average rate of 3.38% for purposes of illustration. Preliminary, subject to change.

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Obligation Debt Service Requirements, Fiscal Year Ending 6-30-26	\$ 110,766,191
Budgeted Interest and Sinking Fund, 6-30-25	\$ 47,360,927
Budgeted Interest and Sinking Fund Tax Levy Collection	107,214,356
Budgeted State Revenue - I&S Hold Harmless	7,500,000
Budgeted Interest Income	<u>1,750,000</u>
	<u>163,825,283</u>
Estimated Balance, 6-30-26 ⁽¹⁾	<u>\$ 53,059,092</u>

- (1) Includes amounts budgeted to make August 2026 interest payments of \$7,440,884.

TABLE 10 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

As of June 1, 2026, the District did not have any authorized but unissued bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District anticipates calling a bond election in the approximate amount of \$500 million for November 2026.

TABLE 11- OTHER OBLIGATIONS

The District entered into a lease agreement for the use of copy machines with ImageNet beginning August 1, 2022. Under the terms of the lease, the District pays a monthly base fee of \$55,069. The District is required to make annual principal and interest payments through July 2027.

At June 30, 2025, the District has recognized a right to use asset, net of accumulated amortization, of \$1,260,075 and a lease liability of \$1,323,564 related to the agreement. During the fiscal year, the District recorded \$604,837 in amortization expense and \$58,691 in interest expense for the right to use copy machines. The District used a discount rate of 3.66% for the copier lease. The discount rate was based on the estimated incremental borrowing rate of the District.

<u>Fiscal Year ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 622,740	\$ 36,277	\$ 659,017
2027	645,921	13,029	658,950
2028	54,903	6	54,909
Total	<u>\$ 1,323,564</u>	<u>\$ 49,312</u>	<u>\$ 1,372,876</u>

Subscription-Based Information Technology Arrangement (SBITAs)

The District entered into one SBITA contract for productivity software. The District made upfront payments in June 2023. The contract terminates in June 2026. The subscription liability was valued using a discount rate of 4.98%. The discount rate was based on the estimated incremental borrowing rate of the District. As of June 30, 2025, there are no remaining obligations associated with the SBITA arrangement.

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

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.

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/learningresources/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% (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 in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc postemployment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) 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).

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

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 Article 16, section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year.

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

	Contribution Rates	
	2024	2025
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
	2024	2025
Member Contributions	\$ 14,367,241	\$ 15,216,242
NECE On-Behalf Contributions	9,855,377	10,172,226
Employer Contributions	6,923,422	7,661,488

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

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

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

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

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

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

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2023	3.87%
Last year ending August 31 in Projection Period (100 years)	2123
Inflation	2.3%
Salary Increases including inflation	2.95% to 8.95%
Ad hoc post-employment benefit changes	None

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

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

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

The long-term expected rate of return on pension plan investments is 7.00%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target allocation as of August 31, 2024 (see page 56 of the 2024 TRS ACFR) are summarized on the following page.

Asset Class ⁽⁴⁾	Target Allocation ⁽¹⁾	Expected Geometric Real Rate of Return ⁽²⁾	to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	4.4%	1.00%
Non-U.S. Developed	13.0%	4.2%	0.80%
Emerging Markets	9.0%	5.2%	0.70%
Private Equity	14.0%	6.7%	1.20%
Stable Value			
Government Bonds	16.0%	1.9%	0.40%
Absolute Return	0.0%	4.0%	0.00%
Stable Value Hedge Funds	5.0%	3.0%	0.20%
Real Return			
Real Estate	15.0%	6.6%	1.20%
Energy and Natural Resources and Infrastructure	6.0%	5.6%	0.40%
Commodities	0.0%	2.5%	0.00%
Risk Parity			
Risk Parity	8.0%	4.0%	0.40%
Asset Allocation Leverage			
Cash	2.0%	1.0%	0.00%
Asset Allocation Leverage	- 6.0%	1.3%	- 0.10%
Inflation Expectation			2.40%
Volatility Drag ⁽³⁾			- 0.70%
Total	100.0%		7.90%

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

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Total TRS net pension liability	\$ 97,566,906,778	\$61,084,175,799	\$30,855,639,673
District's proportionate share of the net pension liability	\$ 121,371,389	\$ 75,987,561	\$ 38,383,833

PENSION LIABILITIES, PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS . . At June 30, 2025, the District reported a liability of \$75,987,561 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 75,987,561
State's proportionate share that is associated with the District	104,316,988
Total	<u>\$ 180,304,549</u>

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

On August 31, 2024, the employer's proportion of the collective net pension liability was 0.124398111% which was an increase of 0.0023614% from its proportion measured as of August 31, 2023.

CHANGES SINCE THE PRIOR ACTUARIAL VALUATION . . . The actuarial assumptions and methods are the same as used in the determination of the prior year's net pension liability.

The 2023 Texas Legislature passed Senate Bill 10 (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House Joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1.645 billion for one-time stipends and \$3.355 billion for COLAs.

This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

For the year ended June 30, 2025, the District recognized pension expense of \$12,467,624 and revenue of \$9,623,820 for support provided by the State.

At June 30, 2025, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 4,188,331	\$ 593,274
Changes in actuarial assumptions	3,923,400	525,994
Differences between projected and actual investment earnings	461,902	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	5,440,823	4,677,063
Contributions paid to TRS subsequent to the measurement date	6,492,365	-
	<u>\$ 20,506,821</u>	<u>\$ 5,796,331</u>

\$6,492,365 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2026.

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

<u>Fiscal Year ended June 30,</u>	
2026	\$ (602,301)
2027	9,058,112
2028	1,291,841
2029	(1,926,281)
2030	396,754
Thereafter	-
	<u><u>\$ 8,218,125</u></u>

RETIREE HEALTH PLAN

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.

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

OPEB Plan Fiduciary Net Position - Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov/learningresources/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 schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

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

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

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

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

Texas Insurance Code, section 1575.202 establishes the State's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the employer. 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:

	Contribution Rates	
	2024	2025
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers (District)	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
	2024	2025
Employer Contributions	\$ 1,378,676	\$ 1,467,700
Member Contributions	1,137,696	1,198,894
NECE On-behalf Contributions	2,122,473	2,221,477

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 to TRS Care, a monthly surcharge of \$535 per retiree.

FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET ASSETS ⁽¹⁾

	Fiscal Year Ended June 30,				
	2025	2024	2023	2022	2021
Revenues:					
<u>Program Revenues</u>					
Charges for Services	\$ 22,752,334	\$ 17,891,844	\$ 21,831,293	\$ 18,918,721	\$ 3,808,012
Capital Grants and Contributions	-	731,600	938,272	-	-
Operating Grants and Contributions	33,993,281	42,132,128	30,991,067	35,688,081	45,319,105
<u>General Revenues</u>					
Property Taxes	295,598,628	263,489,515	289,381,291	258,949,388	254,542,043
State Aid - Formula	29,823,800	44,622,858	19,766,839	18,714,002	31,326,620
Interest Income	13,168,154	15,665,959	12,748,659	592,760	174,357
Other	1,070,616	1,236,278	1,059,397	1,033,852	9,758,374
Total Revenues	\$396,406,813	\$385,770,182	\$376,716,818	\$333,896,804	\$344,928,511
Expenses:					
Instruction and Instructional - Related Services	\$ 202,181,843	\$ 197,805,433	\$ 180,155,904	\$ 177,354,178	\$ 188,422,782
Instructional and School Leadership	21,887,121	21,719,206	20,916,251	20,744,961	21,702,371
Support Services - Student	52,655,102	53,030,054	48,211,988	46,235,852	41,198,010
Administrative Support Services	5,801,123	6,576,032	5,740,200	5,325,400	5,476,351
Support Services - Nonstudent Based	39,121,192	39,508,711	31,802,240	29,929,737	28,612,350
Ancillary Services - Community Service	4,031,422	3,220,700	2,783,598	2,295,925	2,273,611
Debt Service	16,620,625	19,879,167	18,005,554	16,417,857	15,359,178
Facilities Acquisition and Construction	8,265,011	14,928,366	7,065,056	12,279,952	-
Intergovernmental Charges	9,045,753	7,376,004	22,527,910	5,190,286	1,698,509
Total Expenses	\$359,609,192	\$364,043,673	\$337,208,701	\$315,774,148	\$304,743,162
Increase (Decrease) in Net Assets	\$ 36,797,621	\$ 21,726,509	\$ 39,508,117	\$ 18,122,656	\$ 40,185,349
Beginning Net Assets	225,478,859	203,752,350	164,244,233	148,286,428	108,101,079
Prior Period Adjustment	-	-	-	(2,164,851)	-
Ending Net Assets	<u>\$262,276,480</u>	<u>\$225,478,859</u>	<u>\$203,752,350</u>	<u>\$164,244,233</u>	<u>\$148,286,428</u>

(1) Financial operations for all governmental activities presented in accordance with GASB-34.

Source: The District's Annual Financial Report.

TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended June 30,				
<u>Revenues:</u>	2025	2024	2023	2022	2021
Local	\$207,904,624	\$189,083,868	\$216,659,211	\$194,583,115	\$185,311,056
State Program	43,167,265	57,505,858	31,944,461	30,558,522	42,865,577
Federal Program	5,134,441	437,481	5,238,648	4,559,114	3,114,323
Total Revenues	\$256,206,330	\$247,027,207	\$253,842,320	\$229,700,751	\$231,290,956
<u>Expenditures:</u>					
Instruction and Instructional Related	\$160,841,685	\$153,202,276	\$150,816,744	\$151,021,906	\$149,153,499
Instructional and School Leadership	22,225,193	21,497,313	20,931,438	21,066,601	20,367,830
Support Services - Student (Pupil)	33,178,172	30,303,074	27,474,228	26,695,352	27,332,548
Administrative Support Services	5,700,800	6,356,335	5,725,942	4,974,994	5,150,936
Support Services - Nonstudent	35,847,369	35,631,443	29,348,160	27,791,441	18,560,536
Ancillary Services	175,148	179,664	225,912	206,030	162,429
Capital Outlay	-	-	-	-	-
Debt Service	659,082	658,846	1,596,644	747,780	-
Intergovernmental Charges	9,045,753	7,376,004	22,527,910	5,190,286	1,698,509
Total Expenditures	\$267,673,202	\$255,204,955	\$258,646,978	\$237,694,390	\$222,426,287
Excess (Deficiency) of Revenues					
Over Expenditures	\$ (11,466,872)	\$ (8,177,748)	\$ (4,804,658)	\$ (7,993,639)	\$ 8,864,669
Transfers In	749,513	-	-	-	-
Sale of Real and Personal Property	6,013	-	-	-	-
Other Resources	-	-	3,866,129	-	19,238
Other Uses	-	500,000	-	(384,982)	-
Excess (Deficiency) of Revenues and Other Resources Over Expenditures and Other Uses	\$ (10,711,346)	\$ (7,677,748)	\$ (938,529)	\$ (8,378,621)	\$ 8,883,907
Fund balances on July 1	110,572,942	118,250,690	119,189,219	127,567,840 ⁽¹⁾	121,340,337
Fund balances on June 30	\$ 99,861,596 ⁽²⁾	\$110,572,942	\$118,250,690	\$119,189,219	\$130,224,244

(1) Restated.

(2) The District's estimated general fund balance as of June 30, 2026 is 91,496,648.

Source: The District's Annual Financial Report.

FINANCIAL POLICIES

Basis of Accounting . . . The District is a public education agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Government Accounting Standards Board ("GASB") and other authoritative sources identified in Statement on Auditing Standards No. 69 of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriated version of the Texas Education Agency's Financial Accountability System Resource Guide, issued by the Texas Education Agency, and the requirements of contracts and grants of agencies from which it receives funds.

See Appendix B - "Excerpts from the McKinney Independent School District Annual Financial Report for the Year Ended June 30, 2025, Notes to the Financial Statements – Summary of Significant Accounting Policies" for a summary of the District's significant accounting policies.

General Fund Balance . . . The District's goal is to maintain surplus and unencumbered between 20% and 40% of expenditures in the General Fund.

Budgetary Procedures . . . Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.

A meeting of the Board of Trustees is called for the purpose of adopting the proposed budget after ten days of public notice of the meeting has been given.

Prior to July 1, the budget is legally enacted through passage of a resolution by the Board of Trustees. The budget must be filed with the Texas Education Agency on a designated date through the Public Education Information Management System ("PEIMS").

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

INVESTMENTS

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

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

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

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

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

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

State law requires the District's investments be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

TABLE 13 - CURRENT INVESTMENTS

As of June 1, 2026, the District's investable funds were invested in the following categories:

Description	Percent Market Value	Market Value	Book Value
TexSTAR ⁽¹⁾	47.45%	\$ 148,275,081	\$ 148,275,081
TexPool ⁽¹⁾	52.55%	164,239,214	164,239,214
	<u>100.00%</u>	<u>\$ 312,514,295</u>	<u>\$ 312,514,295</u>

(1) A portion of the District's investments are invested in TexSTAR and TexPool, each of which is an investment pool that has an investment objective of achieving and maintaining a stable net asset value of \$1.00 per share. Daily investment or redemption of funds is allowed by the participants. TexSTAR is a local government investment pool for which Hilltop Securities Asset Management Inc., a Hilltop Holdings Company, the District's financial advisor, provides customer service and marketing.

No funds of the District are invested in derivative securities, i.e., securities whose rate of return is determined by reference to another instrument, index, or commodity.

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TAX MATTERS

TAX EXEMPTION . . . The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), 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. A form of Bond Counsel's opinion is reproduced as Appendix D. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, 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.

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 District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any 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.

Except as described above, Bond Counsel expresses 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. 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, 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, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), 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.

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.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS . . The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. 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 Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." 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 the tax year.

However, such interest may be required to 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, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, 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. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner 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 of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The purchase price of certain Bonds (the "Premium Bonds") paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser's tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such 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. 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 that is amortizable each year by a 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.

CONTINUING DISCLOSURE INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds pursuant to United States Securities and Exchange Commission Rule 15c2-12 (the "Rule"). 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 certain specified events, to the Municipal Securities Rulemaking Board (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 ending in and after 2026, financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 13 and (2) if not provided as part such financial information and operating data, audited financial statements of the District, within 12 months after the end of each fiscal year of the District ending in and after 2026, if available, as described below. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in Appendix B 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 the 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's current fiscal year end is June 30. Accordingly, the District must provide updated information included in the above-referenced tables by the last day of December in each year, and audited financial statements (or unaudited financial statements, if the audit of such financial statements is not yet available) for the preceding fiscal year must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

NOTICE OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance 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 of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the District, any of which reflect financial difficulties. Neither the Bonds nor the Order make any provision for debt service reserves or liquidity enhancement or credit enhancement (except with respect to the Permanent School Fund Guarantee). In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports."

For these purposes, (a) any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District and (b) for the events described in (15) and (16) in the immediately preceding paragraph above, the term "Financial Obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee of either (A) or (B). The term "Financial Obligation" shall not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

AVAILABILITY OF INFORMATION . . . The District has agreed to provide the information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS . . . The District has agreed to update information and to provide notices of certain 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 the 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 and beneficial owners of the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of the Order that authorizes such an amendment) of the outstanding Bonds consent to the amendment 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 holders and beneficial owners of the Bonds. The District may also amend or repeal the provisions of this continuing disclosure agreement if the United States Securities and Exchange Commission (the "SEC") amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent the Underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

FORMAT, IDENTIFYING INFORMATION, AND INCORPORATION BY REFERENCE . . . All financial information, operating data, financial statements, and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption "Annual Reports" may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the SEC.

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

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding tax debt of the District issued without credit support are rated "Aa1" by Moody's and "AA+" by S&P. The District also has issues outstanding which are rated "Aaa" by Moody's and "AAA" by S&P by virtue of the guarantee of the Permanent School Fund of the State of Texas. **A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.** An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

CYBERSECURITY

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

LITIGATION

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The District assumes no responsibility for 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 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 provisions.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The Verification Agent will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash, if any, and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the amount necessary to accomplish the discharge and final payment of principal of and interest on the Refunded Bonds on their redemption date.

The Verification Agent relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, the Verification Agent has relied on any information provided to it by the District's retained advisors, consultants, or legal counsel.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Bonds.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. 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. In accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION -- Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State of Texas that have adopted investment policies and guidelines in accordance with the Public Funds Investment Act may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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.

LEGAL MATTERS

The District will furnish to the Underwriter a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Initial Bond is a valid and legally binding obligation of the District, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein. The form of Bond Counsel's opinion is attached to this Official Statement as Appendix D. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the District in connection with the issuance of the Bonds. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds which would affect the provision made for their payment or security or in any manner questioning the validity of said Bonds will also be furnished to the Underwriter. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions and subcaptions "PLAN OF FINANCING" (excluding the information under the subcaption "Sources and Uses of Proceeds"), "THE BONDS" (excluding the information under the subcaptions, "Book-Entry-Only System" "Permanent School Guarantee" and "Bondholders' Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", "TAX RATE LIMITATIONS" (first paragraph only), "TAX MATTERS", "CONTINUING DISCLOSURE INFORMATION" (excluding the information under the subcaptions "Compliance with Prior Undertakings" and "Availability of Information"), "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds In Texas", and "OTHER INFORMATION – Legal Matters" (excluding the last sentence of the first paragraph thereof) 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 captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the provisions of the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall Parkhurst & Horton, L.L.P., Dallas Texas.

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of \$ _____. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

Jefferies LLC ("Jefferies") and its affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Under certain circumstances, Jefferies and its affiliates may have certain creditor and/or other rights against the District and its affiliates in connection with such activities. In the course of their various business activities, Jefferies and its affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District. Jefferies and its affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to the clients that they should acquire, long and/or short positions in such assets, securities and instruments.

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

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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. The District's actual results could differ materially from those discussed in such forward-looking statements.

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

As authorized by the Board in the Bond Order, the Pricing Officer will approve the form and content of this Official Statement, and any addenda, supplement or amendment hereto, and the Underwriter's use of this Official Statement in connection with the public offering and sale of the Bonds.

SCHEDULE OF REFUNDED BONDS*

Unlimited Tax Refunding Bonds, Series 2016

Original Dated Date	Original Maturity	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
4/1/2016	2/15/2027	5.000%	\$ 2,400,000	\$ 2,400,000	581664FN4
	2/15/2028	5.000%	2,530,000	2,530,000	581664FP9
	2/15/2029	4.000%	2,650,000	2,650,000	581664FQ7
	2/15/2030	4.000%	2,765,000	2,765,000	581664FR5
	2/15/2031	4.000%	2,890,000	2,890,000	581664FS3
	2/15/2032	4.000%	3,015,000	3,015,000	581664FT1
	2/15/2033	4.000%	3,135,000	3,135,000	581664FU8
			<u>\$19,385,000</u>	<u>\$19,385,000</u>	

The 2027 - 2033 maturities will be redeemed prior to original maturity on September 25, 2026, at par.

Unlimited Tax School Building Bonds, Series 2016A

Original Dated Date	Original Maturity	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
8/1/2016	2/15/2027	5.000%	\$ 3,645,000	\$ 3,645,000	581664GF0
	2/15/2028	5.000%	3,830,000	3,830,000	581664GG8
	2/15/2029	5.000%	4,025,000	4,025,000	581664GH6
	2/15/2030	5.000%	4,235,000	4,235,000	581664GJ2
	2/15/2031	5.000%	4,450,000	4,450,000	581664GK9
	2/15/2032	5.000%	4,680,000	4,680,000	581664GL7
	2/15/2033	3.000%	4,870,000	4,870,000	581664GM5
	2/15/2034	4.000%	5,040,000	5,040,000	581664GN3
	2/15/2035	2.750%	5,215,000	5,215,000	581664GP8
	2/15/2036	2.750%	5,360,000	5,360,000	581664GQ6
			<u>\$45,350,000</u>	<u>\$45,350,000</u>	

The 2027 - 2036 maturities will be redeemed prior to original maturity on September 25, 2026, at par.

* Preliminary, subject to change.

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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LOCATION . . . The McKinney Independent School District (the "District") is located 30 miles north of downtown Dallas and includes the City of McKinney, the County Seat of Collin County.

The District is located in the Dallas-Fort Worth Consolidated Metropolitan Statistical Area, which also includes Collin, Dallas, Denton, Ellis, Grayson, Kaufman, Parker, Rockwall and Tarrant Counties.

EDUCATION . . . The physical facilities of the McKinney Independent School District consist of three high schools (grades 9-12), five middle schools (grades 6-7-8), twenty-two elementary schools (grades PK-5), and three special schools/programs (7-12). All schools are air-conditioned, and each campus contains a library, cafeteria and gymnasium. All secondary campuses contain complete athletic complexes. All schools are accredited by the Texas Education Agency.

The District provides a wide range of educational opportunities. Special education, bilingual education, advanced placement, gifted/talented programs, and vocational training are examples of these opportunities. The District has a 88% rate of students advancing to college. The District also sponsors a community education program.

The District employs approximately 2,900 persons, which includes certified educational professionals, paraprofessionals and classified personnel.

Total present enrollment is 24,014 students. Overall, the District spends approximately \$11,937 per enrolled student from its operating budget. The District strives to maintain a 22 to 1 student/teacher ratio for grades K-4, and a 25 to 1 student/teacher ratio for grades 5-12.

ENROLLMENT

<u>School Year</u>	<u>Enrollment</u>
2013-14	24,565
2014-15	24,715
2015-16	24,787
2016-17	24,880
2017-18	24,940
2018-19	24,717
2019-20	24,550
2020-21	23,398
2021-22	23,446
2022-23	23,232
2023-24	23,306
2024-25	23,297
2025-26	23,861

COLLIN COUNTY COMMUNITY COLLEGE DISTRICT . . . A pioneer for higher learning in the North Texas region, Collin College's success has been built on quality education, diversity of programs, financial stewardship, and visionary leadership. The college was founded 35 years ago when voters overwhelmingly approved its inception on April 6, 1985. Since its beginnings, the college has continued to grow exponentially, reaching an enrollment of 59,000 in 2020. Enrollment for the Fall semester of 1985 was 1,350, and students initially met in local high schools. The first campus, McKinney Campus ("Central Park"), opened its doors in January 1986 and provided education and training in a remodeled professional building in McKinney.

As the first building opened, plans were underway for a new campus in Plano on Spring Creek Parkway. The college's Board Members were visionary in identifying a community need that had to be addressed. By 1986, enrollment soared to over 5,000 students in 635 classes. Collin College's talented staff and faculty created a learning environment unmatched in North Texas, where students received excellent teaching and services.

The only public college based in Collin County, Collin County Community College District is accredited by the Southern Association of Colleges and Schools Commission on Colleges (SACSCOC) to award baccalaureate degrees, associate degrees and certificates. Collin College currently has more than 100 associate degrees and certificates in a wide range of disciplines. In 2019, Collin College received preliminary notification that SACSCOC approved the college's level change application from a Level I Institution to a Level II Institution, granting four-year degrees. In January 2020, Collin College began offering two new baccalaureate degrees: Bachelor of Science in Nursing and a Bachelor of Applied Technology in Cybersecurity. Following a thorough review in February 2020, the SACSCOC Substantive Change Committee had no recommendations for Collin College. The findings of this visiting team committee represent a preliminary assessment of Collin College at this time; final action on the report rests with the SACSCOC Board of Trustees.

Collin College is recognized as an institution of higher learning with preeminent faculty members who are noted authors, scholars, and scientists. Many faculty members have received prestigious designations and awards. Over the years, the college district has been well known for innovative programs and financial stewardship. The college maintained (or lowered) its tax rate for 15 consecutive years and tuition is the lowest in Texas.

At the heart of Collin College are its students. These talented individuals win national awards, publish their work, while they earn degrees and certificates. The legacy of Collin College — its students — will continue to provide a significant impact, carrying the college's mission and core values throughout the world.

OTHER INSTITUTIONS OF HIGHER LEARNING . . . In addition, the following major colleges are located within a 60-mile radius of McKinney.

Austin College	Sherman, Texas
Dallas County Community College System	Dallas County, Texas
Texas A&M - Commerce	Commerce, Texas
Grayson County Community College	Sherman, Texas
Southern Methodist University	Dallas, Texas
Texas Christian University	Fort Worth, Texas
Texas Woman's University	Denton, Texas
University of Dallas	Dallas, Texas
University of North Texas	Denton, Texas
University of Texas at Arlington	Arlington, Texas
University of Texas at Dallas	Dallas, Texas

LABOR AND EMPLOYMENT ANALYSIS . . . Economic growth and development during the past five years in Collin County, and the immediate surrounding area, has provided a high rate of employment for the available labor force. Statistical data (annual average) for Collin County is as follows:

	June	Average Annual				
	2026	2025	2024	2023	2022	2021
Civilian Labor Force	704,945	703,565	680,301	644,705	625,323	599,164
Employed	672,241	676,281	654,384	622,137	605,500	573,302
Unemployed	32,704	27,284	25,917	22,568	19,823	25,862
Percent Unemployed:						
Collin County	4.64%	3.88%	3.81%	3.50%	3.17%	4.32%
State of Texas	4.91%	4.19%	4.08%	3.95%	3.89%	5.68%
City of McKinney	4.79%	3.81%	3.79%	3.51%	3.32%	4.42%

Source: Economic Research and Analysis Department estimates - Texas Workforce Commission.

APPENDIX B

EXCERPTS FROM THE
McKINNEY INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2025

The information contained in this Appendix consists of excerpts from the McKinney Independent School District Annual Financial Report for the Year Ended June 30, 2025, and is not intended to be a complete statement of the District's financial condition. Reference is made to the complete Report for further information.

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Independent Auditor's Report

The Board of Trustees of
McKinney Independent School District
1 Duval Street
McKinney, Texas 75069

Report on the Audit of the Financial Statements

Opinions

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the McKinney Independent School District (the District) as of and for the year ended June 30, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2025, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund (Exhibit G-1), Schedule of District's Proportionate Share of the Net Pension Liability-Teacher Retirement System of Texas (Exhibit G-2), Schedule of District's Contributions – Teacher Retirement System of Texas (Exhibit G-3), Schedule of District's Proportionate Share of the Net OPEB Liability (Exhibit G-4), and Schedule of District's Contributions to the OPEB Plan (Exhibit 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 GAAS, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements, TEA required schedules 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 GAAS. In our opinion, the combining nonmajor fund financial statements, TEA required schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory and statistical sections and Exhibit L-1 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.

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In connection with our audit of the 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 also have issued our report dated December 5, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Abilene, Texas
December 5, 2025

The management of McKinney Independent School District ("the District") offer readers of the annual comprehensive financial report this narrative discussion and analysis of the District's financial performance for the twelve-month period ended June 30, 2025. Readers are encouraged to consider the information presented here in conjunction with the District's financial statements, which follow this analysis.

FINANCIAL HIGHLIGHTS

- At the close of the twelve-month period ended June 30, 2025, the District's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources. Net position was \$262.3 million.
- The government-wide statements reported total revenues of \$396.4 million, which exceeded total expenditures of \$359.6 million and resulted in a net increase of net position of \$36.8 million over beginning net position of \$225.5 million.
- The governmental funds financial statements reported combined ending fund balance of \$235 million for the twelve-month period ending June 30, 2025, a decrease of \$8.1 million over beginning fund balance of \$243.1 million. This balance consists of \$99.9 million in the General Fund, \$93.1 million of which is unassigned and available for spending at the District's discretion, \$4.2 million is nonspendable for inventory and prepaid items and \$2.6 million is assigned for insurance and contingencies. Restricted fund balance totals \$129.4 million and is included in the Debt Service Fund, Capital Projects Fund and Non-Major Funds. Committed fund balance for campus activities totals \$5.8 million.
- 2024-25 property values increased as total appraised property values continue to improve, resulting in the following for the General Fund:
 - Local property tax revenue of \$198.4 million increased by \$20.7 million, or 12%, from prior year.
 - Recapture expense of \$7 million increased by \$1.6 million, or 30%, from prior year.
 - State revenue of \$43.2 million decreased by \$14.3 million, or 25%, from prior year.
- The General Fund had \$257.0 million in revenues and other sources of funds, which primarily consisted of local property taxes and state aid. Expenditures of \$267.7 million, including \$7 million in recapture, resulted in a decrease in fund balance by \$10.7 million for the twelve-month period ended June 30, 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information.

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

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

McKinney Independent School District
Management's Discussion and Analysis
Year Ended June 30, 2025

Major features of the District's [government-wide](#) and [fund financial statements](#) are summarized below:

Type of Statement	Government-Wide	Fund Financials		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds)	The activities of the District that are not propriety or fiduciary	Activities the District operates similar to private business-health insurance and worker's compensation	Instances in which the District is the trustee or agent for someone else's resources
Required Financial Statements	- Statement of net position - Statement of activities	- Balance sheet - Statement of revenues, expenditures, and changes in fund balances	- Statement of net position - Statement of revenues, expenditures, and changes in fund balance	- Statement of fiduciary net position - Statement of change in net position
Accounting Basis and Measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included
Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenue and expenses during the year, regardless of when cash is received or paid.	All revenue and expenses during the year, regardless of when cash is received or paid.

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector company. These statements include:

The Statement of Net Position. The Statement of Net Position (Exhibit A-1) focuses on resources available for future operations. In simple terms, this statement presents a snapshot view of what the District owns (assets), what it owes (liabilities), and the net difference (net position). Net position may be further separated into amounts restricted for specific purposes and unrestricted amounts. Over time, increases or decreases in the District's net position may serve as a useful indicator of whether the financial health is improving or deteriorating.

The Statement of Activities. The Statement of Activities (Exhibit B-1) presents information showing how the net position of the District changed over the year by tracking revenues, expenses and other transactions that increase or reduce net position. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing for when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

To assess the overall health of the District, additional nonfinancial factors should be considered, such as changes in the District's property tax base, student enrollment, and facility conditions.

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

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, rather than the District as a whole. 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. Some funds are required by State law and by bond covenants, while many other funds are established by the District to help manage resources for particular purposes and compliance with various grant provisions. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

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

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 the Debt Service Fund, both of which are considered major funds. Data from the other governmental funds, including the National School Breakfast and Lunch Program, and a Local Capital Outlay Fund, are combined into a single aggregated presentation as nonmajor funds.

Fiduciary Funds. The District is the trustee, or fiduciary, for certain funds. It is also responsible for other assets that, because of a trust arrangement, may be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. Fiduciary funds are excluded from the District's government-wide financial statements because these resources are not available to finance District operations.

Notes to the Basic 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

In addition to the basic financial statements and accompanying notes, this report also presents other supplementary information, including schedules required by the Texas Education Agency.

McKinney Independent School District
Management's Discussion and Analysis
Year Ended June 30, 2025

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's combined net position increased \$36.8 million from the previous year, as can be seen on the following table.

	Governmental Activities					
	2025		2024		Increase (Decrease)	
	Amount	%	Amount	%	Amount	
Current and other assets	\$ 290,814,277	32	\$ 289,412,591	32	\$ 1,401,686	
Capital assets, net of accumulated depreciation/amortization	631,423,064	68	616,144,385	68	15,278,679	
Total assets	922,237,341	100	905,556,976	100	16,680,365	
Total deferred outflows of resources	40,907,803	100	47,407,371	100	(6,499,568)	
Other liabilities	57,782,297	9	48,734,752	7	9,047,545	
Long-term liabilities outstanding	579,897,745	91	604,297,164	93	(24,399,419)	
Total liabilities	637,680,042	100	653,031,916	100	(15,351,874)	
Total deferred inflows of resources	63,188,622	100	74,453,572	100	(11,264,950)	
Net position:						
Net investment in capital assets	246,102,731	94	210,169,459	93	35,933,272	
Restricted for grants	4,171,021	2	6,151,004	3	(1,979,983)	
Restricted for debt service	42,207,885	16	30,411,888	13	11,795,997	
Restricted for capital projects	3,026,836	1	17,656	0.0	3,009,180	
Unrestricted	(33,231,993)	(13)	(21,271,148)	(9)	(11,960,845)	
Total net position	\$ 262,276,480	100	\$ 225,478,859	100	\$ 36,797,621	

The District's capital assets, which consist of the District's land, buildings, building improvements, vehicles, and equipment, represent about 68 percent of total assets. The remaining assets consist mainly of investments, cash, grants, property taxes receivable, state revenue receivable, inventories and prepaid assets.

The District's long-term liabilities include repayment of general obligation bonds and net pension and OPEB liability. Other liabilities consist almost entirely of recapture and payables on accounts and salaries and benefits.

The District's net position includes its investment in capital assets (e.g., land, buildings, and equipment) less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources (generally property taxes), since the capital assets themselves cannot be used to liquidate these liabilities.

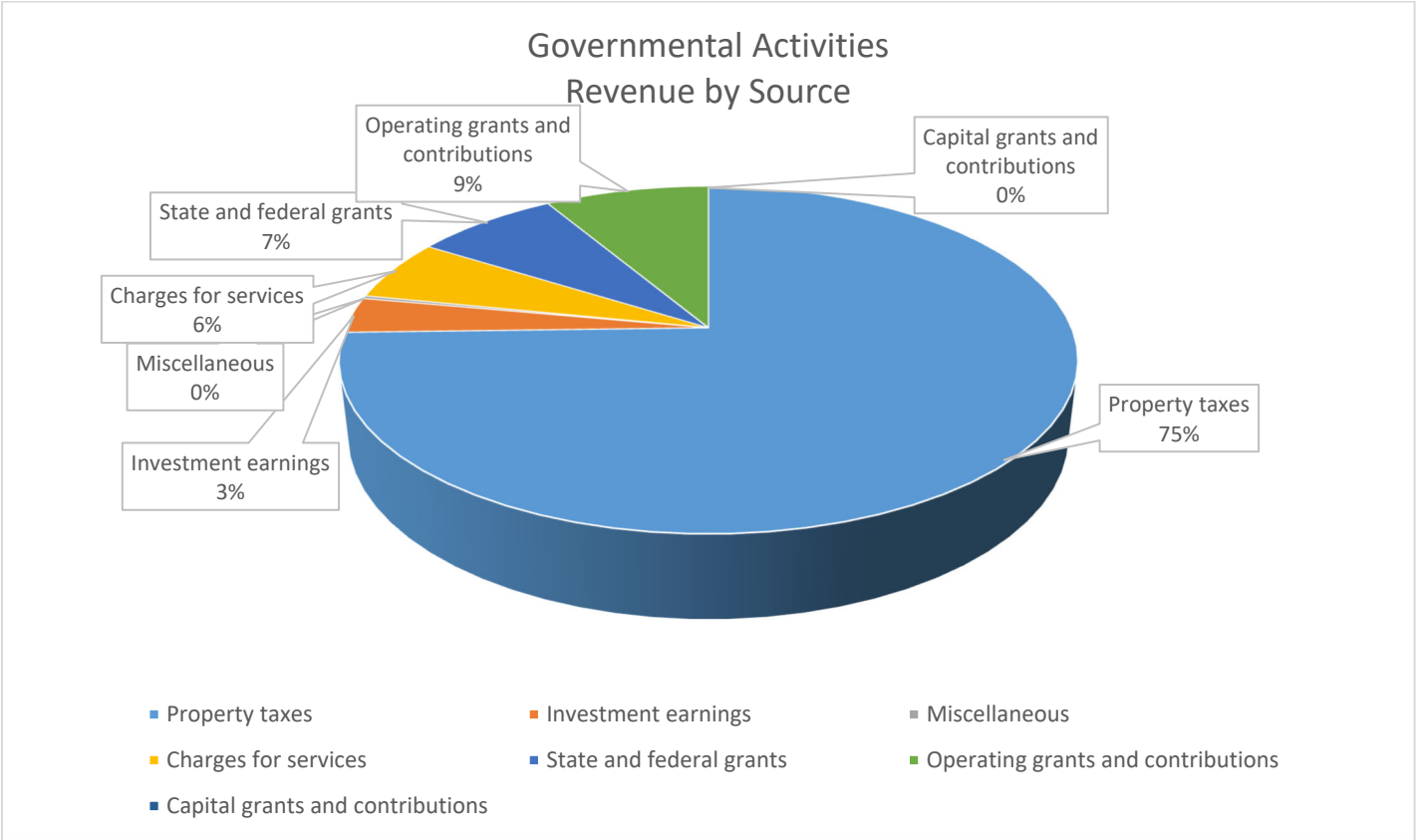
Unrestricted net position of \$33,231,993 remains a deficit due to adjustments made in a prior fiscal year from the implementation of GASB Statement No. 75 for OPEB (other post-employment benefit) plans. The deficit is primarily due to reporting the District's proportionate share of the net OPEB liability.

Governmental Activities

Funding for government-wide activities is by the specific program revenue or through general revenues such as property taxes and investment earnings. Revenues for the District's governmental activities increased \$10.6 million while total expenses decreased by \$4.4 million which resulted in a net increase of net position of \$36.8 million over beginning net position of \$225.5 million. Revenue increases were primarily driven by increases in State aid offset by lower property tax collections due to changes in state laws over property taxes and higher investment earnings due to market conditions. Expenses increased primarily in instruction-based expenses, while security and monitoring expenses decreased slightly along with facilities acquisition and construction due to ongoing construction projects.

Revenues

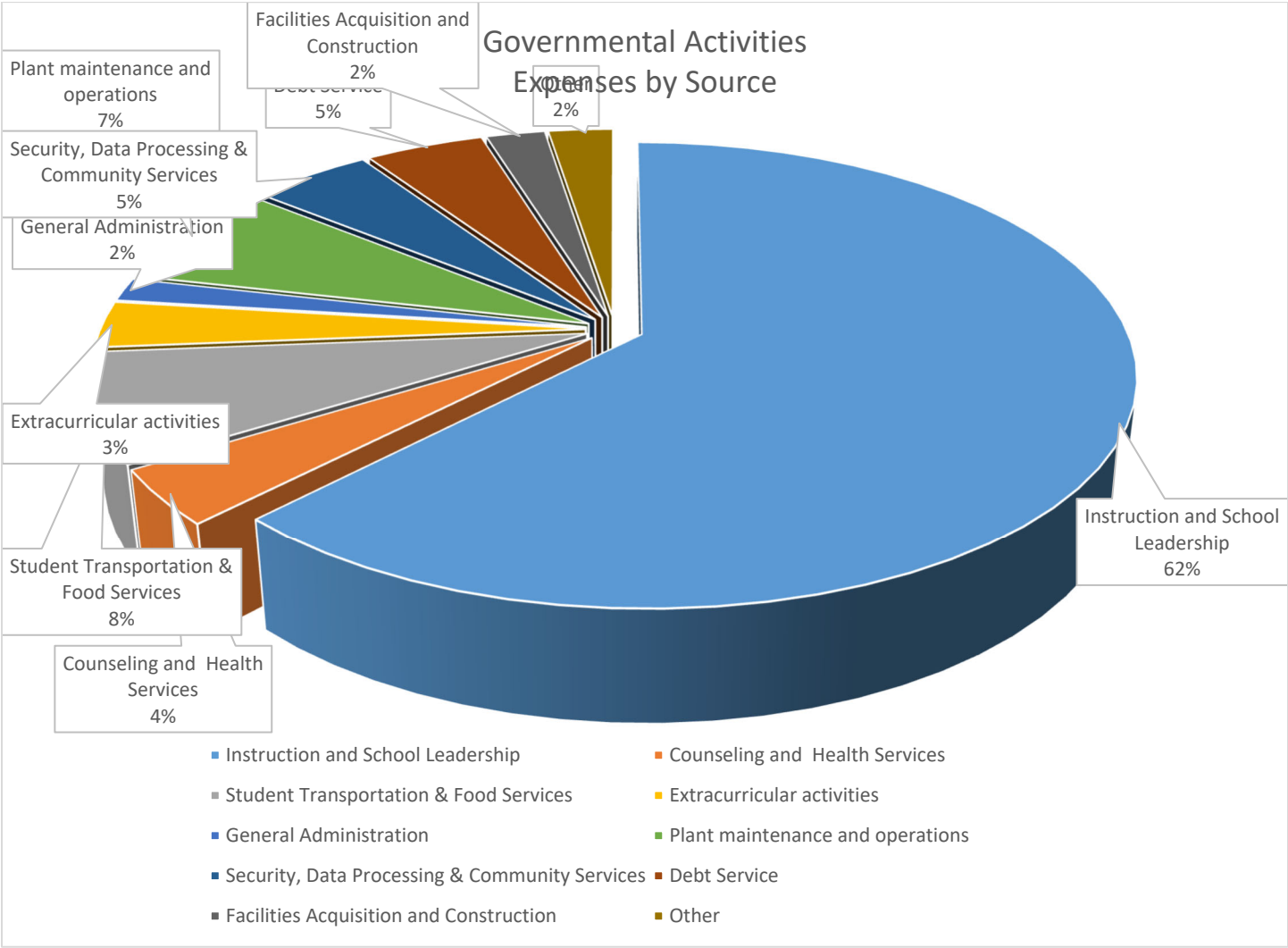
The District's total revenues were \$396.4 million, representing an increase of \$10.6 million from the previous year. As seen below, approximately 75% of the District's revenue comes from local property taxes, 7% from state and federal sources, 9% from operating grants and contributions; 3% from investment earnings; and 6% for charges and services.



Expenses

The District's total expenses were \$359.6 million, representing a decrease of \$4.4 million from the previous year. The District's primary functional expenses are:

- Instruction and school leadership - \$224.1 million, or 62 percent of total expenses
- Facilities acquisition and construction - \$8.3 million, or 2 percent
- Plant maintenance and operations - \$26.2 million, or 7 percent



McKinney Independent School District
Management's Discussion and Analysis
Year Ended June 30, 2025

In total, governmental activities increased the District's net position by \$36.8 million dollars over beginning net position of \$225.5 million. Key elements of this change are as follows:

McKinney Independent School District's Net Position

	Governmental Activities					
	2025		2024		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for services	\$ 22,752,334	6	\$ 17,891,844	5	\$ 4,860,490	27
Operating grants and contributions	33,993,281	9	42,132,128	11	(8,138,847)	(19)
Capital grants and contributions	-	-	731,600	0.2	(731,600)	(100)
General revenues:						
Property taxes, levied for general purpose	198,367,575	50	177,120,799	46	21,246,776	12
Property taxes, levied for debt service	97,231,053	25	86,368,716	22	10,862,337	13
State Aid - Formula Grants	29,823,800	8	44,622,858	12	(14,799,058)	(33)
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Investment earnings	13,168,154	2.7	15,665,959	3.5	(2,497,805)	(16)
Miscellaneous	1,070,616	0.3	1,236,278	0.3	(165,662)	(13)
Total revenues	396,406,813	100	385,770,182	100	10,636,631	3
Expenses:						
Instruction	193,657,630	53	188,929,991	51	4,727,639	3
Instructional resources and media services	5,084,704	1	5,182,028	1	(97,324)	(2)
Curriculum and instructional staff development	3,439,509	1	3,693,414	1	(253,905)	(7)
Instructional leadership	5,162,820	1	4,660,126	1	502,694	11
School leadership	16,724,301	5	17,059,080	5	(334,779)	(2)
Guidance, counseling, and evaluation services	9,997,318	3	10,033,844	3	(36,526)	(0)
Social work services	728,845	1	724,658	1	4,187	1
Health services	3,107,858	1	3,228,793	1	(120,935)	(4)
Student transportation	11,472,511	3	11,456,976	3	15,535	0
Food service	15,737,862	4	15,610,521	4	127,341	1
Extracurricular activities	11,610,708	3	11,975,262	3	(364,554)	(3)
General administration	5,801,123	2	6,576,032	2	(774,909)	(12)
Facilities maintenance and operations	26,214,546	7	26,251,939	7	(37,393)	(0)
Security and monitoring services	5,001,225	1	5,467,475	2	(466,250)	(9)
Data processing services	7,905,421	2	7,789,297	2	116,124	1
Community services	4,031,422	1	3,220,700	1	810,722	25
Debt service -interest on long-term debt	16,620,625	5	19,879,167	5	(3,258,542)	(16)
Facilities acquisition and construction	8,265,011	2	14,928,366	4	(6,663,355)	(45)
Contracted instructional services between schools	7,041,655	2	5,431,182	1	1,610,473	30
Payments related to shared service arrangement	6,314	1	23,603	1	(17,289)	(73)
Other intergovernmental charges	1,997,784	1	1,921,219	1	76,565	4
Total expenses	359,609,192	100	364,043,673	100	(4,434,481)	(1)
Change in net position	36,797,621		21,726,509		15,071,112	
Net position, beginning of year	225,478,859		203,752,350		21,726,509	
Net position - ending	\$ 262,276,480		\$ 225,478,859		\$ 36,797,621	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balance of \$235 million, a decrease of \$8.1 million over beginning fund balance of \$243.1 million. Approximately 39.6 percent of this total amount (\$93.1 million) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of fund balance is non-spendable, restricted, committed or assigned to indicate that it is not available for new spending because it has already been 1) used to purchase inventories and food services (\$4.3 million), 2) restricted to pay debt service (\$47.4 million), 3) restricted for grants (\$4.2 million), or 4) restricted for future capital projects (\$77.9 million), 5) committed for campus activities (\$5.8 million) 6) assigned for insurance and contingencies (\$2.6 million). Assignments reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds.

General Fund. The General Fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$93.1 million, while total fund balance reached \$99.9 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 35 percent of total General Fund expenditures, while total fund balance represents 37 percent of that same amount.

The fund balance of the District's General Fund decreased by \$10.7 million during the current fiscal year. Key factors are as follows:

- Revenues totaled \$256.2 million which is a 3.7 percent increase from previous year. Total state program revenues decreased by \$14.3 million, or 25 percent, and federal funds increased by \$4.7 million.
- Expenditures totaled \$267.7 million, which is a 5 percent increase from previous year. This includes a \$7.7 million increase in instruction and a \$1.6 million increase in recapture.

Debt Service Fund. The Debt Service Fund has a total fund balance of \$47.4 million, all of which is restricted for the payment of debt service. The net increase in fund balance was \$7 million. Revenues totaled \$106.4 million which is a 10.4 percent increase from previous year due to higher property values.

Local Capital Projects Fund. The Local Capital Projects Fund has a total fund balance of \$77.8 million, which is a \$2.5 million decrease, all of which is restricted for capital acquisition and improvements.

Budgetary Highlights

The District adopts an annual appropriated budget for the General Fund, the National School Breakfast and Lunch Program, and the Debt Service Fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with statutory requirements.

General Fund. The most significant fund for the District is the General Fund, funded primarily through local property tax revenue. The District's budget amendments presented to the Board of Trustees throughout the year are summarized as follows:

- ***Variances of original expenditure budget compared to amended budget.***
The amended expenditure budget did not change from the original budget.
- ***Variances of amended budget to actual expenditures.***
Expenditures were \$5.7 million less than final budgeted amounts. This was primarily due to overall decreased expenditures in all categories.
- ***Variances of original revenue budget compared to actual revenue***
Revenues were above the amended budget by \$1 million. The amended budget was adopted with lower projections for State program revenue and higher projections for local revenue.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2025, the District had invested \$631.4 million in a broad range of capital assets, including land, buildings, and equipment. This amount represents a net increase of \$15.3 million, or more than two percent over last year. Major capital asset events conducted during the fiscal year included the completion of renovations to Evans Middle School – Phase 2 and McKinney Boyd High School – Phase 1, Classroom Additions to Scott Johnson Middle School, a performing arts addition to Scott Johnson Middle School, a performing arts addition to McKinney Boyd High School, and significant improvements to various athletic facilities and stadiums. Additional information on the District's capital assets can be found in Note 5 of this report.

McKinney Independent School District's Capital Assets

	Governmental Activities	
	2025	2024
Land	\$ 39,390,469	\$ 39,390,469
Construction in progress	37,884,416	2,592,898
Buildings and improvements	886,221,435	878,028,798
Furniture and equipment	61,086,024	55,880,914
Intangible asset - right to use asset	4,163,433	4,163,433
Total at historical cost	1,028,745,777	980,056,512
Less accumulated depreciation/amortization	(397,322,713)	(363,912,127)
Net capital assets	\$ 631,423,064	\$ 616,144,385

McKinney Independent School District

Management's Discussion and Analysis

Year Ended June 30, 2025

Long-Term Debt

At the end of 2025, the District had \$579.9 million in long-term liabilities which include general obligation bonds, net pension liability, net OPEB liability, lease liability and arbitrage rebate liability. The District's long-term liabilities decreased by \$24 million due to the issuance of a \$80,300,000 Unlimited Tax School Building and Refunding Bond in 2024, the decrease in the net pension liability and amortization of debt. Additional information on the District's long-term debt can be found in Note 6 of this report.

	Governmental Activities					
	2025		2024		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Noncurrent liabilities	\$ 457,238,742	82	\$ 486,775,182	80	\$ (29,536,440)	(6)
Net pension liability	75,987,561	13	83,827,445	14	(7,839,884)	(9)
Net OPEB liability	46,671,442	5	33,694,537	6	12,976,905	39
Totals	<u>\$ 579,897,745</u>	<u>100</u>	<u>\$ 604,297,164</u>	<u>100</u>	<u>\$ (24,399,419)</u>	

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

McKinney ISD is situated in Collin County, 36 miles north of Dallas on U.S. Highway 75 in the city of McKinney. The city is an integral part of the Dallas Fort Worth metroplex. It enjoys easy access to major transportation and shipping hubs located 37 miles from DFW Airport and 32 miles from Love Field. In addition, McKinney's National Airport will accommodate all types of business aircraft.

McKinney is home to several industries such as Raytheon, Encore Wire, Emerson Process Management, Baylor Medical Center, and Globe Life Insurance. As the county seat of Collin County, public employers include the County, City of McKinney, McKinney ISD, and Collin College. Contributing to the area's growth has been the relocation of Toyota Motor Company's Headquarters as well as the State Farm Insurance Company's and Liberty Mutual regional offices in neighboring cities. These factors have created an increased residential demand and rapidly expanding economy.

The 2024-25 school year marked the continuation of the \$220,000,000 2016 Bond Program approved by voters in May 2016 and the beginning of the \$275,000,000 2021 Bond Program approved by voters in May 2021. Projects include comprehensive upgrades to almost every campus, fine arts, athletic and technology system within McKinney ISD. These multi-year bond programs positively impact every child in McKinney ISD.

McKinney ISD continues to experience above state average property value growth based on existing property value increases and strong new construction values.

The Board of Trustees is required to adopt a final budget no later than the close of the fiscal year, June 30. Annual budgets for the General Operating Fund, Debt Service Fund, and Food Service Fund were adopted by the Board of Trustees on June 23, 2025. The budgets are allocated by fund and function. Site based decisions are made throughout the year as campuses and departments manage their funds. Budget transfers between functions, however, require approval from the Board of Trustees. The Budget is strictly monitored in all areas of operation.

The Maintenance and Operations (M&O) tax rate decreased to \$0.7343 per \$100 valuation for the 2025-26 year. The Interest and Sinking (I&S) tax rate remained at \$0.3700 per \$100 valuation for the 2025-26 year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Business Services Group, McKinney ISD, #1 Duval Street, McKinney, Texas 75069.

McKinney Independent School District

Statement of Net Position (Exhibit A-1)

June 30, 2025

Data Control Codes		1 Primary Government Governmental Activities
Assets		
1110	Cash and cash equivalents	\$ 209,018
1120	Investments - current	271,218,831
1220	Property taxes receivable (delinquent)	6,898,375
1230	Allowance for uncollectible taxes	(207,000)
1240	Due from other governments	7,726,052
1290	Other receivables	714,449
1300	Inventories at cost	551,613
1410	Prepaid expenses	3,702,939
	Capital assets	
1510	Land	39,390,469
1520	Buildings, net	520,346,356
1530	Furniture and equipment, net	32,454,294
1550	Right-to-use assets, net of accumulated amortization	1,347,529
1580	Construction in progress	37,884,416
1000	Total assets	922,237,341
Deferred outflows of resources		
1705	Deferred outflows - pension	20,506,821
1706	Deferred outflows - OPEB	19,082,652
1710	Deferred charge on refunding	1,318,330
1700	Total deferred outflows of resources	40,907,803
Liabilities		
2110	Accounts payable	13,200,297
2140	Interest payable	6,481,830
2160	Accrued wages payable	24,813,849
2177	Due to trust and custodial funds	297,535
2180	Due to other governments	9,015,032
2200	Accrued expenses	3,941,724
2300	Unearned revenue	32,030
	Noncurrent liabilities	
2501	Due within one year	66,627,740
2502	Due in more than one year	390,611,002
2540	Net pension liability	75,987,561
2545	Net OPEB liability	46,671,442
2000	Total liabilities	637,680,042

McKinney Independent School District
Statement of Net Position (Exhibit A-1), continued
June 30, 2025

Data Control Codes		1 Primary Government <u>Governmental</u> <u>Activities</u>
	Deferred Inflows of Resources	
2605	Deferred inflows - pension	5,796,331
2606	Deferred inflows - OPEB	46,790,710
2610	Deferred gain on refunding	<u>10,601,581</u>
2600	Total deferred inflows of resources	<u>63,188,622</u>
	Net Position	
3200	Net investment in capital assets	246,102,731
3820	Restricted for grants	4,171,021
3850	Restricted for debt service	42,207,885
3860	Restricted for capital projects	3,026,836
3900	Unrestricted	<u>(33,231,993)</u>
3000	Total net position	<u><u>\$ 262,276,480</u></u>

McKinney Independent School District
Statement of Activities (Exhibit B-1)
Year Ended June 30, 2025

1

Data Control Codes	Functions/Programs	Expenses
	Primary government	
	Governmental activities	
11	Instruction	\$ 193,657,630
12	Instructional resources and media services	5,084,704
13	Curriculum and instructional staff development	3,439,509
21	Instructional leadership	5,162,820
23	School leadership	16,724,301
31	Guidance, counseling, and evaluation services	9,997,318
32	Social work services	728,845
33	Health services	3,107,858
34	Student transportation	11,472,511
35	Food service	15,737,862
36	Extracurricular activities	11,610,708
41	General administration	5,801,123
51	Plant maintenance and operations	26,214,546
52	Security and monitoring services	5,001,225
53	Data processing services	7,905,421
61	Community services	4,031,422
72	Debt service	16,620,625
81	Facilities acquisition and construction	8,265,011
91	Contracted instructional services between schools	7,041,655
93	Payments related to shared services arrangement	6,314
99	Other intergovernmental charges	1,997,784
TG	Total governmental activities	<u>359,609,192</u>
TP	Total primary government	<u>\$ 359,609,192</u>

McKinney Independent School District
Statement of Activities (Exhibit B-1), continued
Year Ended June 30, 2025

3	4	5	Net (Expense) Revenue and Changes in Net Position
Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
\$ 6,824,173	\$ 16,676,975	\$ -	\$ (170,156,482)
-	113,998	-	(4,970,706)
-	97,467	-	(3,342,042)
-	146,215	-	(5,016,605)
-	570,968	-	(16,153,333)
-	566,134	-	(9,431,184)
-	4,653	-	(724,192)
-	110,885	-	(2,996,973)
-	2,908	-	(11,469,603)
5,301,441	7,334,878	-	(3,101,543)
5,966,565	141,916	-	(5,502,227)
-	150,542	-	(5,650,581)
825,755	413,128	-	(24,975,663)
-	799,998	-	(4,201,227)
-	77,937	-	(7,827,484)
3,834,400	19,543	-	(177,479)
-	6,765,136	-	(9,855,489)
-	-	-	(8,265,011)
-	-	-	(7,041,655)
-	-	-	(6,314)
-	-	-	(1,997,784)
<u>22,752,334</u>	<u>33,993,281</u>	<u>-</u>	<u>(302,863,577)</u>
<u>\$ 22,752,334</u>	<u>\$ 33,993,281</u>	<u>\$ -</u>	<u>\$ (302,863,577)</u>

General revenues:

Taxes:

MT	Property taxes, levied for general purposes	198,367,575
DT	Property taxes, levied for debt services	97,231,053
SF	State aid - Formula grants	29,823,800
IE	Investment earnings	13,168,154
MI	Miscellaneous	1,070,616
TR	Total general revenues	<u>339,661,198</u>
CN	Change in net position	36,797,621
NB	Net position - beginning	<u>225,478,859</u>
NE	Net position - ending	<u>\$ 262,276,480</u>

McKinney Independent School District
Balance Sheet – Governmental Funds (Exhibit C-1)
June 30, 2025

Data Control Codes	10	50	60
	General Fund	Debt Service Fund	Capital Projects Fund
Assets			
1110 Cash and cash equivalents	\$ 194,157	\$ 14,850	\$ -
1120 Current investments	134,658,595	47,398,581	89,161,655
1220 Property taxes - delinquent	4,786,022	2,112,353	-
1230 Allowance for uncollectable taxes	(144,000)	(63,000)	-
1240 Due from other governments	3,838,322	28,045	54,970
1260 Due from other funds	2,424,532	131,767	2,971,866
1290 Other receivables	709,266	-	-
1300 Inventories	551,613	-	-
1410 Prepaid expenditures	3,679,110	-	-
1000 Total assets	<u>150,697,617</u>	<u>49,622,596</u>	<u>92,188,491</u>
1000a Total assets and deferred outflows of resources	<u>\$ 150,697,617</u>	<u>\$ 49,622,596</u>	<u>\$ 92,188,491</u>
Liabilities			
2110 Accounts payable	\$ 12,777	\$ -	\$ 12,922,994
2160 Accrued wages payable	23,705,315	-	-
2170 Due to other funds	13,379,005	-	-
2180 Due to other governments	8,082,090	932,881	-
2200 Accrued expenditures	2,489,902	-	1,448,321
2300 Unearned revenue	-	-	-
2000 Total liabilities	<u>47,669,089</u>	<u>932,881</u>	<u>14,371,315</u>
Deferred inflows of resources			
2600 Unavailable revenue	<u>3,166,972</u>	<u>1,328,788</u>	<u>-</u>
Total deferred inflows of resources	<u>3,166,972</u>	<u>1,328,788</u>	<u>-</u>
Fund balances			
3410 Nonspendable - inventories	551,613	-	-
3430 Nonspendable - prepaid items	3,679,110	-	-
3450 Restricted - grants	-	-	-
3470 Restricted - capital acquisitions and contractual obligations	-	-	77,817,176
3480 Restricted - debt service	-	47,360,927	-
3545 Committed - other	-	-	-
3580 Assigned - insurance	2,500,000	-	-
3590 Assigned - other	50,000	-	-
3600 Unassigned	93,080,833	-	-
3000 Total fund balances	<u>99,861,556</u>	<u>47,360,927</u>	<u>77,817,176</u>
4000 Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 150,697,617</u>	<u>\$ 49,622,596</u>	<u>\$ 92,188,491</u>

McKinney Independent School District
Balance Sheet – Governmental Funds (Exhibit C-1), continued
June 30, 2025

ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ 11	\$ 209,018
-	271,218,831
-	6,898,375
-	(207,000)
3,804,715	7,726,052
9,623,556	15,151,721
5,183	714,449
-	551,613
23,829	3,702,939
<u>13,457,294</u>	<u>305,965,998</u>
 <u>\$ 13,457,294</u>	 <u>\$ 305,965,998</u>
 \$ 264,526	 \$ 13,200,297
1,108,534	24,813,849
2,070,251	15,449,256
61	9,015,032
3,501	3,941,724
32,030	32,030
<u>3,478,903</u>	<u>66,452,188</u>
 <u>-</u>	 <u>4,495,760</u>
 <u>-</u>	 <u>4,495,760</u>
 -	 551,613
23,829	3,702,939
4,171,021	4,171,021
 -	 77,817,176
-	47,360,927
5,783,541	5,783,541
-	2,500,000
-	50,000
<u>-</u>	<u>93,080,833</u>
<u>9,978,391</u>	<u>235,018,050</u>
 <u>\$ 13,457,294</u>	 <u>\$ 305,965,998</u>

See Notes to Financial Statements

McKinney Independent School District
Reconciliation to the Governmental Funds Balance Sheet to the Statement of Net Position (Exhibit C-2)
June 30, 2025

Total Fund Balances - Governmental Funds (Exhibit C-1) \$ 235,018,050

Capital assets, net of accumulated depreciation, are not financial resources and therefore are not reported as assets in governmental funds. 631,423,064

Some liabilities, including bonds payable, leases, and subscriptions, are not due and payable in the current period and therefore are not reported in the funds:

Bonds payable	(399,370,000)	
Deferred charge on refunding	1,318,330	
Deferred gain on refunding	(10,601,581)	
Unamortized premiums on bonds payable	(50,133,858)	
Lease liability	(1,323,564)	
Arbitrage rebate liability	<u>(6,411,320)</u>	
		(466,521,993)

Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds. (6,481,830)

Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds. These are:

Deferred resource inflow for property taxes	4,495,760
---	-----------

The government-wide statements includes the District's proportionate share of the TRS net pension liabilities and TRS-Care net OPEB liabilities, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources:

Net pension liability	(75,987,561)	
Deferred outflows of resources - TRS pension	20,506,821	
Deferred inflows of resources - TRS pension	(5,796,331)	
Net OPEB liability	(46,671,442)	
Deferred outflows of resources - TRS-Care OPEB	19,082,652	
Deferred inflows of resources - TRS-Care OPEB	<u>(46,790,710)</u>	<u>(135,656,571)</u>

Total Net Position - Governmental Activities (Exhibit A-1) \$ 262,276,480

McKinney Independent School District
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit C-3)
Year Ended June 30, 2025

		10	50
Data			
Control			Debt Service
Codes		General Fund	Fund
Revenues			
5700	Local and intermediate revenues	\$ 207,904,624	\$ 99,597,884
5800	State program revenues	43,167,265	6,765,136
5900	Federal program revenues	5,134,441	-
5020	Total revenues	256,206,330	106,363,020
Expenditures			
Current			
0011	Instruction	152,683,735	-
0012	Instructional resources and media services	4,569,262	-
0013	Curriculum and instructional staff development	3,588,688	-
0021	Instructional leadership	5,300,936	-
0023	School leadership	16,924,257	-
0031	Guidance, counseling, and evaluation services	10,211,824	-
0032	Social work services	706,555	-
0033	Health services	3,247,847	-
0034	Student transportation	11,427,198	-
0035	Food service	-	-
0036	Extracurricular activities	7,584,748	-
0041	General administration	5,700,800	-
0051	Plant maintenance and operations	24,958,647	-
0052	Security and monitoring services	3,939,057	-
0053	Data processing services	6,949,665	-
0061	Community services	175,148	-
Debt service			
0071	Debt service	659,082	99,576,452
Capital outlay			
0081	Facilities acquisition and construction	-	-
Intergovernmental			
0091	Contracted instructional services between schools	7,041,655	-
0093	Payments related to shared service arrangements	6,314	-
0099	Other intergovernmental charges	1,997,784	-
6030	Total expenditures	267,673,202	99,576,452
1100	Excess (deficiency) of revenues over (under) expenditures	(11,466,872)	6,786,568
Other financing sources (uses)			
7901	Refunding debt issued	-	22,795,000
7911	Issuance of bonds	-	-
7912	Sale of real and personal property	6,013	-
7915	Transfers in	749,513	-
7916	Premium on issuance of bonds	-	2,636,549
8911	Transfers out	-	-
8940	Payment to bond refunding escrow agent	-	(25,234,159)
7080	Total other financing sources (uses)	755,526	197,390
1200	Net change in fund balances	(10,711,346)	6,983,958
0100	Fund balances, beginning	110,572,902	40,376,969
3000	Fund balances, ending	\$ 99,861,556	\$ 47,360,927

McKinney Independent School District

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds (Exhibit C3), continued Year Ended June 30, 2025

60 Capital Projects Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ 5,335,410	\$ 14,506,690	\$ 327,344,608
-	4,803,320	54,735,721
-	16,608,602	21,743,043
5,335,410	35,918,612	403,823,372
11,000,912	14,736,818	178,421,465
-	124,461	4,693,723
-	36,245	3,624,933
-	119,832	5,420,768
-	423,538	17,347,795
-	332,849	10,544,673
-	31,747	738,302
-	32,948	3,280,795
-	-	11,427,198
-	14,616,506	14,616,506
-	1,075,628	8,660,376
-	61,520	5,762,320
-	653,333	25,611,980
-	944,139	4,883,196
-	-	6,949,665
-	3,913,572	4,088,720
395,073	-	100,630,607
55,793,938	-	55,793,938
-	-	7,041,655
-	-	6,314
-	-	1,997,784
67,189,923	37,103,136	471,542,713
(61,854,513)	(1,184,524)	(67,719,341)
-	-	22,795,000
57,505,000	-	57,505,000
-	-	6,013
-	-	749,513
1,897,733	-	4,534,282
-	(749,513)	(749,513)
-	-	(25,234,159)
59,402,733	(749,513)	59,606,136
(2,451,780)	(1,934,037)	(8,113,205)
80,268,956	11,912,428	243,131,255
\$ 77,817,176	\$ 9,978,391	\$ 235,018,050

McKinney Independent School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental
Funds to the Statement of Activities (Exhibit C-4)
Year Ended June 30, 2025

Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-3)	\$ (8,113,205)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2025 capital outlays of \$48,689,265, bond principal payments of \$79,490,000, lease principal payments of \$600,391 and recognition of deferred charges and gains on refunding of \$737,482 is to increase net position.	129,517,138
Government funds report debt proceeds and premium on issuance of bonds as financing sources when debt is first issued, whereas these are reported as long-term liabilities in the statement of net position. The net effect of reclassing bond proceeds of \$80,300,000 and bond premium of \$4,534,282 is to decrease net position.	(84,834,282)
Governmental funds report the payment to the bond refunding escrow agent as a financing use; however, the refunding payment is recorded as a reduction of outstanding principal and related premiums on the statement of net position. Additionally, a deferred charge on refunding is recorded as a result of the refunding and amortized to the statement of activities. The refunding resulted in the reduction of bond principal of \$25,285,000 and related premiums of \$6,175,898. A deferred gain of \$6,226,739 also is recognized. The net effect is an increase in net position.	25,234,159
2025 depreciation expense of \$32,718,295 increases accumulated depreciation. 2025 amortization of right to use lease and subscription assets of \$692,291 increases accumulated amortization. The net effect of the current year's activity is to decrease net position.	(33,410,586)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable tax revenue of \$4,495,760 as revenue and removing the prior year's tax collection of \$4,391,090.	104,670
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is a decrease of \$362,676. The net effect is to increase net position.	362,676

McKinney Independent School District

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities (Exhibit C-4), continued Year Ended June 30, 2025

The arbitrage rebate liability is accrued in the government-wide financial statements.	(2,068,370)
The current year change in the rebate liability is an increase of \$2,068,370. The net effect is to decrease net position.	
Bond premiums are recorded as other financing sources when received in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization.	4,887,803
Changes in the deferred outflows of resources, deferred inflows of resources and net pension liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$630,635. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$2,940,290. The net effect is a decrease in net position.	(2,309,655)
Changes in the deferred outflows of resources, deferred inflows of resources and net OPEB liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$79,311. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the OPEB expense must be recognized. These cause the change in net position to increase in the amount of \$7,347,962. The net effect is an increase in net position.	7,427,273
Change in Net Position for Governmental Activities (Exhibit B-1)	<u>\$ 36,797,621</u>

McKinney Independent School District
Statement of Fiduciary Net Position – Fiduciary Funds (Exhibit E-1)
June 30, 2025

Data Control Codes		Private Purpose Trust Funds	865 Custodial Fund
	Assets		
1120	Current investments	\$ 21,537	\$ -
1260	Due from other funds	2,524	295,011
1410	Prepaid expenditures	<u>-</u>	<u>12,790</u>
1000	Total assets	<u>24,061</u>	<u>307,801</u>
	Liabilities		
2170	Due to other funds	<u>-</u>	<u>691</u>
2000	Total liabilities	<u>-</u>	<u>691</u>
	Net Position		
3800	Restricted	<u>24,061</u>	<u>307,110</u>
	Total net position	<u><u>\$ 24,061</u></u>	<u><u>\$ 307,110</u></u>

McKinney Independent School District
Statement of Change in Net Position – Fiduciary Funds (Exhibit E-2)
Year Ended June 30, 2025

	Private Purpose Trust Funds	865 Custodial Fund
	<u> </u>	<u> </u>
Additions		
Donations	\$ -	\$ 221,601
	<u> </u>	<u> </u>
Total contributions	-	221,601
	<u> </u>	<u> </u>
Investment Earnings		
Temp. deposits and investments	1,250	-
	<u> </u>	<u> </u>
Total investment earnings	1,250	-
	<u> </u>	<u> </u>
Total additions	1,250	221,601
	<u> </u>	<u> </u>
Deductions		
Contracted services	-	168,111
Supplies and materials	-	12,353
Other deductions	-	78,212
	<u> </u>	<u> </u>
Total deductions	-	258,676
	<u> </u>	<u> </u>
Change in net position	1,250	(37,075)
	<u> </u>	<u> </u>
Net position, beginning	22,811	344,185
	<u> </u>	<u> </u>
Net position, ending	\$ 24,061	\$ 307,110
	<u> </u>	<u> </u>

Note 1 - Summary of Significant Accounting Policies**Reporting Entity**

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the McKinney Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the TEA or to the State Board of Education are reserved for the trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. There are no component units included within the reporting entity. The financial statements of the District include all activities for which the Board exercises these governance responsibilities.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

The Fiduciary Funds are accounted for using the *economic resources measurement focus and the accrual basis of accounting*. Revenues are recognized in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund net position is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

Property taxes and penalties and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the District receives cash.

The District reports the following major governmental funds:

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

The Debt Service Fund – a governmental fund type, is used to account for the District's current portion of voter approved debt and the Foundation School Program's facilities allotment for bonded indebtedness.

Capital Projects Fund – a governmental fund type, is used to account for the proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions.

Additionally, the District reports the following nonmajor fund types:

Special revenue funds - a governmental fund type, account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The District accounts for each federal and state grant in a separate special revenue fund.

Within the *fiduciary funds*, the District has the following:

Private purpose trust funds – Donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The Virginia Dodson Finch Trust Fund is intended to serve children in need at Finch Elementary. The District's other private purpose trust fund is intended to serve the District's libraries.

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

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from *nonoperating items*. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the transportation internal service fund are District contributions for the transportation fund. Operating expenses include depreciation and other operating expense and administrative expense for administering the transportation fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources, as they are needed.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments in investment pools are reported at amortized cost.

Receivables and Payables

Activity 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" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements and in the proprietary fund financial statements. The District defines capital assets 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. 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.

Property, plant and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20-40
Furniture and equipment	5-10

Right-to-use lease assets are recognized at the lease commencement date and represent the District's right to use an underlying asset for the lease term. Right-to-use lease assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right-to-use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

Right-to-use subscription IT assets are recognized at the subscription commencement date and represent the District's right to use the underlying IT asset for the subscription term. Right-to-use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right-to-use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period varies from 1 to 3 years.

Inventory

The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Agriculture. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Agriculture and recorded as inventory and revenue when received. When requisitioned, inventory is decreased, and expenditures are charged for an equal amount.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Long-Term Liabilities

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable government activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method.

Lease liabilities represent the District's obligation to make lease payments arising from the lease. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on a borrowing rate determined by the District.

Subscription liabilities represent the District's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments are discounted based on a borrowing rate determined by the District.

Compensated Absences

Employees earn five days of paid local leave and five days of paid state leave per school year. State leave accumulates without a limit and can be transferred among districts. Local paid leave accumulates up to a maximum of 30 days. Accumulated local leave is not paid out to employees on separation.

Deferred Outflows/Inflows of Resources

Deferred outflows/inflows of resources are separate elements of the financial statements. The District has deferred inflows of resources, which arises under the modified accrual basis of accounting, unavailable revenue from property taxes, deferred gains on refunded debt, and for its proportionate share of TRS's deferred inflow related to pensions as described in Note 10 and its OPEB liability as described in Note 11. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District has deferred outflows of resources for deferred charges on refunded debt, its proportionate share of TRS's deferred outflow related to pensions as described in Note 10, and for its proportionate share of TRS-Care's deferred outflow related to OPEB as described in Note 11.

Property Tax

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the June 30, 2025 fiscal year was based, was \$26,988,468,200. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended June 30, 2025 were 98.96% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund are based on historical experience in collecting 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. As of June 30, 2025, property taxes receivable, net of estimated uncollectible taxes, totaled \$6,691,375.

The tax rate to finance general governmental services was \$0.7552 per \$100 and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.37001 per \$100 for the year ended June 30, 2025.

Net Position

Net position represents the difference between the sum of assets and deferred outflows of resources and the sum of liabilities and deferred inflows of resources. The District's net position is composed of the following:

Net Investment in Capital Assets is the component of net position that reports capital assets less both the accumulated depreciation and the outstanding balance of debt that is directly attributable to the acquisition, construction, or improvements of these capital assets. The net investment in capital assets is made up of the following:

Net carrying value of capital assets	\$ 631,423,064
Less:	
Outstanding principal of capital debt and other capital borrowings	(450,827,422)
Net deferred gain on bond refunding	(9,283,251)
Outstanding balance of capital related liabilities, including accounts payable	(14,371,315)
Plus:	
Unspent bond proceeds from capital related debt	<u>89,161,655</u>
Net investment in capital assets	<u><u>\$ 246,102,731</u></u>

Fund Balance

The District classifies governmental fund balance in accordance with Government Accounting Standards Board (GASB) 54, Fund Balance Reporting and Governmental Fund Type Definitions:

Nonspendable fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. At June 30, 2025, the District had nonspendable fund balance for inventories and prepaid items of \$551,613 and \$3,702,939 respectively.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. At June 30, 2025, the District had restricted fund balance for the National School Lunch and Breakfast Program of \$4,134,260, \$36,761 restricted for advanced placement incentives; \$77,817,176 restricted for capital acquisitions and contractual obligations, and \$47,360,927 for debt service.

Committed fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At June 30, 2025, the District had committed \$5,034,818 for campus activities and \$307,597 for Club 360 after school program, \$346,872 committed for facility maintenance and \$94,254 committed for Texas Health Resources.

Assigned fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent or the Chief Financial Officer. At June 30, 2025, the District had \$2,500,000 assigned for insurance and \$50,000 assigned for contingencies.

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted fund balance first, then unrestricted fund balance. The District would first use committed, then assigned, and lastly unassigned amounts of unrestricted fund balance when expenditures are made. The District does not have a formal minimum fund balance policy.

Use of Estimates

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

Pensions

The fiduciary net position of the Teacher Retirement System (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. The General Fund is typically used to liquidate pension liabilities.

OPEB

The fiduciary net position of the 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 relating 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. The General Fund is typically used to liquidate OPEB liabilities.

Adoption of New Accounting Standards

As of July 1, 2024, the District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. There was not a significant effect on the District's financial statements as a result of implementation of this standard.

As of July 1, 2024, the District adopted GASB Statement No. 102, *Certain Risk Disclosures*, which requires management to evaluate whether there are risks related to a government's vulnerabilities due to certain concentrations or constraints that require disclosure. There were no significant concentrations or constraints that warranted disclosure as a result of implementation of this standard.

New Accounting Pronouncements

GASB issued Statement No. 103, Financial Reporting Model Improvements. Statement 103 was issued in April 2024. The objective of this statement is to improve the financial reporting model's effectiveness in providing information for decision-making and assessing a government's accountability. The statement was issued in April 2024. The statement's requirements are intended to improve transparency, comparability and quality; address application issues and increase consistency. This statement will be effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. The District has not yet determined the impact of this Statement.

GASB issued Statement No. 104, Disclosure of Certain Capital Assets. Statement 104 was issued in September 2024. This statement establishes requirements for certain types of capital assets to be disclosed separately in the capital assets note disclosures. In addition, it establishes requirements for capital assets held for sale. This statement will be effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged. The District has not yet determined the impact of this Statement.

Note 2 - Stewardship, Compliance and Accountability**Budgetary Information**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in the Texas Education Agency's (TEA) Financial Accounting Resource (FAR) module and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to June 19 of the preceding fiscal year for the subsequent fiscal year beginning July 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, Debt Service Fund, and the Child Nutrition Program. The remaining special revenue funds adopt project-length budgets that do not correspond to the District's fiscal year.

Note 3 - Fair Value Measurements

GASB Statement No. 72, *Fair Value Measurement and Application* defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into three-level fair value hierarchy as follows:

Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.

Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.

Level 3 inputs are observable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

Market approach – uses prices generated by market transactions involving identical or comparable assets or liabilities.

Cost approach – uses the amount that currently would be required to replace the service capacity of an asset (replacement cost).

Income approach – uses valuation techniques to convert future amounts to present amounts based on current market expectations.

Note 4 - Detailed Notes on All Funds

Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent, bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) coverage. In order to maximize return on cash balances, the District uses consolidated bank accounts from which all disbursements are made, with cash in excess of the District's total daily requirement being invested for future needs.

At June 30, 2025, the bank balance of \$1,538,794 was on deposit with the contracted depository bank. District funds are insured up to \$250,000 for the combined amount of all time and savings accounts, and up to an additional \$250,000 for the combined total of all Demand Deposit Accounts (DDA's). Interest-bearing accounts were collateralized by pledged United States government securities with a fair value of \$4,124,498 at June 30, 2025, held by the American National Bank. Because the American National Bank holds the pledged securities in trust on behalf of the District, the deposits were deemed collateralized under Texas law. All campus activity funds were centralized and were on deposit with the contracted depository.

Investments

The Texas legislature passed the Public Funds Investment Act of 1995 ("Public Funds Investment Act") which authorizes the District to invest its excess funds in the following:

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies, and instrumentalities,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less,
- Fully collateralized repurchase agreements,
- 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", or its equivalent, by a nationally recognized investment rating firm,
- Commercial paper having a stated maturity of 365 days or fewer 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,
- 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,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above,
- Bonds issued, assumed or guaranteed by the State of Israel, and Secured corporate bonds rated not lower than "AA—" or the equivalent.

The Public Funds Investment Act requires an annual review and approval of investment policies and practices. The review disclosed that in this area of investment practices, management reports and establishment of appropriate policies, the District materially adhered to the requirements of the Public Funds Investment Act. Additionally, investment practices of the District were in accordance with local policies, which are more restrictive than state statutes.

McKinney Independent School District

Notes to Financial Statements

June 30, 2025

As of June 30, 2025, the following are the District's cash equivalents and investments, with respective maturities and credit rating:

Type of Investment	Book Value	Percent	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-10 years	Credit Rating
Cash	\$ 209,018	1%	\$ 209,018	1%	\$ 209,018	\$ -	N/A
Investment pools:							
TexPool	132,308,778	44%	132,308,778	44%	132,308,778	-	AAAm
Tex STAR	138,931,590	55%	138,931,590	55%	138,931,590	-	AAAm
Total investment pools	271,240,368	99%	271,240,368	99%	271,240,368	-	
Total cash and investments	\$ 271,449,386	100%	\$ 271,449,386	100%	\$ 271,449,386	\$ -	

Investment Pools are measured at amortized cost or net asset value, i.e. fair value. As such, these investments are not required to be reported in the fair value hierarchy.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares. Audited financial statements of the pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

TexSTAR is a local government investment pool tailored to provide investment solutions to local government investment plans whether as a liquidity component, for a more comprehensive investment strategy or as a method to diversify an investment program primarily based on traditional banking services. TexSTAR is administered by Hilltop Securities and J.P. Investment Management Inc, who serve as administrators for TexSTAR under an agreement with the TexSTAR board of directors. TexSTAR is conservatively managed in full compliance with the Texas Public Funds Investment Act. TexSTAR was created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools.

Interest Rate Risk

In accordance with the District's investment policy, investments are made in a manner that ensures the ensure the safety of the principal, to maintain liquidity and to maximize financial returns within current market conditions. Investments shall be made in a manner to ensure the preservation of capital in the overall portfolio, and offsets during a twelve-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio. The District's investment strategy states that no individual transaction shall be undertaken that jeopardizes the total capital position of the overall portfolio.

Credit Risk

The District's investments in Local Government Investment Pools (LGIP's) include: TexPool and TexSTAR. These are public funds investment pools operating in full compliance with the Public Funds Investment Act. Both are rated "AAAm" by Standard and Poor's.

Concentration of Credit Risk

The District's investment portfolio is diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from overconcentration of assets in a specific class of investments, specific maturity or specific issuer.

Custodial Credit Risk – Deposits

This is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. All deposits not covered by FDIC insurance but held in the depository bank, American National Bank, were fully collateralized.

Foreign Currency Risk

As of June 30, 2025, there are no foreign currency investments in the District's portfolio.

Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2025, are summarized below:

Governmental Activities	Local	State Grants/ Entitlements	Federal Grants/Other	Total
General Fund	\$ 68,459	\$ 3,769,863	\$ -	\$ 3,838,322
Debt Service Fund	28,045	-	-	28,045
Capital Projects Fund	-	-	54,970	54,970
Nonmajor Governmental Funds	-	43,035	3,761,680	3,804,715
	<u>\$ 96,504</u>	<u>\$ 3,812,898</u>	<u>\$ 3,816,650</u>	<u>\$ 7,726,052</u>

Interfund Receivables/Payable

In the fund financial statements, interfund balances are the results of normal transactions between funds and will be liquidated in the subsequent fiscal year.

Interfund balances at June 30, 2025, resulting from payroll and accumulated fund charges, consisted of the following individual fund balances:

<u>Due From/To Other Funds</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 2,424,532	\$ 13,379,005
Debt Service Fund	131,767	-
Capital Projects Fund	2,971,866	-
Nonmajor Governmental Funds	9,623,556	2,070,251
Private Purpose Trust Fund	2,524	-
Custodial Funds	295,011	-
Totals	<u>\$ 15,449,256</u>	<u>\$ 15,449,256</u>

Interfund transfers at June 30, 2025, were as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Nonmajor governmental funds	General Fund	\$ 749,513
Total		<u>\$ 749,513</u>

The transfer from the nonmajor fund to the General Fund was intended to offset costs incurred by the General Fund for the installation of a new marquee at the athletic stadium.

Note 5 - Capital Asset Activity

Capital asset activity for the District for the year ended June 30, 2025, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land and improvements	\$ 39,390,469	\$ -	\$ -	\$ 39,390,469
Construction in progress	2,592,898	42,837,589	(7,546,071)	37,884,416
Total capital assets, not being depreciated	41,983,367	42,837,589	(7,546,071)	77,274,885
Capital assets, being depreciated				
Buildings and improvements	878,028,798	8,192,637	-	886,221,435
Furniture and equipment	55,880,914	5,205,110	-	61,086,024
Total capital assets, being depreciated	933,909,712	13,397,747	-	947,307,459
Less accumulated depreciation for				
Buildings and improvements	(339,502,781)	(26,372,298)	-	(365,875,079)
Furniture and equipment	(22,285,733)	(6,345,997)	-	(28,631,730)
Total accumulated depreciation	(361,788,514)	(32,718,295)	-	(394,506,809)
Total capital assets, being depreciated, net	572,121,198	(19,320,548)	-	552,800,650
Right-to-use lease assets				
Equipment	3,024,183	-	-	3,024,183
Less accumulated amortization for Equipment	(1,159,271)	(604,837)	-	(1,764,108)
Net right-to-use lease assets	1,864,912	(604,837)	-	1,260,075
Right-to-use subscription IT assets	1,139,250	-	-	1,139,250
Less accumulated amortization, IT assets	(964,342)	(87,454)	-	(1,051,796)
Net right-to-use subscription IT assets	174,908	(87,454)	-	87,454
Total right-to-use assets, net	2,039,820	(692,291)	-	1,347,529
Governmental activities capital assets, net	<u>\$ 616,144,385</u>	<u>\$ 22,824,750</u>	<u>\$ (7,546,071)</u>	<u>\$ 631,423,064</u>

Depreciation expense was charged to the District's functions as follows:

Governmental Activities		
11	Instruction	\$ 23,671,688
12	Instructional resources and media services	621,648
23	School leadership	359,903
34	Student transportation	49,077
35	Food service	2,224,845
36	Extracurricular activities	3,271,828
41	General administration	310,823
51	Plant maintenance and operations	883,393
52	Security and monitoring services	212,669
53	Data processing services	<u>1,112,421</u>
Total depreciation expense-governmental activities		<u>\$ 32,718,295</u>

Amortization expense was charged to the District's functions as follows:

Governmental Activities		
11	Instruction	<u>\$ 692,291</u>
Total amortization expense-governmental activities		<u>\$ 692,291</u>

Construction Commitments

Estimated costs to complete construction in progress as of June 30, 2025 are \$85,229,146.

Note 6 - Long-Term Debt

The long-term indebtedness of the District pertains to the Governmental Activities of the District. Expenditures for the debt service requirements of the long-term debt are accounted for in the General Fund, Debt Service Fund, and other nonmajor funds.

On July 15, 2024, the District issued \$80,300,000 in Unlimited Tax School Building and Refunding Bonds, Series 2024. The bonds were issued with a premium of \$4,534,281. The proceeds of the refunding were used to refund outstanding debt of the School Building and Refunding Bond, Series 2014 and for various campus and district building updates, and health, safety and security upgrades. The District established a defeasance escrow to defease the District's outstanding School Building and Refunding Bond, Series 2014. The District deposited directly with a paying agent for the defeased bonds funds in the amount of \$25,234,159, sufficient to provide the final payment and redemption of the defeased bonds. The defeased bonds are no longer regarded as being outstanding, except for the purpose of being paid from funds on deposit in the escrow fund. The payment to the escrow was recorded as other financing uses paid from the Debt Service Fund. The defeasance resulted in a cash flow savings of approximately \$1.4 million and an economic gain of approximately \$1.1 million for the District.

Arbitrage Rebate Liability

Bonds issued are subject to Internal Revenue Service income tax regulations which require rebates to the U.S. Government of interest income earned on investments purchased with the proceeds from the bonds at any applicable reserves in excess of the allowable yield of the issue. At June 30, 2025, the arbitrage rebate liability for the District is \$6,411,320.

A summary of bond issuances and other general long-term debt original amounts issued, interest rates, and maturity dates as of June 30, 2025 is as follows:

Bond Issuances	Amounts Original Issued	Interest Rate Payable	Maturity Date
2014 School Building and Refunding	99,360,000	4.45%	February 15, 2039
2015 Refunding	47,170,000	3.74%	February 15, 2031
2015A Building and Refunding	66,355,000	4.58%	February 15, 2026
2016 Refunding	34,635,000	3.77%	February 15, 2033
2016A Building	77,950,000	4.63%	February 15, 2036
2017 Building	78,545,000	4.75%	February 15, 2037
2018 Building	40,180,000	5.00%	February 15, 2038
2019 Building and Refunding	29,305,000	5.00%	February 15, 2034
2021 Unlimited Building and Refunding	128,230,000	2% to 5%	August 31, 2041
2022 Unlimited Building and Refunding	104,600,000	4% to 5%	August 31, 2042
2023 Unlimited Building and Refunding	48,345,000	4% to 4.5%	August 31, 2029
2024 Unlimited Building and Refunding	80,300,000	5.00%	February 15, 2044
Leases			
ImageNet Copier Lease	3,024,183	3.66%	July 31, 2027

McKinney Independent School District

Notes to Financial Statements

June 30, 2025

A summary of changes in general long-term debt for the year ended June 30, 2025 is as follows:

Bond Series Name	Beginning Balance	Debt Issued	Principal Retired	Ending Balance	Due Within One Year
2014 School Building and Refunding	\$ 27,645,000	\$ -	\$ (27,645,000)	\$ -	\$ -
2015 Refunding	25,850,000	-	(3,250,000)	22,600,000	3,400,000
2015A Building and Refunding	39,020,000	-	(3,065,000)	35,955,000	35,955,000
2016 Refunding	23,800,000	-	(2,145,000)	21,655,000	2,270,000
2016A Building	52,110,000	-	(3,295,000)	48,815,000	3,465,000
2017 Building	54,115,000	-	(3,215,000)	50,900,000	3,380,000
2018 Building	27,910,000	-	(1,410,000)	26,500,000	1,485,000
2019 Building and Refunding	6,445,000	-	(510,000)	5,935,000	535,000
2021 Unlimited Building and Refunding	89,680,000	-	(6,980,000)	82,700,000	6,570,000
2022 Unlimited Building and Refunding	67,840,000	-	(4,765,000)	63,075,000	5,010,000
2023 Unlimited Building and Refunding	9,430,000	-	(3,575,000)	5,855,000	1,350,000
2024 Unlimited Building and Refunding	-	80,300,000	(44,920,000)	35,380,000	2,585,000
Total bonds payable	423,845,000	80,300,000	(104,775,000)	399,370,000	66,005,000
Total leases payable	1,923,955	-	(600,391)	1,323,564	622,740
Total arbitrage rebate liabilities	4,342,950	2,133,068	(64,698)	6,411,320	-
Total general long-term debt	<u>\$ 430,111,905</u>	<u>\$ 82,433,068</u>	<u>\$ (105,440,089)</u>	<u>\$ 407,104,884</u>	<u>\$ 66,627,740</u>

Debt service requirements for the District's bonds are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 66,005,000	\$ 17,380,906	\$ 83,385,906
2027	30,905,000	14,202,331	45,107,331
2028	31,290,000	12,656,206	43,946,206
2029	31,605,000	11,208,731	42,813,731
2030	28,600,000	9,879,181	38,479,181
2031-2035	127,155,000	30,812,544	157,967,544
2036-2040	70,175,000	7,675,406	77,850,406
2041-2044	<u>13,635,000</u>	<u>635,600</u>	<u>14,270,600</u>
Totals	<u>\$ 399,370,000</u>	<u>\$ 104,450,905</u>	<u>\$ 503,820,905</u>

McKinney Independent School District

Notes to Financial Statements

June 30, 2025

Payment requirements for the District's leases are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 622,740	\$ 36,277	\$ 659,017
2027	645,921	13,029	658,950
2028	54,903	6	54,909
Totals	<u>\$ 1,323,564</u>	<u>\$ 49,312</u>	<u>\$ 1,372,876</u>

A summary of changes in total bonds payable and other long-term debt follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 423,845,000	\$ 80,300,000	\$ (104,775,000)	\$ 399,370,000	\$ 66,005,000
Premium on bond payable	56,663,278	4,534,281	(11,063,701)	50,133,858	-
Total bonds payable, net	480,508,278	84,834,281	(115,838,701)	449,503,858	66,005,000
Lease liabilities	1,923,955	-	(600,391)	1,323,564	622,740
Arbitrage rebate liability	4,342,950	2,133,068	(64,698)	6,411,320	-
Governmental activities long-term liabilities	<u>\$ 486,775,183</u>	<u>\$ 86,967,349</u>	<u>\$ (116,503,790)</u>	<u>\$ 457,238,742</u>	<u>\$ 66,627,740</u>

Note 7 - Leases

The District entered into a lease agreement for the use of copy machines with ImageNet beginning August 1, 2022. Under the terms of the lease, the District pays a monthly base fee of \$55,069. The District is required to make annual principal and interest payments through July 2027.

At June 30, 2025, the District has recognized a right to use asset, net of accumulated amortization, of \$1,260,075 and a lease liability of \$1,323,564 related to the agreement. During the fiscal year, the District recorded \$604,837 in amortization expense and \$58,691 in interest expense for the right to use copy machines. The District used a discount rate of 3.66% for the copier lease. The discount rate was based on the estimated incremental borrowing rate of the District.

Remaining obligations associated with these leases are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2026	\$ 622,740	\$ 36,277
2027	645,921	13,029
2028	<u>54,903</u>	<u>6</u>
Total	<u>\$ 1,323,564</u>	<u>\$ 49,312</u>

Note 8 - Subscription-Based Information Technology Arrangement (SBITAs)

The District entered into one SBITA contract for productivity software. The District made upfront payments in June 2023. The contract terminates in June 2026. The subscription liability was valued using a discount rate of 4.98%. The discount rate was based on the estimated incremental borrowing rate of the District. As of June 30, 2025, there are no remaining obligations associated with the SBITA arrangement.

Note 9 - Contingencies

The District is not a party to any legal actions that are believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying financial statements for such contingencies.

The District participates in numerous state and federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2025, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note 10 - Defined Benefit Pension Plan**Defined Benefit Pension Plan****Plan Description**

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

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% (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 in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above. Accordingly, the 2023 Texas Legislature passed Senate Bill (SB) 10 and House Joint Resolution (HJR) 2 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.

Contribution

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

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

	Contribution Rates	
	2024	2025
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
	2024	2025
Member Contributions	\$ 14,367,241	\$ 15,216,242
NECE On-Behalf Contributions	9,855,377	10,172,226
Employer Contributions	6,923,422	7,661,488

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

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

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

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

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

Actuarial Assumptions

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

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual entry age normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2024	3.87%
Last year ending August 31 in Projection	
Period (100 years)	2123
Inflation	2.30%
Salary Increases including inflation	2.95% to 8.95%
Ad hoc post-employment benefit changes	None

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

Discount Rate

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

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

The long-term expected rate of return on pension plan investments is 7.00%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target allocation as of August 31, 2024 (see page 56 of the 2024 TRS ACFR) are summarized on the following page.

Teacher Retirement System of Texas

Asset Allocation and Long-Term Expected Real Rate of Return as of August 31, 2024

Asset Class	Target Allocation ¹	Long-Term Expected Geometric Real Rate of Return ²	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.0%	4.4%	1.00%
Non-U.S. Developed	13.0%	4.2%	0.80%
Emerging Markets	9.0%	5.2%	0.70%
Private Equity	14.0%	6.7%	1.20%
Stable Value			
Government Bonds	16.0%	1.9%	0.40%
Absolute Return ⁴	0.0%	4.0%	0.00%
Stable Value Hedge Funds	5.0%	3.0%	0.20%
Real Return			
Real Estate	15.0%	6.6%	1.20%
Energy and Natural Resources and Infrastructure	6.0%	5.6%	0.40%
Commodities	0.0%	2.5%	0.00%
Risk Parity			
Risk Parity	8.0%	4.0%	0.40%
Asset Allocation Leverage			
Cash	2.0%	1.0%	0.00%
Asset Allocation Leverage	-6.0%	1.3%	-0.10%
Inflation Expectation			2.40%
Volatility Drag ³			-0.70%
Expected Return	100%		7.90%

¹Target Allocation based on the FY2024 policy manual.

² Capital Market Assumptions come from 2024 SAA Study CMA Survey (as of 12/31/2023).

³The volatility drag results from the conversion between arithmetic and geometric mean returns.

⁴ Absolute Return includes Credit Sensitive instruments.

Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase Discount Rate (8.00%)
Total TRS net pension liability	\$ 97,566,906,778	\$ 61,084,175,799	\$ 30,855,639,673
District's proportionate share of the net pension liability	\$ 121,371,389	\$ 75,987,561	\$ 38,383,833

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

At June 30, 2025, the District reported a liability of \$75,987,561 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 75,987,561
State's proportionate share that is associated with the District	104,316,988
Total	<u>\$ 180,304,549</u>

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

On August 31, 2024, the employer's proportion of the collective net pension liability was 0.124398111% which was an increase of 0.0023614% from its proportion measured as of August 31, 2023.

Changes since the Prior Actuarial Valuation

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

The 2023 Texas Legislature passed Senate Bill 10 (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House Joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1.645 billion for one-time stipends and \$3.355 billion for COLAs.

McKinney Independent School District

Notes to Financial Statements

June 30, 2025

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 June 30, 2025, the District recognized pension expense of \$12,467,624 and revenue of \$9,623,820 for support provided by the State.

At June 30, 2025, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actuarial economic experience	\$ 4,188,331	\$ 593,274
Changes in actuarial assumptions	3,923,400	525,994
Difference between projected and actual investment earnings	461,902	-
Changes in proportion and differences between District contributions and the proportionate share of contributions	5,440,823	4,677,063
Contributions paid to TRS subsequent to the measurement date	6,492,365	-
Total	<u>\$ 20,506,821</u>	<u>\$ 5,796,331</u>

\$6,492,365 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2026.

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

<u>Year Ended June 30,</u>	<u>Pension Expense Amount</u>
2026	\$ (602,301)
2027	9,058,112
2028	1,291,841
2029	(1,926,281)
2030	396,754
Thereafter	-
Totals	<u>\$ 8,218,125</u>

Note 11 - Postemployment Health Benefits**Plan Description**

The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.

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

OPEB Plan Fiduciary Net Position

Detail information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <https://www.trs.texas.gov/learningresources/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 schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

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

The premium rates for retirees are reflected 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 school districts based upon public school district payroll. The TRS Board of Trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the State's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the employer. 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:

Contributions Rates		
	2024	2025
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
	2024	2025
Employer Contributions	\$ 1,378,676	\$ 1,467,700
Member Contributions	1,137,696	1,198,894
NECE On-behalf Contributions	2,122,473	2,221,477

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

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

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.87% as of August 31, 2024
Aging Factors	Based on the Society of Actuaries' 2013 Study "Health Care Costs - 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
Healthcare Trend Rates	4.25% to 7.25% The initial medical trend rates were 6.75% for Medicare retirees and 6.75% for non-Medicare retirees. There was an initial prescription drug trend rate of 7.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 11 years.
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65; 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

Discount Rate

A single discount rate of 3.87% was used to measure the total OPEB liability. This was a decrease of 0.26% in the discount rate since the previous year. Because the investments are held in cash and there is no intentional objective to advance fund the benefits, the Single Discount Rate is equal to the prevailing municipal bond rate.

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

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% lower than and 1% higher than the discount rate that was used (3.87%) in measuring the Net OPEB Liability.

	<u>1% Decrease in Discount Rate (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase Discount Rate (4.87%)</u>
Total TRS net OPEB liability	\$ 36,059,038,653	\$ 30,351,532,252	\$ 25,739,781,222
District's proportionate share of the Net OPEB liability	\$ 55,447,854	\$ 46,671,442	\$ 39,579,969

Healthcare Cost Trend Rate Sensitivity Analysis

The following schedule shows the impact of the Net OPEB Liability if a healthcare trend rate that is 1% less than and 1% greater than the health trend rates assumed:

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Current Single Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Total TRS net OPEB liability	\$ 24,716,816,909	\$ 30,351,532,252	\$ 37,694,128,071
District's proportionate share of the Net OPEB liability	\$ 38,006,960	\$ 46,671,442	\$ 57,962,125

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs

At June 30, 2025, the District reported a liability of \$46,671,442 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District was as follows on the next page:

McKinney Independent School District

Notes to Financial Statements

June 30, 2025

District's Proportionate share of the collective Net OPEB liability	\$ 46,671,442
State's proportionate share that is associated with the District	<u>58,478,683</u>
Total	<u>\$ 105,150,125</u>

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

At June 30, 2025, the District's proportion of the collective Net OPEB Liability was 0.1537696% compared to 0.1522001658% as of June 30, 2024.

Changes Since the Prior Actuarial Valuation

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

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

Change of Benefit Terms Since the Prior Measurement Date

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

For the year ending June 30, 2025, the District recognized OPEB benefit of \$7,601,150 and revenue of \$1,750,125 for support provided by the State.

McKinney Independent School District

Notes to Financial Statements

June 30, 2025

At June 30, 2025, the 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 actuarial economic experience	\$ 8,945,348	\$ 23,291,580
Changes in actuarial assumptions	5,973,393	15,228,351
Difference between projected and actual investment earnings	-	130,695
Changes in proportion and differences between District contributions and the proportionate share of contributions	2,932,537	8,140,084
Contributions paid to TRS subsequent to the measurement date	1,231,374	-
Totals	<u>\$ 19,082,652</u>	<u>\$ 46,790,710</u>

\$1,231,374 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended June 30, 2026.

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

<u>Year Ended June 30,</u>	<u>OPEB Expense Amount</u>
2026	\$ (7,166,006)
2027	(5,052,213)
2028	(6,340,521)
2029	(5,555,481)
2030	(3,256,083)
Thereafter	(1,569,128)
Totals	<u>\$ (28,939,432)</u>

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries know as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from federal governments to offset certain prescriptions drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amount of \$1,217,913, \$949,750 and \$905,150 for the years ended June 30, 2025, 2024 and 2023, respectively.

Note 12 - Unavailable Revenue

Unavailable revenue at year-end in the fund financial statements consisted of the following:

	General Fund	Debt Service	Total
Unavailable tax collections	\$ 3,166,972	\$ 1,328,788	\$ 4,495,760
Total	<u>\$ 3,166,972</u>	<u>\$ 1,328,788</u>	<u>\$ 4,495,760</u>

Note 13 - Unearned Revenue

Unearned revenue at year-end in the fund financial statements consisted of the following:

	Nonmajor Governmental	Total
Local revenue	\$ 32,030	\$ 32,030
Total	<u>\$ 32,030</u>	<u>\$ 32,030</u>

Note 14 - Revenues from Local and Intermediate Sources

	General	Debt Service	Capital Projects Fund	Nonmajor Governmental	Total
Property taxes	\$ 198,369,318	\$ 97,124,640	\$ -	\$ -	\$ 295,493,958
Penalties, interest, and other tax-related	770,796	293,807	-	-	1,064,603
Investment income	6,004,927	2,179,437	4,983,790	-	13,168,154
Food sales	-	-	-	5,291,382	5,291,382
Co-curricular/extra- curricular student activities	729,701	-	-	4,892,710	5,622,411
Tuition and fees	69,190	-	-	-	69,190
Gifts and bequests	300	-	-	343,854	344,154
Day care fees	-	-	-	3,834,400	3,834,400
Other	1,960,392	-	351,620	144,344	2,456,356
Total	<u>\$ 207,904,624</u>	<u>\$ 99,597,884</u>	<u>\$ 5,335,410</u>	<u>\$ 14,506,690</u>	<u>\$ 327,344,608</u>

Note 15 - General Fund Federal Source Revenues

Revenues from federal sources, which are reported in the General Fund, consist of:

	<u>CFDA</u>	<u>Amount</u>
School of Health and Related Services	N/A	\$ 5,134,441
		<u>\$ 5,134,441</u>

Note 16 - Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2025, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Health Care Coverage

For the year ended June 30, 2025, all employees of the District were offered health care coverage under the TRS ActiveCare insurance plan (the Plan), which is a statewide health coverage program for public education employees established by the 77th Texas Legislature. The District contributed \$306 per month per enrolled employee to the Plan, and employees, at their option, authorized payroll withholdings to pay the additional cost of premiums for themselves and dependents.

Workers' Compensation Insurance

During the year ended June 30, 2025, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's workers' compensation program is authorized by Chapter 504, Texas Labor Code. All districts participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

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

The Fund and its members are protected against higher-than-expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully fund those reserves. As of August 31, 2024, the Fund carries a discounted reserve of \$162,809,321 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended June 30, 2025, the Fund anticipates no additional liability beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

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

Tax Abatements

In compliance with GASB Statement No. 77, the District did not have any outstanding tax abatements for the year ended June 30, 2025.

Note 17 - Subsequent Events

On August 1, 2025, the District issued \$84,550,000 in Unlimited Tax School Building and Refunding Bonds, Series 2025. The bond proceeds will be used to refund the Unlimited Tax Refunding Bonds, Series 2015 bond and the Unlimited Tax School Building and Refunding Bonds, Series 2015A bond. Bonds proceeds also will be used to renovate and equip school buildings of the District.

Required Supplementary Information
June 30, 2025

McKinney Independent School District

McKinney Independent School District
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund
(Exhibit G-1)
Year Ended June 30, 2025

Data Control Codes		Budgeted Amounts	
		Original	Final
Revenues			
5700	Local and intermediate revenues	\$ 200,722,143	\$ 211,401,272
5800	State program revenues	41,635,299	37,579,476
5900	Federal program revenues	3,200,000	6,200,000
5020	Total revenues	245,557,442	255,180,748
Expenditures			
Current			
0011	Instruction	156,242,023	153,199,212
0012	Instructional resources and media services	4,512,283	4,875,895
0013	Curriculum and instructional staff development	3,648,547	3,906,846
0021	Instructional leadership	5,218,086	5,549,008
0023	School leadership	17,718,763	17,106,988
0031	Guidance, counseling, and evaluation services	10,161,222	10,479,961
0032	Social work services	777,045	964,081
0033	Health services	3,502,911	3,541,749
0034	Student transportation	10,400,814	12,004,364
0036	Extracurricular activities	7,472,168	7,889,420
0041	General administration	6,008,837	6,134,222
0051	Plant maintenance and operations	27,089,502	25,343,910
0052	Security and monitoring services	4,278,324	4,642,313
0053	Data processing services	7,485,911	7,147,630
0061	Community services	210,277	366,979
0071	Debt service	-	-
Intergovernmental			
0091	Contracted instructional services between schools	6,507,793	8,000,000
0095	Payments to JJAEP	150,000	150,000
0099	Other intergovernmental charges	1,973,307	2,055,235
6030	Total expenditures	273,357,813	273,357,813
1100	Excess of revenues over expenditures	(27,800,371)	(18,177,065)
Other financing sources (uses)			
7915	Transfers in	749,513	749,513
8949	Other uses	-	-
7080	Total other financing sources (uses)	749,513	749,513
1200	Net change in fund balance	(27,050,858)	(17,427,552)
0100	Fund balance, beginning	110,572,902	110,572,902
3000	Fund balance, ending	\$ 83,522,044	\$ 93,145,350

McKinney Independent School District

Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund (Exhibit G-1), continued Year Ended June 30, 2025

Actual	Variance with Final Budget Positive (Negative)
\$ 207,904,624	\$ (3,496,648)
43,167,265	5,587,789
5,134,441	(1,065,559)
<u>256,206,330</u>	<u>1,025,582</u>
152,683,735	515,477
4,569,262	306,633
3,588,688	318,158
5,300,936	248,072
16,924,257	182,731
10,211,824	268,137
706,555	257,526
3,247,847	293,902
11,427,198	577,166
7,584,748	304,672
5,700,800	433,422
24,958,647	385,263
3,939,057	703,256
6,949,665	197,965
175,148	191,831
659,082	(659,082)
7,041,655	958,345
6,314	143,686
1,997,784	57,451
<u>267,673,202</u>	<u>5,684,611</u>
<u>(11,466,872)</u>	<u>6,710,193</u>
749,513	-
6,013	6,013
755,526	6,013
(10,711,346)	6,716,206
110,572,902	-
<u>\$ 99,861,556</u>	<u>\$ 6,716,206</u>

McKinney Independent School District

Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System of Texas (Exhibit G-2)
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
District's proportion of the net pension liability	0.12439811%	0.12203671%	0.12564764%	0.1258640%	0.1002023%	0.1399813%	0.1382331%	0.1340302%	0.1289138%	0.1322152%
District's proportionate share of the net pension liability	\$ 75,987,561	\$ 83,827,445	\$ 74,593,775	\$ 32,053,109	\$ 53,666,330	\$ 72,766,653	\$ 76,086,879	\$ 42,855,649	\$ 48,714,622	\$ 46,736,313
State's proportionate share of the net pension liability associated with the District	104,316,988	121,763,015	115,169,997	53,983,427	127,252,744	105,756,584	114,043,598	68,064,935	82,732,771	78,939,744
Totals	<u>\$ 180,304,549</u>	<u>\$ 205,590,460</u>	<u>\$ 189,763,772</u>	<u>\$ 86,036,536</u>	<u>\$ 180,919,074</u>	<u>\$ 178,523,237</u>	<u>\$ 190,130,477</u>	<u>\$ 110,920,584</u>	<u>\$ 131,447,393</u>	<u>\$ 125,676,057</u>
District's covered payroll	\$ 175,072,945	\$ 167,738,217	\$ 167,187,277	\$ 137,661,752	\$ 158,789,220	\$ 153,920,464	\$ 147,901,986	\$ 142,291,152	\$ 136,704,162	\$ 130,962,482
District's proportionate share of the net pension liability as a percentage of its covered payroll	43.40%	49.98%	44.62%	23.28%	33.80%	47.28%	51.44%	30.12%	35.64%	35.69%
Plan fiduciary net position as a percentage of the total pension liability	77.51%	73.15%	75.62%	88.79%	75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

Note 1: The information disclosed for each fiscal year is reported as of the measurement date of the net pension liability which is August 31 of the preceding fiscal year.

McKinney Independent School District
Schedule of the District's Contributions to the Pension Plan – Teacher Retirement System of Texas (Exhibit G-3)
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018	2017	2016
Contractually required contributions	\$ 7,661,488	\$ 6,923,422	\$ 6,208,077	\$ 5,812,932	\$ 4,441,208	\$ 4,258,033	\$ 4,895,693	\$ 4,587,320	\$ 4,340,564	\$ 4,063,118
Contributions in relation to the contractually required contributions	<u>(7,661,488)</u>	<u>(6,923,422)</u>	<u>(6,208,077)</u>	<u>(5,812,932)</u>	<u>(4,441,208)</u>	<u>(4,258,033)</u>	<u>(4,895,693)</u>	<u>(4,587,320)</u>	<u>(4,340,564)</u>	<u>(4,063,118)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 184,466,996	\$ 175,072,945	\$ 167,738,217	\$ 167,187,277	\$ 137,661,752	\$ 158,789,220	\$ 153,920,464	\$ 147,901,986	\$ 142,291,152	\$ 136,704,162
Contributions as a percentage of covered payroll	4.15%	3.95%	3.70%	3.48%	3.23%	2.68%	3.18%	3.10%	3.05%	2.97%

Note 1: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

McKinney Independent School District
Schedule of the District's Proportionate Share of the Net OPEB Liability (Exhibit G-4)
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
District's proportion of the net OPEB liability	0.1537696%	0.1522002%	0.1603754%	0.1667304%	0.1653972%	0.1725949%	0.1705562%	0.1609143%
District's proportionate share of the net OPEB liability \$	46,671,442	\$ 33,694,537	\$ 38,400,305	\$ 64,315,361	\$ 62,874,931	\$ 81,622,239	\$ 85,160,272	\$ 69,975,572
State's proportionate share of the net OPEB liability associated with the District	58,478,683	40,657,638	46,842,339	86,168,251	84,488,835	108,457,700	130,498,742	115,098,583
Totals	<u>\$ 105,150,125</u>	<u>\$ 74,352,175</u>	<u>\$ 85,242,644</u>	<u>\$ 150,483,612</u>	<u>\$ 147,363,766</u>	<u>\$ 190,079,939</u>	<u>\$ 215,659,014</u>	<u>\$ 185,074,155</u>
District's covered payroll	\$ 175,072,945	\$ 167,738,217	\$ 167,187,277	\$ 137,661,752	\$ 158,789,220	\$ 153,920,464	\$ 147,901,986	\$ 142,291,152
District's proportionate share of the net OPEB liability as a percentage of its covered payroll	26.66%	20.09%	22.97%	46.72%	39.60%	53.03%	57.58%	49.18%
Plan fiduciary net position as a percentage of the total OPEB liability	13.70%	14.94%	11.52%	6.18%	4.99%	2.66%	1.57%	0.91%

Note 1: The information disclosed for each fiscal year is reported as of the measurement date of the net OPEB liability which is August 31 of the preceding fiscal year.

Note 2: Plan information was unavailable prior to 2018.

McKinney Independent School District
Schedule of the District's Contributions to the OPEB Plan (Exhibit G-5)
Year Ended June 30, 2025

	2025	2024	2023	2022	2021	2020	2019	2018
Contractually required contributions	\$ 1,467,700	\$ 1,378,676	\$ 1,316,791	\$ 1,313,067	\$ 1,081,724	\$ 1,255,158	\$ 1,218,026	\$ 1,118,921
Contributions in relation to the contractually required contributions	<u>(1,467,700)</u>	<u>(1,378,676)</u>	<u>(1,316,791)</u>	<u>(1,313,067)</u>	<u>(1,081,724)</u>	<u>(1,255,158)</u>	<u>(1,218,026)</u>	<u>(1,118,921)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 184,466,996	\$ 175,072,945	\$ 167,738,217	\$ 167,187,277	\$ 137,661,752	\$ 158,789,220	\$ 153,920,464	\$ 147,901,986
Contributions as a percentage of covered payroll	0.80%	0.79%	0.79%	0.79%	0.79%	0.79%	0.79%	0.76%

Note 1: The information disclosed for each fiscal year is reported as of the District's fiscal year-end date.

Note 2: Plan information was unavailable prior to 2018.

Note 1 - Budget

Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The Texas Education Code requires the budget to be prepared not later than June 19 and adopted by June 30 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to June 19 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 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 after ten days' public notice of the meeting has been given.
3. Prior to July 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year-end.

Note 2 - Pension

Changes of Benefit Terms

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

Changes of Assumptions

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

Note 3 - OPEB

Changes of Benefit Terms

Since the last valuation was prepared for this plan, Texas Senate Bill 1055, which was signed by the Governor on May 10, 2023, added Stephen F. Austin State University into the University of Texas System. As a result, eligible employees of Stephen F. Austin State University ceased being members under this OPEB plan effective August 31, 2023. This change is reflected in the Total OPEB Liability as of August 31, 2023. In addition, this valuation reflects the minor benefit changes that became effective September 1, 2023, since these changes were announced to plan members in advance of August 31, 2023. These minor benefit changes, which are not expected to have a significant impact on plan costs for fiscal year 2024, are provided for in the fiscal year 2024 Assumed Per Capita Health Benefit Costs.

Changes of Assumptions

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

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

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APPENDIX C

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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The following is incorporated into the offering document to which it is attached.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

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

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

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

Management and Administration of the Fund

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

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

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

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

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

The Total Return Constitutional Amendment shifted administrative costs of the Fund from the ASF to the PSF, providing that expenses of managing the PSF are to be paid "by appropriation" from the PSF. In January 2005, the Attorney General issued a legal opinion, Op. Tex. Att'y Gen.

No. GA-0293 (2005), stating that the Total Return Constitutional Amendment does not require the SBOE to pay from such appropriated PSF funds the indirect management costs deducted from the assets of a mutual fund or other investment company in which PSF funds have been invested.

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

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

The Total Return Constitutional Amendment

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

distributed from the Fund in a fiscal year may not exceed 6% of the average of the market value of the Fund or the Ten Year Total Return. In accordance with GA-0707, in the event that the Ten Year Total Return is exceeded during a fiscal year, transfers to the ASF will be halted. However, if the Ten Year Total Return subsequently increases during that biennium, transfers may be resumed, if the SBOE has provided for that contingency, and made in full during the remaining period of the biennium, subject to the limit of 6% in any one fiscal year. Any shortfall in the transfer that results from such events from one biennium may not be paid over to the ASF in a subsequent biennium as the SBOE would make a separate payout determination for that subsequent biennium.

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

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

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

Annual Distributions to the Available School Fund¹

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

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

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

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

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

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

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

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

PSF Corporation Strategic Asset Allocation

The PSFC Board sets the asset allocation policy for the Fund, including determining the available asset classes for investment and approving target percentages and ranges for allocation to each asset class, with the goal of delivering a long-term risk adjusted return through all economic and market environments. The IPS includes a combined asset allocation for all Fund assets and allows for the use of derivatives and other leverage. The IPS provides that the Fund's investment objectives are as follows:

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

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

Asset Class	Target Allocation	Range¹
Cash Equivalent	3.0%	n/a
Core Bonds	9.0%	+/- 5.0%
Non-Core Bonds (High Yield)	3.0%	+/- 5.0%
Non-Core Bonds (Bank Loans)	3.0%	+/- 5.0%
Large Cap U.S. Equity	15.0%	+/- 5.0%
Small/Mid-Cap U.S. Equity	3.0%	+/- 5.0%
Non-U.S. Developed Equity	8.0%	+/- 5.0%
Absolute Return	6.0%	+/- 5.0%
Private Debt (Liquid Substitute)	9.5%	+/- 5.0%
Private Equity (Liquid Substitute)	20.0%	+/- 10.0%
Real Estate	10.5%	+/- 5.0%
Natural Resources	4.0%	+/- 5.0%
Infrastructure	6.0%	+/- 5.0%

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

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

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Comparative Investment Schedule – PSF(CORP)

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

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

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

Investment Schedule - PSF(SLB)¹

<u>Fair Value (in millions) August 31, 2025</u>	
	<u>As of</u> <u>8-31-25</u>
Investment Type	
Investments in Real Assets	
Sovereign Lands	\$ 279.84
Discretionary Internal Investments	989.22
Other Lands	153.17
Minerals ^{(2), (3)}	<u>4,872.77</u> ⁽⁶⁾
Total Investments ⁽⁴⁾	\$6,294.99
Cash in State Treasury ⁽⁵⁾	575.70
Total Investments & Cash in State Treasury	\$ 6,870.70

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

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

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

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

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

The CDBG Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

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

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBG 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 CDBG 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 CDBG 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 CDBG 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 CDBG Capacity.

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the “Charter District Reserve Fund”). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit

requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At December 31, 2025, the Charter District Reserve Fund contained \$153,914,605, which represented approximately 2.61% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

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Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value⁽¹⁾	Market Value⁽¹⁾
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023	43,915,792,841	59,020,536,667
2024	47,047,688,784	62,766,382,537
2025 ⁽²⁾	50,832,583,937	66,549,781,438

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

⁽²⁾ At August 31, 2025, mineral assets, sovereign lands, other lands, and discretionary internal investments, had book values of approximately \$13.4 million, \$0.8 million, \$37.3 million, and \$830.7 million, respectively, and market values of approximately \$4,872.7 million, \$279.8 million, \$153.1 million, and \$989.2 million, respectively.

Permanent School Fund Guaranteed Bonds	
At 8/31	Principal Amount⁽¹⁾
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603
2025	143,940,955,098 ⁽²⁾

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

⁽²⁾ At August 31, 2025 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was \$230,761,751,555, of which \$86,820,796,457 represents interest to be paid. As shown in the table above, at August 31, 2025, there were \$143,940,955,098 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of \$181,696,286,251 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2025, 7.86% of the

Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2025, the amount of outstanding bond guarantees represented 79.16% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

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

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

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

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

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

At the end of fiscal year 2025, the PSF(CORP) net position was \$60.6 billion. During the year, the PSF(CORP) continued updating and implementing the long-term strategic asset allocation, diversifying the investment mix to strengthen the Fund. The asset allocation aims to pursue the objectives of the Fund at an acceptable risk level. The PSF(CORP) is invested in global markets and liquid and illiquid assets experience volatility commensurate with the related indices. The PSF(CORP) is broadly diversified and benefits from the cost structure of its investment program. Changes continue to be researched, crafted, and implemented to make the cost structure more effective and efficient. The PSF(CORP) annual rates of return for the one-year, five-year, and ten-year periods ending August 31, 2025, net of fees, were 8.20%, 7.95%, and 7.40%, respectively

(total return takes into consideration the change in the market value of the Fund during the year as well as the interest and dividend income generated by the Fund's investments). See "Comparative Investment Schedule - PSF(CORP)" for the PSF(CORP) holdings as of August 31, 2025.

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

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

PSF Returns Fiscal Year Ended 8-31-2025¹

<u>Portfolio</u>	<u>Return</u>	<u>Benchmark Return²</u>
Total PSF(CORP) Portfolio	8.20	7.78
Domestic Large Cap Equities	14.50	15.88
Domestic Small/Mid Cap Equities	7.64	5.80
International Equities	16.16	14.89
Private Credit	6.87	9.26
Core Bonds	4.02	3.14
Absolute Return	14.98	6.90
Real Estate	0.14	0.97
Private Equity	8.17	8.61
High Yield	8.18	8.26
Natural Resources	2.31	0.39
Infrastructure	15.06	8.79
Bank Loans	7.76	7.36
Short Term Investment Portfolio	6.06	4.51

¹ Time weighted rates of return adjusted for cash flows for the PSF(CORP) investment assets. Does not include SLB managed real estate or real assets. Returns are net of fees. Source: Annual Report for year ended August 31, 2025.

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

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

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

Other Events and Disclosures

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

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

As of August 31, 2025, certain lawsuits were pending against the State and/or the GLO, which challenge the Fund's title to certain real property and/or past or future mineral income from that property, and other litigation arising in the normal course of the investment activities of the PSF. Reference is made to the Annual Report, when filed, for a description of such lawsuits that are pending, which may represent contingent liabilities of the Fund.

PSF Continuing Disclosure Undertaking

As of March 1, 2023, the TEA's undertaking pursuant to Rule 15c2-12 (the "TEA Undertaking") pertaining to the PSF and the Guarantee Program, is codified at 19 TAC 33.8, which relates to the Guarantee Program and is available at <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. On March 31, 2025, the TEA and the PSF Corporation became aware that the 2022 operating data was not timely filed with EMMA due to an administrative oversight. TEA and PSF Corporation took corrective action and filed a notice of late filing with EMMA on April 4, 2025. The annual operating data was previously posted to EMMA on March 31, 2023.

SEC Exemptive Relief

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

APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

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nortonrosefulbright.com

IN REGARD to the authorization and issuance of the “McKinney Independent School District Unlimited Tax Refunding Bonds, Series 2026,” dated August 1, 2026, in the aggregate principal amount of \$[] (the “Bonds”), we have examined into their issuance by the McKinney Independent School District (the “District”) solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the District’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the District, the disclosure of any financial or statistical information or data pertaining to the District and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on February 15 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an order adopted by the Board of Trustees of the District authorizing the issuance of the Bonds (the “Order” and, jointly with the Pricing Certificate, the “Bond Order”), without right of prior redemption. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Order.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Bond Order, an Escrow Agreement (the “Escrow Agreement”) by and between the District and The Bank of New York Mellon Trust Company, N.A. (the “Escrow Agent”), a special report of Frost CPA LLC, in conjunction with Public Finance Partners LLC (the “Verification Agent”), and an examination of the initial Bond executed and delivered by the District (which we found to be in due form and properly executed); (ii) certifications of officers of the District relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the District; and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, 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 contained in such documents and certifications.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "McKinney Independent School District Unlimited Tax Refunding Bonds, Series 2026,"
dated August 1, 2026

1. The Bonds have been duly authorized by the District and, when issued in compliance with the provisions of the Bond Order, are valid, legally binding, and enforceable obligations of the District, payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Escrow Agreement has been duly authorized, executed and delivered and, assuming the due authorization, execution or acceptance, and delivery thereof by the Escrow Agent, is a binding and enforceable agreement in accordance with its terms, and the bonds being refunded by the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a trust fund by the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the special report of the Verification Agent as to the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding bonds refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the District with the provisions of the Bond Order relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

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, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of interests in a financial asset securitization investment trust, 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.

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

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Re: "McKinney Independent School District Unlimited Tax Refunding Bonds, Series 2026,"
dated August 1, 2026

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.

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