

PRELIMINARY OFFICIAL STATEMENT

Dated August 12, 2026

Ratings:
S&P: "AA-"
PSF Guaranteed Expected
("OTHER INFORMATION –
Ratings" and "The Permanent
School Fund Guarantee
Program" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Hunton Andrews Kurth LLP, Co-Bond Counsel, under current law and subject to conditions described in the Section herein "Tax Exemption," interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum income tax, and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. A holder may be subject to other federal tax consequences as described in the Section herein "Tax Exemption."



\$120,000,000*
VICTORIA INDEPENDENT SCHOOL DISTRICT
(Victoria County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

Dated: September 1, 2026
Interest Accrues from Delivery Date

Due: February 15, as shown on page 2

PAYMENT TERMS . . . Interest on the \$120,000,000* Victoria Independent School District Unlimited Tax School Building Bonds, Series 2026 (the "Bonds") will accrue from the delivery date (the "Delivery Date") and will be payable February 15 and August 15 of each year commencing on February 15, 2027, until maturity or prior redemption, 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 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 U.S. Bank Trust Company, National Association, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the Victoria Independent School District (the "District") on May 2, 2026, and a bond order to be approved by the Board of Trustees of the District (the "Board") on August 20, 2026 (the "Bond Order"). As permitted by the Chapter 1371, the Board, in the Bond Order, authorized certain District representatives (each, a "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the terms of sale of the Bonds and finalizing certain characteristics thereof related to final pricing. The Bond Order and the Pricing Certificate are sometimes hereinafter referred to as the "Order". The Bonds are direct and voted 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 expects to receive conditional approval for the payment of the Bonds to be guaranteed by the Permanent School Fund of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) for the construction, acquisition, renovation, expansion, improvement and equipment of school buildings in the District, including a new southeast elementary school and district-wide security and site improvements; and (ii) for the 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 underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Hunton Andrews Kurth LLP, Co-Bond Counsel, Houston, Texas and JCA Law, PLLC, Co-Bond Counsel, San Antonio, Texas (see Appendix C, "Form of Co-Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by their counsel McCall, Parkhurst & Horton L.L.P., San Antonio, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on September 16, 2026 (the "Delivery Date").

J.P. MORGAN

FROST BANK

SAMCO CAPITAL

* Preliminary, subject to change.

MATURITY SCHEDULE*

CUSIP Prefix: 926325⁽¹⁾

Principal Amount	Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Principal Amount	Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 2,845,000	2/15/2027				\$ 2,810,000	2/15/2042			
2,945,000	2/15/2028				2,950,000	2/15/2043			
3,080,000	2/15/2029				3,100,000	2/15/2044			
3,220,000	2/15/2030				3,260,000	2/15/2045			
3,370,000	2/15/2031				3,425,000	2/15/2046			
3,525,000	2/15/2032				3,600,000	2/15/2047			
3,690,000	2/15/2033				3,780,000	2/15/2048			
3,860,000	2/15/2034				3,975,000	2/15/2049			
4,035,000	2/15/2035				4,175,000	2/15/2050			
4,220,000	2/15/2036				4,385,000	2/15/2051			
4,420,000	2/15/2037				4,610,000	2/15/2052			
4,625,000	2/15/2038				4,845,000	2/15/2053			
4,835,000	2/15/2039				5,090,000	2/15/2054			
5,060,000	2/15/2040				5,345,000	2/15/2055			
5,300,000	2/15/2041				5,620,000	2/15/2056			

* Preliminary, subject to change

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by FactSet Research Systems, Inc. on behalf of The American Bankers Association and CUSIP numbers are included solely for the convenience of the registered owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the District, the Financial Advisor, or the Underwriters are responsible for the selection or correctness of the CUSIP Numbers set forth herein.

REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Redemption"). If two or more serial bonds of consecutive maturities are combined into one or more "term" Bonds (the "Term Bonds") by the Underwriters, such Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the Order.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission ("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 "CONTINUING DISCLOSURE INFORMATION" for a description of the undertakings the District, to provide certain information on a continuing basis.

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

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH 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 UNDERWRITERS 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.

NONE OF THE DISTRICT, ITS FINANCIAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION HAS BEEN PROVIDED BY DTC OR THE AFFAIRS OF THE TEXAS EDUCATION AGENCY (THE "TEA") DESCRIBED UNDER "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" AS SUCH INFORMATION HAS BEEN PROVIDED BY THE TEA. CUSIP NUMBERS HAVE BEEN ASSIGNED TO THIS ISSUE BY THE CUSIP SERVICE BUREAU FOR THE CONVENIENCE OF THE OWNERS OF THE BONDS.

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, 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 Victoria Independent School District (the "District") is a political subdivision located in Victoria County, Texas. The District is approximately 612 square miles in area (see "INTRODUCTION - Description of the District").
THE BONDS	The \$120,000,000* Unlimited Tax School Building Bonds, Series 2026 are issued and 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 or prior redemption (see "THE BONDS - Description of the Bonds" and "THE BONDS – Redemption").
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapter 45, as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 6, 2026 and a bond order to be approved by the Board of Trustees of the District (the "Board") on August 20, 2026 (the "Bond Order"). As permitted by the Chapter 1371, the Board, in the Bond Order, authorized certain District representatives (each, a "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the terms of sale of the Bonds and finalizing certain characteristics thereof related to final pricing. The Bond Order and the Pricing Certificate are sometimes hereinafter 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 made application to the Texas Education Agency and expects to receive conditional approval for the Bonds to be guaranteed by the Permanent School Fund (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
TAX EXEMPTION	In the opinion of Hunton Andrews Kurth LLP, Co-Bond Counsel,, under current law and subject to conditions described in the Section herein "TAX EXEMPTION," interest on the Bonds (a) is not included in gross income for federal income tax purposes, and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the Section herein "TAX EXEMPTION." The opinion of JCA Law, PLLC, Co-Bond Counsel, will not address federal tax exemption matters.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (i) for the construction, acquisition, renovation, expansion, improvement and equipment of school buildings in the District, including a new southeast elementary school and district-wide security and site improvements; and (ii) the payment of the costs associated with the issuance of the Bonds.
RATINGS	The Bonds are expected to be rated "AA-" by S&P Global Ratings ("S&P") by virtue of the guarantee of the Bonds by the Texas Permanent School Fund, as S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "AAA". See "The Permanent School Fund Guarantee Program." The District has also made application to S&P for a rating on the Bonds without regard to credit enhancement and the Bonds have been assigned a rating of "AA-" by S&P (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").

* Preliminary, subject to change.

PAYMENT RECORD The District has never defaulted on the payment of its general obligation tax-supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 8/31	Estimated District Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	Total Tax Supported Debt Outstanding at End of Year	Per Capita Tax Supported Debt	Ratio Tax Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2022	81,618	\$ 7,086,346,492	\$ 86,823	\$ 124,300,000	\$ 1,523	1.75%	98.95%
2023	79,882	7,630,436,866	95,521	104,535,000	1,309	1.37%	99.09%
2024	78,684	8,158,751,070	103,690	98,495,000	1,252	1.21%	97.74%
2025	78,288	8,476,690,456	108,276	92,160,000	1,177	1.09%	99.78%
2026	77,177	7,764,329,534 ⁽⁵⁾	100,604	205,500,000 ⁽³⁾	2,663	2.65%	98.36% ⁽⁴⁾

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

(2) As reported by the Victoria Central Appraisal District Annual Certified Totals, subject to change during the ensuing year.

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

(4) Collections through August 11, 2026.

(5) Decrease attributable to increased homestead exemptions and volatility of industrial manufacturing industry.

CHANGES IN NET POSITION CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2025	2024	2023	2022	2021
Beginning Net Position	\$ 67,657,180	\$ 54,256,463	\$ 38,930,403	\$ 11,763,242	\$ (463,763)
Total Revenue	177,069,446	178,122,817	178,141,347	172,730,144	163,749,666
Total Expenditures	158,250,778	164,559,214	162,684,910	145,531,308	151,563,643
Net Transfers	-	(162,886)	(130,377)	(31,675)	(49,954)
Prior Period Adjustments	(8,998,450)	-	-	-	90,936
Ending Net Position ⁽¹⁾	<u>\$ 77,477,398</u>	<u>\$ 67,657,180</u>	<u>\$ 54,256,463</u>	<u>\$ 38,930,403</u>	<u>\$ 11,672,306</u>

Source: The District's Annual Comprehensive Financial Reports.

(1) In 2025, the District adopted GASB Statement 101 related to compensation absences, which resulted in a reduction of \$8,998,450 on beginning governmental activities net position.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	Fiscal Year Ended August 31,				
	2025	2024	2023	2022	2021
Beginning Balance	\$ 47,516,513	\$ 51,712,846	\$ 50,716,751	\$ 37,597,506	\$ 28,564,351
Total Revenue	142,200,898	128,133,078	131,666,379	127,960,268	123,654,856
Total Expenditures	130,941,427	133,902,216	131,338,483	120,394,324	118,268,734
Net Funds Available	11,259,471	(5,769,138)	327,896	7,565,944	5,386,122
Other Resources and Use:	99,930	1,572,805	668,199	(56,830)	3,647,033
Ending Balance	<u>\$ 58,875,914</u>	<u>\$ 47,516,513</u>	<u>\$ 51,712,846</u>	<u>\$ 45,106,620</u>	<u>\$ 37,597,506</u>

Source: The District's Annual Comprehensive Financial Reports.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>Board of Trustees</u>	<u>Board Member Since</u>	<u>Term Expires</u>	<u>Occupation</u>
Rick Jones President	2023	May, 2029	Retired
Mickey Kostella Vice President	2025	May, 2028	Outside Sales
Kathy Bell Secretary	2022	May, 2028	Educator
Bridgette Sutton Marshall Trustee	2024	May, 2027	Educator
BJ Nelson Trustee	2023	May, 2029	Self-Employed
Margaret Pruett Trustee	2016	May, 2028	Personal Care Assistant
Micah Patton Trustee	2024	May, 2027	President of MVP Energy

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Sheila Collazo	Superintendent	1 1/2 Years
Justin Gabrysch	Assistant Superintendent	1 Year
Michelle Yates	Chief Financial Officer	3 1/2 years

CONSULTANTS AND ADVISORS

Auditors Patillo, Brown & Hill, L.L.P.
Waco, Texas

Co-Bond Counsel Hunton Andrews Kurth LLP
Houston, Texas

JCA Law, PLLC
San Antonio, Texas

Financial Advisors Hilltop Securities Inc.
Dallas and San Antonio, Texas

For additional information regarding the District, please contact:

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**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$120,000,000*
VICTORIA INDEPENDENT SCHOOL DISTRICT
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$120,000,000* Victoria Independent School District Unlimited Tax School Building Bonds, Series 2026 (the "Bonds"). 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 Victoria 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"), San Antonio, Texas.

DESCRIPTION OF THE DISTRICT . . . The District is a political subdivision located in Victoria County, Texas. The District is governed by a seven-member Board of Trustees (the "Board") who serve staggered three-year terms with elections being held in May of each year. Policy-making and supervisory functions are the responsibility of and are vested in the Board. The Board delegates administrative responsibilities to the Superintendent of Schools, who is the chief administrative officer of the District. Support services are supplied by consultants and advisors. The District covers approximately 612 square miles in Victoria County. For more information regarding the District, see "APPENDIX A – General Information Regarding the District".

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 Underwriters listed on the cover page hereof 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 and August 15 of each year, commencing on February 15, 2027, until maturity or prior redemption. 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 U.S. Bank Trust Company, National Association, Houston, Texas (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 Chapter 45, as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 2, 2026 and the Order. As permitted by the Chapter 1371, the Board, in the Bond Order, authorized certain District representatives (each, a "Pricing Officer") to execute a pricing certificate (the "Pricing Certificate") establishing the terms of sale of the Bonds and finalizing certain characteristics thereof related to final pricing.

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.

PERMANENT SCHOOL FUND GUARANTEE . . . In connection with the sale of the Bonds, the District expects to receive conditional approval from the Commissioner of Education for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the payment of the Bonds is expected to 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 corpus of the Permanent School Fund.

PURPOSE . . . Proceeds from the sale of the Bonds will be used for (i) the construction, acquisition, renovation, expansion, improvement and equipment of school buildings in the District, including a new southeast elementary school and district-wide security and site improvements; and (ii) the payment of the costs associated with the issuance of the Bonds.

* Preliminary, subject to change.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the District may select the maturities of the Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND ANY OTHER CONDITION TO REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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

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 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, and (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. A Pricing Officer may limit the foregoing eligible securities as deemed appropriate in connection with the sale 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.

After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for

redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will cancel the Permanent School Fund Guarantee with respect to any 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, 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, 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 Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

The District and the Underwriters 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 stated 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 affect 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.

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

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

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

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 U.S. Bank Trust Company, National Association, Houston, Texas. In the Order, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a bank or trust company 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 or earlier redemption upon presentation 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. Neither the District nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond called for redemption in part.

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, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or 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. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Co-Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

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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	
Original Issue Premium	
Total Sources of Funds	<u>\$ -</u>

Uses of Funds

Deposit to Construction Fund	
Underwriters' Discount	
Costs of Issuance ⁽¹⁾	
Total Uses of Funds	<u>\$ -</u>

(1) Includes legal fees of the District, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, and other costs of issuance, including contingency.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

Current LITIGATION RELATING TO THE TEXAS PUBLIC SCHOOL FINANCE SYSTEM . . . On July 24, 2026, Midland Independent School District filed a suit in a district court of Travis County, Texas, styled *Midland Independent School District, et al. v. Mike Morath, Commissioner of Education, et al.* (Cause No. TBD), against Mike Morath, in his official capacity as Commissioner of Education, and the State of Texas (“*Morath II*”). The suit is an original action for declaratory judgment and challenges the constitutionality of the Finance System.

The District is not a party to this litigation, and at this time, the District is reviewing the same. The District can make no representations or predictions concerning the outcome of this litigation or the effect, if any, that this litigation may have on the Finance System, or on the District’s financial condition, revenues, or operations. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” and “TAX RATE LIMITATIONS” herein.

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW... The following language constitutes only a summary of the public school finance system as it is currently structured. 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 increase their M&O tax rate for the purpose of creating a surplus to pay debt service on bonds. Prior to 2006, school districts were authorized to levy their M&O tax at a voter-approved rate, generally up to \$1.50 per \$100 of taxable value. Since 2006, the State Legislature has enacted various legislation that has compressed the voter-approved M&O tax rate, as described below. Current law also requires school districts to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed \$0.50 per \$100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount (see “TAX RATE LIMITATIONS – I&S Tax Rate Limitations” herein). Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is also subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district’s M&O tax rate.

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

During the 89th Regular Session, the Legislature considered a general appropriations act and legislation affecting the Finance System and ad valorem taxation procedures and exemptions, and investments, among other legislation affecting school districts and the administrative agencies that oversee school districts. Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by both houses of the Legislature and signed by the Governor will increase: (1) the State mandated general homestead exemption of the appraised value for all homesteads 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 older and the disabled from \$10,000 to \$60,000, and (3) effective January 1, 2026, the exemption for tangible personal property used in the “production of income” from \$2,500 to \$125,000. Additionally, both houses of the Legislature passed and the Governor signed legislation that would authorize roughly \$8.5 billion in funding for public schools and would provide districts with a \$55 per-student increase to their base funding, as well as provide districts with additional funding for teacher and staff salaries, educator preparation, special education, safety requirements and early childhood learning. Finally, legislation passed by the Legislature and signed into law by the Governor will create an education savings account program (commonly referred to as vouchers) for students that attend private schools or home school. 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 2025 Legislative Sessions and cannot make any representations as to the full impact of such legislation.

Additional special sessions may be called by the Governor. During such time, the Legislature may enact laws that materially change current law as it relates to funding public school, including the District and its finances. The District can make no representations

or predictions regarding the scope of legislation that may be considered in the 2025 Legislative Sessions or future session of the Legislature, or the potential impact of such legislation, 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 ("MCR"). Beginning in the State fiscal year ending in 2021, the State Compression Percentage is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year State Compression Percentage. For any year, the maximum State Compression Percentage is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

Maximum Compressed Tax Rate. The MCR is the tax rate per \$100 of valuation of taxable property at which a school district must levy its Tier One Tax Rate to receive the full amount of the Tier One funding to which the school district is entitled. The MCR is equal to the lesser of two alternative calculations: (1) the school district's current year 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 the MCR is equal to the prior year MCR). However, each year the TEA shall evaluate the MCR for each school district in the State, and for any given year, if a school district's MCR is calculated to be less than 90% of any other school district's MCR for the current year, then the school district's MCR is instead equal to the MCR multiplied by 90% so that the difference between the school district's MCR and any other school district's MCR is not more than 10%. These compression formulas are intended to more closely equalize local generation of Tier One funding among districts with disparate tax bases and generally reduce the Tier One Tax Rates of school districts as property values increase. For the 2025-2026 school year, the Legislature reduced the maximum MCR, establishing \$0.6322 as the maximum rate and \$0.5689 as the floor.

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

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

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

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

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district's Tier One Tax Rate. Tier One funding may then be "enriched" with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district's Enrichment Tax Rate, allowing a school district to increase or decrease its Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as 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 Legislature makes sufficient appropriations to fund the allotments for a State fiscal biennium. Tier One and Tier Two allotments and existing EDA and IFA allotments are generally required to be funded each year by the Legislature.

Tier One. Tier One funding is the basic level of programmatic funding guaranteed to a school district, consisting of a State-appropriated baseline level of funding (the "Basic Allotment") for each student in "Average Daily Attendance" (being generally calculated as the sum of student attendance for each State-mandated day of instruction divided by the number of State-mandated 20 days of instruction, defined herein as "ADA"). The Basic Allotment is revised downward if a school district's Tier One Tax Rate is less than the State-determined threshold. The Basic Allotment is supplemented by additional State funds, allotted based upon the unique school district characteristics, the demographics of students in ADA, and the education programs the students are served in, to make up most of a school district's Tier One entitlement under the Foundation School Program.

The Basic Allotment for school districts with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 plus the guaranteed yield increment adjustment (the "GYIA") for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than the school district's MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment, (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 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 weight changes to 0.48 for districts in the top 40% of school districts for growth, 0.33 for districts in the middle 30% of school districts for growth and 0.18 for districts in the bottom 30% of school districts for growth. The fast growth allotment is limited to \$320 million for each year of the 2026-2027 state fiscal biennium.

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

Existing Debt Allotment, Instruction Facilities Allotment, and New Instructional Facilities Allotment. The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since this program first began in 1997. New awards of IFA are only available if appropriated funds are allocated for such purpose by the State Legislature. To receive an IFA award, in years where new IFA awards are available, a school district must apply to the Commissioner in accordance with rules adopted by the TEA before issuing the bonds to be paid with IFA State assistance. The total amount of debt service assistance over a biennium for which a school district may be awarded is limited to the lesser of (1) the actual debt service payments made by the school district in the biennium in which the bonds are issued; or (2) the greater of (a) \$100,000 or (b) \$250 multiplied by the number of students in ADA. The IFA is also available for lease-purchase agreements and refunding bonds meeting certain

prescribed conditions. Once a school district receives an IFA award for bonds, it is entitled to continue receiving State assistance for such bonds without reapplying to the Commissioner. 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 Legislature for the 2026-2027 State fiscal biennium and debt service assistance on school District bonds that are not yet eligible for EDA is not available, debt service payments during the 2026-2027 State fiscal biennium on new bonds issued by school districts in the 2026-2027 State fiscal biennium to construct, acquire and improve facilities must be funded solely from local I&S taxes, except to the extent that the bonds of a school district are eligible for hold-harmless funding from the State for local tax revenue lost as a result of an increase in the mandatory homestead exemption. See " - State Funding for School Districts" and "Tax Rate and Funding Equity".

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. During the 89th Regular Session, the Legislature appropriated funds in the amount of \$150,000,000 for each fiscal year of the 2026-2027 State fiscal biennium for NIFA allotments.

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

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

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

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

Options for Local Revenue Levels in Excess of Entitlement. Under Chapter 49, a school district has six options to reduce local revenues to a level that does not exceed the school district's respective entitlements: (1) a school district may consolidate by agreement with one or more school districts to form a consolidated school district; all property and debt of the consolidating school districts vest in the consolidated school district; (2) a school district may detach property from its territory for annexation by a property-poor school district; (3) a school district may purchase attendance credits from the State; (4) a school district may contract

to educate nonresident students from a property-poor school district by sending money directly to one or more property-poor school districts; (5) a school district may execute an agreement to provide students of one or more other school districts with career and technology education through a program designated as an area program for career and technology education; or (6) a school district may consolidate by agreement with one or more school districts to form a consolidated taxing school district solely to levy and distribute either M&O taxes or both M&O taxes and I&S taxes. A Chapter 49 school district may also exercise any combination of these remedies. Options (3), (4) and (6) require prior approval by the Chapter 49 school district's voters.

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.

THE SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2026-2027 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law.

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 continue to 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 Victoria 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 the Legislature, through December 31, 2026 an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than \$5.32 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property.

The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the District, in establishing their tax rolls and tax rates (see "AD VALOREM PROPERTY TAXATION – 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 (as described below) 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 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. Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by the Legislature and signed by the Governor during the 89th Regular Session will provide a person to an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit.

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as 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 DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. For tax years beginning prior to January 1, 2022, 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. For tax years beginning on or after January 1, 2022, 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 recently amended Section 11.35, 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, as amended.

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

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

TAX LIMITATION AGREEMENTS. . . The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allows 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 may only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district’s property that is not fully taxable is excluded from the school district’s taxable property values. Therefore, a school district will not be subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts”). During the Regular Session of the 88th Texas Legislature, House Bill 5, codified as Chapter 403, Subchapter T, Texas Government Code (“Chapter 403T”) was enacted into law. Chapter 403T is intended as a replacement of former Chapter 313, Texas Tax Code (“Chapter 313”), but it contains significantly different provisions than the prior program under Chapter 313. Under Chapter 403T, 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 403T also provides a 100% abatement of maintenance and operations taxes for eligible property during a project’s construction period. **Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under Chapter 403T.** 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.

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$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. See “AD VALOREM PROPERTY TAXATION - Temporary Exemption for Qualified Property Damaged by a Disaster” for further information related to a discussion of the applicability of this section of the Property Tax Code.

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

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 March 16, 1963 in accordance with the provisions of Chapter 45, Texas Education Code, 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 (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts” herein).

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

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

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. The Bonds are being issued for school building purposes pursuant to Chapter 45, Texas Education code, as amended and therefore are subject to the \$0.50 threshold tax rate test. The District has not used projected property values or State assistance (other than EDA or IFA allotment funding) to satisfy this threshold test.

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

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

The Voter-Approval Tax Rate for a school district is the sum of (i) the school district's MCR; (ii) the greater of (a) the school district's Enrichment Tax Rate for the preceding year, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district's current I&S tax rate. For the 2020 tax year, and subsequent years, a school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

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

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

Before adopting its annual tax rate, a public meeting must be held for the purpose of adopting a budget for the succeeding year. A notice of public meeting to discuss the school district's budget and proposed tax rate must be published in the time, format and manner prescribed in Section 44.004 of the Texas Education Code. Section 44.004I 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.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the District is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty ^(a)	Cumulative Interest ^(a)	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12 ^(a)	6	18

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

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 taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has 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. 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. The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. **Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.**

DISTRICT APPLICATION OF TAX CODE . . . The District grants the State mandated exemption to market value of residence homesteads of \$140,000, and the District grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$60,000; the disabled are also granted an exemption of \$60,000.

The District has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

The District implements the state mandated tax freeze for citizens who are disabled or are 65 years of age or older.

Ad valorem 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 Victoria County collects taxes for the District.

The District does not permit split payments, and discounts are not allowed.

The District taxes freeport property minus any state exemptions.

The District does tax goods-in-transit.

The District has not adopted a tax abatement policy.

The District has one current value limitation agreement under Chapter 313 of the Texas Tax Code, as amended ("Chapter 313") with Oriana Solar, LLC. Under Chapter 313, Texas school districts could grant value limitation agreements that limited the taxable value of certain qualified investments for maintenance and operations tax purposes. The existing value limitation agreement, and the amended value limitation agreement, with Oriana Solar, LLC was approved by the Texas Comptroller's office and the District's Board and was granted for the purpose of enhancing the local tax base, improving the public education system, creating high-paying jobs and advancing economic development goals of the State. The agreement provides for qualifying businesses to invest a minimum capital investment totaling \$30 million within the District's boundaries during the qualifying time period of tax years 2024 and 2025. Beginning on January 1, 2026, the taxable value of the investment for maintenance and operations tax purposes has a taxable value of the lesser of appraised value or \$30 million. The value limitation expires December 31, 2035.

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT

2025/26 Market Valuation Established by Victoria Central Appraisal District (excluding exempt property)		\$ 12,499,854,936
Less Exemptions/Reductions at 100% Market Value:		
Over 65 Exemptions	\$ 313,473,761	
Disability	7,678,707	
Disabled Veterans	57,091,298	
Productivity Loss	1,224,634,510	
Homestead	2,212,682,425	
Homestead Cap Adjustment	233,674,850	
Circuit Breaker Limitation	360,431,748	
Freeport Property	235,036,279	
Pollution Control	206,232,850	
Other Exempt	9,793,384	
Less: Adjustment	(125,204,410)	<u>4,735,525,402</u>
2025/26 Net Taxable Assessed Valuation		<u>\$ 7,764,329,534</u>
2026/27 Maintenance and Operations Net Taxable Assessed Valuation		<u>\$ 7,952,040,560</u>
2026/27 Interest and Sinking Net Taxable Assessed Valuation		<u>\$ 8,077,178,290</u>
Debt Payable from Ad Valorem Taxes (as of 8/31/26)		
Unlimited Tax Bonds	\$ 85,500,000	
The Bonds ⁽¹⁾	<u>120,000,000</u>	
Debt Payable from Ad Valorem Taxes		<u>\$ 205,500,000 ⁽¹⁾</u>
Interest and Sinking Fund Balance as of 8/31/25	\$ 7,759,170	
Ratio Total Tax Supported Debt to Taxable Assessed Valuation		2.65%
2026 Estimated Population - 76,974		
Per Capita Taxable Assessed Valuation - \$100,870		
Per Capita Funded Debt - \$2,670		

(1) Preliminary; subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended August 31,					
	2026		2025		2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,230,150,399	41.84%	\$ 5,228,420,145	42.28%	\$ 5,035,343,068	42.48%
Real, Residential, Multi-Family	483,323,525	3.87%	469,296,894	3.79%	417,303,575	3.52%
Real, Vacant Lots/Tracts	128,591,885	1.03%	120,772,596	0.98%	139,981,807	1.18%
Real, Acreage (Land Only)	1,284,953,573	10.28%	1,319,924,165	10.67%	1,249,523,184	10.54%
Real, Farm and Ranch Improvements	649,128,827	5.19%	603,458,470	4.88%	569,108,533	4.80%
Real, Commercial	1,598,891,393	12.79%	1,481,933,686	11.98%	1,360,640,636	11.48%
Real, Industrial	1,106,178,417	8.85%	1,126,915,460	9.11%	1,161,991,655	9.80%
Real, Oil, Gas and Other, Mineral Reserve	56,863,420	0.45%	61,437,090	0.50%	76,045,660	0.64%
Real and Tangible Personal, Utilities	410,587,980	3.28%	364,820,104	2.95%	348,785,890	2.94%
Tangible Personal, Commercial	615,652,670	4.93%	636,453,340	5.15%	542,237,450	4.57%
Tangible Personal, Industrial	825,374,640	6.60%	843,191,770	6.82%	841,997,500	7.10%
Mobile Homes	53,423,091	0.43%	48,682,211	0.39%	44,047,899	0.37%
Real Inventory	6,423,556	0.05%	11,684,089	0.09%	12,008,591	0.10%
Special Inventory	50,311,560	0.40%	50,376,910	0.41%	54,285,010	0.46%
Total Appraised Value Before Exemption	\$ 12,499,854,936	100.00%	\$ 12,367,366,930	100.00%	\$ 11,853,300,458	100.00%
Less: Total Exemptions/Reductions	(4,735,525,402)		(3,890,676,474)		(3,694,549,388)	
Net Taxable Assessed Value	<u>\$ 7,764,329,534</u>		<u>\$ 8,476,690,456</u>		<u>\$ 8,158,751,070</u>	

Category	Taxable Appraised Value for Fiscal Year Ended August 31,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,435,574,539	43.73%	\$ 3,898,376,126	43.54%
Real, Residential, Multi-Family	309,032,796	3.05%	296,988,794	3.32%
Real, Vacant Lots/Tracts	63,123,735	0.62%	52,546,147	0.59%
Real, Acreage (Land Only)	1,193,703,761	11.77%	1,093,201,996	12.21%
Real, Farm and Ranch Improvements	440,533,010	4.34%	377,538,518	4.22%
Real, Commercial	1,052,531,391	10.38%	982,626,434	10.98%
Real, Industrial	961,741,160	9.48%	777,956,460	8.69%
Real, Oil, Gas and Other, Mineral Reserve:	64,570,770	0.64%	36,954,040	0.41%
Real and Tangible Personal, Utilities	319,960,480	3.15%	300,897,370	3.36%
Tangible Personal, Commercial	492,976,260	4.86%	474,284,680	5.30%
Tangible Personal, Industrial	706,972,840	6.97%	586,009,290	6.55%
Mobile Homes	37,297,190	0.37%	24,608,356	0.27%
Real Inventory	12,761,130	0.13%	10,041,650	0.11%
Special Inventory	52,887,660	0.52%	41,128,370	0.46%
Total Appraised Value Before Exemptions	\$ 10,143,666,722	100.00%	\$ 8,953,158,231	100.00%
Less: Total Exemptions/Reductions	(2,513,229,856)		(1,866,811,739)	
Net Taxable Assessed Value	<u>\$ 7,630,436,866</u>		<u>\$ 7,086,346,492</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Victoria 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.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 8/31	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Total Tax Supported Debt Outstanding at End of Year	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2022	84,186	\$ 7,086,346,492	\$ 87,687	\$ 124,300,000	1.75%	\$ 1,538
2023	84,438	7,630,436,866	87,687	104,535,000	1.37%	1,538
2024	84,692	8,158,751,070	96,334	98,495,000	1.21%	1,163
2025	84,946	8,476,690,456	99,652	92,160,000	1.09%	1,085
2026	76,974	7,764,329,534	99,243	205,500,000 ⁽³⁾	1.12% ⁽³⁾	1,111 ⁽³⁾

(1) Source: Municipal Advisory Council of Texas.

(2) As reported by the Victoria Central Appraisal District on District's annual State Property Tax Board Report and is subject to change during ensuing year.

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

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY ⁽¹⁾

Fiscal Year Ended 8/31	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2022	\$ 1.16820	\$ 0.94470	\$ 0.22350	\$ 78,294,195	98.54%	98.95%
2023	1.05420	0.91020	0.14400	77,016,606	97.88%	99.09%
2024	0.80580	0.69920	0.10660	61,841,959	97.74%	97.74%
2025	0.80350	0.69690	0.10660	63,171,045	97.72%	99.78%
2026	0.80350	0.69690	0.10660	59,346,342	97.19% ⁽²⁾	98.36% ⁽²⁾

(1) On November 2, 2021 the District successfully conducted a voter-approval tax rate election at which the voters of the District authorized the District to levy a maintenance and operations tax in the amount of \$0.03 per \$100 assessed valuation.

(2) Collections through August 11, 2026.

TABLE 5 - TEN LARGEST TAXPAYERS⁽¹⁾

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
INV Nylon Chem Americas LLC	Industrial Manufacturing	\$ 398,773,450	4.89%
AEP Texas Inc	Electric Utility/Power Plant	123,189,740	1.51%
Caterpillar Inc	Industrial Manufacturing	118,066,010	1.45%
Halliburton Manufacturing & LC	Industrial Manufacturing	105,434,080	1.29%
Victoria WLE LP	Natural Gas Utility	95,696,850	1.17%
Zinc Resources LLC	Real Estate	75,608,630	0.93%
Transcontinental Gas Pipeline	Oil and Gas Pipeline	65,320,830	0.80%
Dow Chemical	Industrial Manufacturing	53,740,260	0.66%
Victoria Port Power II LLC	Electric Plant	47,202,610	0.58%
Equistar Chemicals LP	Chemical Plant	46,077,950	0.56%
		<u>\$ 1,129,110,410</u>	<u>13.84%</u>

(1) As shown in the table above, the total combined top ten taxpayers in the District currently account for over 13% of the District's tax base. Any adverse developments related to the foregoing taxpayers affecting their ability to continue to conduct business at their respective locations within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness.

The valuation of power utilities within the State, as determined by respective appraisal districts, has been subject to litigation related to the taxable value of such property; private power generation facilities are also subject to transfer and sole ownership by another entity, including to local governments whose property is exempt from ad valorem taxation. In addition, a portion of the District's assessed valuation is comprised of industries related to oil and gas, which are subject to fluctuation in terms of market valuation and availability. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom.

If any major taxpayer (or a combination of taxpayers) were to default in the payment of taxes due to economic conditions resulting difficulty, the ability of the District to timely pay debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien (which, in the event of bankruptcy, certain laws may preclude until the automatic stay is lifted). Such process is time-consuming and can only occur annually; in the alternative, the District may sell tax anticipation notes until such amounts could be collected, if ever.

TABLE 6 - TAX ADEQUACY ⁽¹⁾

2027 Principal and Interest Requirements	\$	18,508,289
\$0.2433 Tax Rate at 98.00% Collection Produces	\$	18,512,801
Average Annual Principal and Interest Requirements, 2027 - 2056	\$	10,719,721
\$0.1409 Tax Rate at 98.00% Collection Produces	\$	10,721,142
Maximum Principal and Interest Requirements, 2033	\$	18,512,415
\$0.2433 Tax Rate at 98.00% Collection Produces	\$	18,512,801

(1) Includes the Bonds. 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 5-31-26	Estimated % Applicable	Overlapping Tax Supported Debt As Of 5-31-26	Authorized But Unissued Debt As Of 5-31-26
Victoria Independent School District	\$ 7,764,329,534	\$ 0.803500	\$ 205,500,000 ⁽¹⁾	100.00%	\$ 205,500,000 ⁽¹⁾	\$ 120,000,000 ⁽²⁾
City of Victoria	6,675,220,042	0.470700	85,680,000	100.00%	85,680,000	-
Victoria County	11,162,916,158	0.385300	56,435,000	90.50%	51,073,675	-
Victoria County Junior College District	11,096,370,727	0.183200	21,180,000	90.50%	19,167,900	-
Total Direct and Overlapping Tax Supported Debt					\$ 361,421,575	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					4.65%	
Per Capita Overlapping Total Tax Supported Debt					\$ 4,695.37	

(1) Includes the Bonds and certain premium allocations. Preliminary, subject to change.

(2) Remaining authorization after the issuance of the Bonds. Preliminary, subject to change.

DEBT INFORMATION

TABLE 8 - PRO FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS⁽¹⁾

Fiscal Year Ending 8/31	Outstanding Tax Debt			The Bonds			Total Outstanding Debt	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2027	\$ 7,005,000	\$ 3,068,975	\$ 10,073,975	\$ 2,845,000	\$ 5,589,314	\$ 8,434,314	\$ 18,508,289	
2028	7,325,000	2,744,950	10,069,950	2,945,000	5,490,451	8,435,451	18,505,401	
2029	7,630,000	2,440,925	10,070,925	3,080,000	5,354,699	8,434,699	18,505,624	
2030	7,910,000	2,161,850	10,071,850	3,220,000	5,212,693	8,432,693	18,504,543	
2031	8,155,000	1,909,975	10,064,975	3,370,000	5,064,083	8,434,083	18,499,058	26.03%
2032	8,455,000	1,610,025	10,065,025	3,525,000	4,908,540	8,433,540	18,498,565	
2033	8,815,000	1,261,700	10,076,700	3,690,000	4,745,715	8,435,715	18,512,415	
2034	9,150,000	914,900	10,064,900	3,860,000	4,575,258	8,435,258	18,500,158	
2035	4,310,000	676,425	4,986,425	4,035,000	4,396,941	8,431,941	13,418,366	
2036	690,000	598,100	1,288,100	4,220,000	4,210,416	8,430,416	9,718,516	50.72%
2037	710,000	577,100	1,287,100	4,420,000	4,015,106	8,435,106	9,722,206	
2038	730,000	555,500	1,285,500	4,625,000	3,810,559	8,435,559	9,721,059	
2039	755,000	533,225	1,288,225	4,835,000	3,596,548	8,431,548	9,719,773	
2040	775,000	510,275	1,285,275	5,060,000	3,372,599	8,432,599	9,717,874	
2041	800,000	486,650	1,286,650	5,300,000	3,138,034	8,438,034	9,724,684	64.35%
2042	825,000	462,275	1,287,275	2,810,000	2,948,468	5,758,468	7,045,743	
2043	850,000	437,150	1,287,150	2,950,000	2,805,908	5,755,908	7,043,058	
2044	880,000	406,800	1,286,800	3,100,000	2,656,170	5,756,170	7,042,970	
2045	915,000	370,900	1,285,900	3,260,000	2,498,760	5,758,760	7,044,660	
2046	955,000	333,500	1,288,500	3,425,000	2,333,306	5,758,306	7,046,806	74.07%
2047	995,000	294,500	1,289,500	3,600,000	2,159,438	5,759,438	7,048,938	
2048	1,035,000	253,900	1,288,900	3,780,000	1,976,783	5,756,783	7,045,683	
2049	1,075,000	211,700	1,286,700	3,975,000	1,784,846	5,759,846	7,046,546	
2050	1,120,000	167,800	1,287,800	4,175,000	1,583,134	5,758,134	7,045,934	
2051	1,165,000	122,100	1,287,100	4,385,000	1,371,274	5,756,274	7,043,374	86.38%
2052	1,210,000	74,600	1,284,600	4,610,000	1,148,648	5,758,648	7,043,248	
2053	1,260,000	25,200	1,285,200	4,845,000	914,636	5,759,636	7,044,836	
2054	-	-	-	5,090,000	668,745	5,758,745	5,758,745	
2055	-	-	-	5,345,000	410,479	5,755,479	5,755,479	
2056	-	-	-	5,620,000	139,095	5,759,095	5,759,095	100.00%
	<u>\$ 85,500,000</u>	<u>\$ 23,211,000</u>	<u>\$ 108,711,000</u>	<u>\$ 120,000,000</u>	<u>\$ 92,880,642</u>	<u>\$ 212,880,642</u>	<u>\$ 321,591,642</u>	

(1) Average life of the issue – 18.698 years. Interest on the Bonds has been calculated at the average rate of 3.15% for purposes of illustration. Preliminary, subject to change.

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ended August 31, 2026		\$ 10,070,600
Interest and Sinking Fund, August 31, 2025	\$ 7,759,170	
\$0.10660 Interest and Sinking Fund Tax Levy @ 98% Collections	<u>7,980,441</u>	<u>15,739,611</u>
Estimated Balance, August 31, 2026		<u>\$ 5,669,011</u>

TABLE 10 –AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Previously Issued</u>	<u>Amount Being Issued</u>	<u>Unissued Balance</u>
School Building	5/2/2026	\$ 240,000,000	\$ -	\$ 120,000,000 ⁽¹⁾	\$ 120,000,000

(1) May include certain premium allocations counted toward voted authorization; preliminary, subject to change.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District does not anticipate issuing additional debt in the near term.

TABLE 11- OTHER OBLIGATIONS

In the prior period, the District entered into a financed purchase agreement for leased Chromebooks. The District is required to make fixed annual payments of \$310,885. As of August 31, 2025, the value of the financed purchase is \$824,050. The financed purchase has an interest rate of 6.46%. The asset value of the Chromebooks as of August 31, 2025 is \$1,377,000 with accumulated amortization of \$393,428. Principal and interest requirements to maturity are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>		
	<u>Leases</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>August 31,</u>			
2026	\$ 257,691	\$ 53,194	\$ 310,885
2027	274,325	36,560	310,885
2028	292,034	18,851	310,885
	<u>\$ 824,050</u>	<u>\$ 108,605</u>	<u>\$ 932,655</u>

The District entered into multiple leases as lessee for the right to use of copiers through multiple vendors. The leases cover 30 copiers, and the District is required to make fixed monthly payments ranging from \$43 to \$4,878. The leases have interest rates ranging from 0.39% to 11.00%. The value of the right to use asset as of August 31, 2025 is \$1,195,601 with accumulated amortization of \$775,843. Principal and interest requirements to maturity are as follows:

<u>Year Ending</u>	<u>Governmental Activities</u>		
	<u>Leases</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>August 31,</u>			<u>Requirements</u>
2026	\$ 227,300	\$ 9,120	\$ 236,420
2027	168,657	3,331	171,988
2028	24,202	297	24,499
2029	3,626	14	3,640
	<u>\$ 423,785</u>	<u>\$ 12,762</u>	<u>\$ 436,547</u>

During the fiscal year, the District entered into multiple subscriptions for the use of various software. As of August 31, 2025, the value of the subscription liability is \$165,242. The District is required to make annual fixed payments ranging from \$1,340 to \$23,200. The subscriptions have interest rates ranging from 0.37% to 11.00%. The value of the right to use asset as of August 31, 2025 is \$469,279 with accumulated amortization of \$319,669. Principal and interest requirements to maturity are as follows:

<u>August 31,</u>	<u>Governmental Activities</u>		
	<u>SBITA</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Requirements</u>
2026	\$ 165,242	\$ 4,699	\$ 169,941
	<u>\$ 165,242</u>	<u>\$ 4,699</u>	<u>\$ 169,941</u>

PENSION FUND . . . Pension funds for employees of Texas school districts, and any employee in public education in Texas, are administered by the Teacher Retirement System of Texas (the "System"). The individual employees contribute a fixed amount of their salary to the System, currently 7.7% as of September 1, 2021 and the State of Texas contributes funds to the System based on statutory required minimum salary for certified personnel, except any District personnel paid by Federally funded programs. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the District's Annual Financial Report" - Note #10.)

The District does not offer any post employment retirement benefits. (For more detailed information concerning the retirement plan, see Appendix B, "Excerpts from the District's Annual Financial Report" - Note #10.)

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FINANCIAL INFORMATION

TABLE 12 - CHANGES IN NET POSITION

	Fiscal Years Ended August 31,				
	2025	2024	2023	2022	2021
<u>Program Revenues:</u>					
Charges for Services	\$ 3,082,999	\$ 2,781,836	\$ 2,948,727	\$ 3,039,760	\$ 1,799,030
Operating Grants & Contributions	32,868,105	44,901,836	42,885,213	32,287,850	34,014,483
Capital Grants & Contributions	-	-	-	-	250,400
<u>General Revenues:</u>					
Property Taxes	63,396,667	60,723,780	77,115,948	77,791,316	72,738,857
Grants and Contributions Not Restricted	74,244,105	64,462,294	50,260,454	52,877,568	54,228,146
Miscellaneous	3,081,323	751,332	602,408	485,247	276,111
Investment Earnings	396,247	4,501,739	4,328,597	638,272	442,639
Special Items	-	-	-	5,610,131	-
Total Revenues	<u>\$ 177,069,446</u>	<u>\$ 178,122,817</u>	<u>\$ 178,141,347</u>	<u>\$ 172,730,144</u>	<u>\$ 163,749,666</u>
<u>Expenses:</u>					
Instruction	\$ 75,261,734	\$ 78,554,925	\$ 77,385,383	\$ 70,504,419	\$ 79,299,655
Instructional Resources & Media Services	1,397,306	1,254,873	1,510,616	1,468,173	1,695,754
Curriculum & Staff Development	6,994,220	6,033,055	6,167,941	5,199,211	4,987,291
Instructional Leadership	2,938,901	3,604,494	3,247,350	3,115,066	3,045,973
School Leadership	8,036,131	8,351,865	7,966,385	6,873,093	7,877,397
Guidance & Counseling Services	5,540,844	5,993,394	5,804,298	5,080,619	5,164,765
Social Work Services	2,596,766	2,857,765	2,734,347	2,027,354	1,812,980
Health Services	1,658,694	1,595,090	2,001,110	1,277,204	1,464,807
Student Transportation (Pupil)	3,921,492	3,665,667	3,873,921	3,232,111	2,770,239
Food Services	8,568,525	9,069,046	8,235,374	7,204,345	6,218,262
Curricular/Extracurricular Activities	7,575,672	7,717,315	8,059,485	7,226,319	6,387,988
General Administration	4,043,160	4,107,787	3,841,714	3,865,943	3,981,024
Plant Maintenance & Operations	17,036,637	19,173,705	18,673,201	15,916,103	15,750,449
Security & Monitoring Services	3,278,325	3,119,449	2,355,925	1,727,275	1,883,727
Data Processing Services	3,336,348	3,411,270	4,434,468	4,367,099	3,300,436
Community Services	593,920	295,593	251,365	428,126	400,735
Debt Service - Interest on Long Term Debt	3,573,691	3,818,220	4,305,164	3,807,094	3,998,728
Capital Outlay	-	1,000	1,100	592,659	724
Payments to Member Districts of SSA	575,528	622,989	587,785	568,469	529,544
Other Intergovernmental Charges	1,322,884	1,311,712	1,247,978	1,050,626	993,165
Total Expenses	<u>\$ 158,250,778</u>	<u>\$ 164,559,214</u>	<u>\$ 162,684,910</u>	<u>\$ 145,531,308</u>	<u>\$ 151,563,643</u>
Increase (Decrease) in Net Position					
Expenditures	\$ 18,818,668	\$ 13,563,603	\$ 15,456,437	\$ 27,198,836	\$ 12,186,023
Transfers In (Out)	-	(162,886)	(130,377)	(31,675)	(49,954)
Beginning Net Position	67,657,180	54,256,463	38,930,403	11,763,242	(463,763)
Prior Period Adjustment	(8,998,450)	-	-	-	90,936
Ending Net Position ⁽¹⁾	<u>\$ 77,477,398</u>	<u>\$ 67,657,180</u>	<u>\$ 54,256,463</u>	<u>\$ 38,930,403</u>	<u>\$ 11,763,242</u>

(1) In 2025, the District adopted GASB Statement 101 related to compensation absences, which resulted in a reduction of \$8,998,450 on beginning governmental activities net position.

TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended August 31,				
	2025	2024	2023	2022	2021
Revenues:					
Local and Intermediate Sources	\$ 59,011,316	\$ 56,345,833	\$ 70,028,280	\$ 65,166,826	\$ 60,324,583
State Sources	81,626,407	69,154,388	56,266,557	58,477,915	60,405,984
Federal Sources	1,563,175	2,632,857	5,371,542	4,315,527	2,924,289
Total Revenues	\$ 142,200,898	\$ 128,133,078	\$ 131,666,379	\$ 127,960,268	\$ 123,654,856
Expenditures:					
Current					
Instruction and Instructional Related Services	\$ 71,520,242	\$ 68,844,005	\$ 66,992,281	\$ 66,619,466	\$ 69,878,243
Instructional and School Leadership	10,214,175	9,967,492	9,729,568	9,232,868	9,555,442
Support Services - Student	19,670,945	17,525,339	17,319,602	14,228,693	14,528,470
Administrative Support Services	3,886,649	4,097,274	3,921,108	4,150,062	3,923,139
Support Services - Nonstudent Based	23,000,188	26,899,604	25,664,007	23,180,603	19,116,459
Debt Service	754,153	660,873	424,215	397,362	-
Capital Outlay	572,187	4,595,917	6,039,724	1,527,603	274,686
Intergovernmental Charges	1,322,888	1,311,712	1,247,978	1,057,667	992,295
Total Expenditures	\$ 130,941,427	\$ 133,902,216	\$ 131,338,483	\$ 120,394,324	\$ 118,268,734
Other Resources and (Uses)	\$ 99,930	\$ 1,572,805	\$ 668,199	\$ (56,830)	\$ 3,647,033
Special Item				\$ 5,610,131	\$ -
Excess (Deficiency) of Revenues Over Expenditures	\$ 11,259,471	\$ (5,769,138)	\$ 327,896	\$ 7,565,944	\$ 5,386,122
Beginning Fund Balance on September 1	\$ 47,516,513	\$ 51,712,846	\$ 50,716,751	\$ 37,597,506	\$ 28,564,351
Ending Fund Balance on August 31 ⁽¹⁾	\$ 58,875,914	\$ 47,516,513	\$ 51,712,846	\$ 50,716,751	\$ 37,597,506

(1) The District expected unaudited general fund balance as of August 31, 2026 is \$58,875,914.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the District substantially comply with the rules prescribed in the Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide"). The accounting policies included in the Resource Guide conform to generally accepted accounting principles applicable to governmental units.

General Fund Balance . . . The General Fund is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program, and interest earnings. Expenditures include all costs associated with the daily operations of the District, except for specific programs funded by the federal or state government or the food service, debt service, and capital projects funds.

Debt Service Fund Balance . . . The Debt Service Fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

Budgetary Procedures . . . The Board adopts an "appropriated budget" for the General Fund, Debt Service Fund, Capital Projects Fund, Child Nutrition Fund, and the Summer Feeding Program. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures.

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

- Prior to August 20th, the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- Prior to September 1st, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end as required by law. During the year, several amendments are necessary.
- Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budget amounts are as amended by the Board. All budget appropriations lapse at year end.

INVESTMENTS

The District invests its investable funds in investments authorized by State law, including Chapter 2256, as amended, Texas Government Code (the “Texas Public Funds Investment Act”), and 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 Texas 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 “AAA+”-rated investment pools that invest solely in investments described above; (15) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the Public Funds Investment Act; and (16) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

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

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

As a school district that qualifies as an “issuer” under Chapter 1371, as amended, Texas Government Code, the District may also invest up to 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in “AA-” or better rated corporate bonds with a remaining term of three years or less. Not more than 25% of its funds invested in corporate bonds may be invested in any single issuer and its affiliates. Corporate bonds must be sold if downgraded below the required rating or placed on negative credit watch.

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 December 31, 2025, the District’s investable funds (unaudited) were invested in the following categories:

Type of Investment	Market Value	Portfolio
Money Market	\$ 36,448	0.04%
Lone Star	81,578,403	99.96%
Total	\$ 81,614,851	100.00%

As of such date, 100% of the District’s investment portfolio will mature within 12 months. The market value of the investment portfolio was approximately 100% of its purchase price. No funds of the District are invested in derivative securities; i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX EXEMPTION

OPINION OF CO-BOND COUNSEL

In the opinion of Hunton Andrews Kurth LLP, Co-Bond Counsel, under current law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum income tax, and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code for the alternative minimum tax imposed on such corporations. No other opinion is expressed by Co-Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Co-Bond Counsel's opinion is given in reliance upon certifications by representatives of the District as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The District has covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the District to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, limitations and exclusions that are a part of the conclusions therein. See "Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions", 63 Bus. Law. 1277 (2008) and "Legal Opinion Principles", 53 Bus. Law. 831 (May 1998). Purchasers of the Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Bonds.

Co-Bond Counsel's opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of current law, but is not a guarantee of result or binding on the Internal Revenue Service (the "Service") or the courts. Co-Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may come to Co-Bond Counsel's attention after the date of its opinion or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

ALTERNATIVE MINIMUM TAX

Individuals – Co-Bond Counsel's opinion states that under current law interest on the Bonds is not an item of reference and is not subject to the alternative minimum tax on individuals.

Applicable Corporations – Co-Bond Counsel's opinion also states that under current law interest on the Bonds is taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. Under current law, an "applicable corporation" generally is a corporation with average annual adjusted financial statement income for a 3-taxable-year period ending after December 31, 2021 that exceeds \$1 billion.

OTHER TAX MATTERS

The Bonds have not been designated as qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code.

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state, local, or foreign jurisdiction.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the District as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, federal or state legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinions of Co-Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such

other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

ORIGINAL ISSUE DISCOUNT

Some of the Bonds may be sold at initial sale prices that are less than their respective stated redemption prices payable at maturity (collectively, the "Discount Bonds"). The excess of (i) the stated redemption price at maturity of each maturity of the Discount Bonds, over (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Discount Bonds is sold will constitute original issue discount. Original issue discount will accrue for federal income tax purposes on a constant-yield-to-maturity method based on regular compounding; and a holder's basis in such a Bond will be increased by the amount of original issue discount treated for federal income tax purposes as having accrued on the Bond while the holder holds the Bond.

Under the Code, for purposes of determining a holder's adjusted basis in a Discount Bond, original issue discount treated as having accrued while the holder holds the Bond will be added to the holder's basis. Original issue discount will accrue on a constant-yield-to-maturity method based on semiannual compounding. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of a Discount Bond.

Prospective purchasers of Discount Bonds should consult their own tax advisors as to the calculation of accrued original issue discount and the state and local tax consequences of owning or disposing of such Bonds.

BOND PREMIUM

Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder's basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such 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, when and if available, and in any event, within 12 months after the end of each fiscal year ending in and after 2026. 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 August 31. Accordingly, the District must provide updated information included in the above-referenced tables by the last day of February 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 August 31 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 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. 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 listed in clause (15) and (16) above, the term "Financial Obligation" means: (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 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 an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the District so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

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 past 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.

WEATHER EVENTS

The District is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. The District's area previously experienced multiple storms and future adverse weather events could result in damages to District facilities or damages to residential and commercial properties in the District that comprise the District's ad valorem tax base. If a weather event significantly damaged all or part of the properties

comprising the tax base within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the District's tax rate. There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District's boundaries or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

OTHER INFORMATION

RATINGS

The District expected to receive conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund. By virtue of the guarantee the Bonds are expected to be rated "AA-" by S&P Global Ratings ("S&P"), as S&P generally rates all bond issues guaranteed by the Permanent School Fund of the State of Texas "Aaa". The presently outstanding tax debt of the District issued without credit support is rated "AA-" by S&P. The District also has issues outstanding which are rated "Aaa" by Moody's by virtue of the guarantee of the Permanent School Fund of the State of Texas. An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflect only the respective view of such organization and the District makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

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

LITIGATION

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

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any 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.

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

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 Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas as to the Bonds to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approving legal opinions of Co-Bond Counsel with respect to the Bonds issued in compliance with the provisions of the Order, a form of which opinion is attached to this Official Statement as Appendix C. Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Co-Bond Counsel have 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 Underwriters. Co-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 Co-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 "Permanent School Fund Guarantee", "Book-Entry-Only System" 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 two sentences 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 Co-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 Underwriters by their counsel McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in the Official Statement.

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

FINANCIAL ADVISOR

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

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

USE OF AUDITED FINANCIAL STATEMENTS

Patillo, Brown & Hill, L.L.P., the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein any procedures on the financial statements addressed in that report. Patillo, Brown & Hill, L.L.P. also has not performed any procedures relating to this Official Statement.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District, at an underwriting discount of \$_____. The Underwriters 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 Underwriters 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 Underwriters.

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

J.P. Morgan Securities LLC, one of the Underwriters of the Bonds, has entered into negotiated dealer agreements (each, a "Dealer Agreement") with each of Charles Schwab & Co., Inc. ("CS&Co.") and LPL Financial LLC ("LPL") for the retail distribution of certain securities offerings at the original issue prices. Pursuant to each Dealer Agreement, each of CS&Co. and LPL may purchase Bonds from JPMS at the original issue price less a negotiated portion of the selling concession applicable to any Bonds that such firm sells.

SAMCO Capital Markets Inc., an Underwriter of the Bonds, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, SAMCO Capital Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, SAMCO Capital Markets Inc. will compensate Fidelity for its selling efforts.

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.

The Order will approve the form and content of this Official Statement, and any addenda, supplement or amendment hereto, and the Underwriters' use of this Official Statement in connection with the public offering and sale of the Bonds.

President, Board of Trustees
Victoria Independent School District

ATTEST:

Secretary, Board of Trustees
Victoria Independent School District

APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT . . . The District is an agricultural and petroleum-producing area that includes the City of Victoria, Texas, the county seat of Victoria County, Texas and the commercial and industrial center of the County. The District encompasses some 612 square miles with an estimated 2026 population of 76,974. The District is served by U.S. Highways 59, 77 and 87.

For the 2025-2026 school year, the District employed a staff of approximately 2,129 which included a professional staff of approximately 1,180. Education status of the teachers and administrators is approximately as follows:

Doctorates Degrees	0.2%
Masters Degrees	16.8%
Bachelors Degres	67.8%
Average Years in Classroom per Teacher	10.0

Teacher salaries are competitive with surrounding districts. Teacher salaries range from \$50,150 (BA), \$51,150 (MA) for beginning teachers to a maximum of \$77,072 (BA), \$78,072 (MA). Supplements or stipends are paid to teachers who qualify for special assignments or extra duties.

Average teacher/pupil ratios for 2025-26 were 14.2 overall:

Personnel distribution is approximately as follows:

District level administrators	125
Building level administrators	54
Instructional staff	890
Professional support staff (counselors, librarians, nurses, etc.)	225
General personnel (secretaries, aides, clerks, bus drivers, etc.)	587
Maintenance/custodial	145
Food service	89
Transportation	64
Other (security guards, lunchroom monitors, etc.)	9
Total	2,188

Historical enrollment of the District is as follows:

Fiscal Year	Total
<u>Ended 8/31</u>	<u>Enrollment</u>
2022-2023	13,246
2023-2024	13,027
2024-2025	12,919
2025-2026	12,614
2025-2026 ⁽¹⁾	12,334

(1) Projected. Provided by District officials.

Source: District Financial Audit Reports.

Labor Force Statistics for Victoria County

	June	Average Annual			
	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Civilian Labor Force	41,998	42,125	41,826	41,765	41,660
Employed	39,974	40,379	40,124	40,094	39,937
Unemployed	2,024	1,746	1,702	1,671	1,723
Percent Unemployed	4.8%	4.1%	4.1%	4.0%	4.1%
 % Unemployed (Texas)	4.9%	7.6%	3.5%	3.9%	4.3%
% Unemployed (U.S.)	4.4%	8.1%	3.7%	3.9%	4.4%

Source: Texas Employment Commission.

SCHOOL FACILITIES AND PROJECTED ENROLLMENT⁽¹⁾

Instructional Sites	Original Date Constructed	Capacity/ Square Feet	Acreage	Projected 2026-2027 Enrollment ⁽²⁾
Senior High Schools				
Victoria East High School	2010	273,203	113.78	1,842
Victoria West High School	2010	273,203	55.72	1,780
Middle Schools				
Cade Middle School	2010	119,531	32.00	723
Howell Middle School	1970	135,904	19.59	675
Patti Welder Middle School	1938	101,288	41.01	556
Stem Middle School	1957	149,272	84.13	716
Alternative and Other Campuses				
Career & Technology Institute (Grades 9-12)	(3)	75,600	(3)	(3)
Primary and Secondary DAEP (Age 6-12)	1939	20,542	8.04	(7)
Juvenile Justice Center (Grades 6-12)	(4)	(4)	(4)	30
VISD Success Academy	(6)	(6)	(6)	106
Elementary Schools				
Aloe Elementary School	1950	59,563	21.46	389
Chandler Elementary School	2001	72,681	11.18	507
	1964, 1984 &			
Crain Elementary School	2001	62,112	18.82	510
DeLeon Elementary School	1980	58,237	10.00	522
Dudley Magnet School	1963	63,893	12.16	402
F W Gross Elementary School	1959 & 1962	19,972	8.04	114
Hopkins Elementary School	1953	62,847	18.40	406
Mission Valley Elementary School	2025	52,440	8.59	264
O'Connor Elementary School	1956	60,945	9.38	424
Rowland Elementary School	1967	65,724	9.33	523
Schorlemmer Elementary School	2009	60,287	17.55	426
Shields Elementary School	1953	65,750	10.74	-
Smith Elementary School	1958	61,220	10.00	568
Torres Elementary School	2009	60,287	32.98	342
Vickers Elementary School	1966	62,272	9.12	509
Totals		<u>2,036,773</u>	<u>562.02</u>	<u>12,334</u>

(1) Unaudited.

(2) As of July 2026.

(3) Career & Technology Institute is located within the Administration Building.

(4) Juvenile Justice Center is owned by Victoria County, not the District.

(5) Approximately 509 high school students are enrolled in the Career & Tech Center for double/triple blocked courses.

(6) Victoria Success Academy is located at Victoria College and is not owned by the District. Some VSA ARC classes are within the Administration Bldg.

(7) Primary and Secondary DAEP enrollment varies throughout the year, as students are assigned. At the time of the October 2025 snapshot, there were a total of 85 students enrolled.

Source: Source: District's Maintenance, CTE, and Student Services Departments.

APPENDIX B

EXCERPTS FROM THE
VICTORIA INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2025

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



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Victoria Independent School District
Victoria, Texas

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of 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.

Emphasis of Matter – Change in Accounting Principle

As described in the notes to the financial statements, in fiscal year 2025 the District implemented Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinions are not modified with respect to this matter.

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.

OFFICE LOCATIONS

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension and OPEB information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of 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 statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements, required TEA schedules and 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 included in the Annual Comprehensive Financial Report

Management is responsible for the other information included in the annual comprehensive financial report (ACFR). The other information comprises the introductory section and statistical section but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

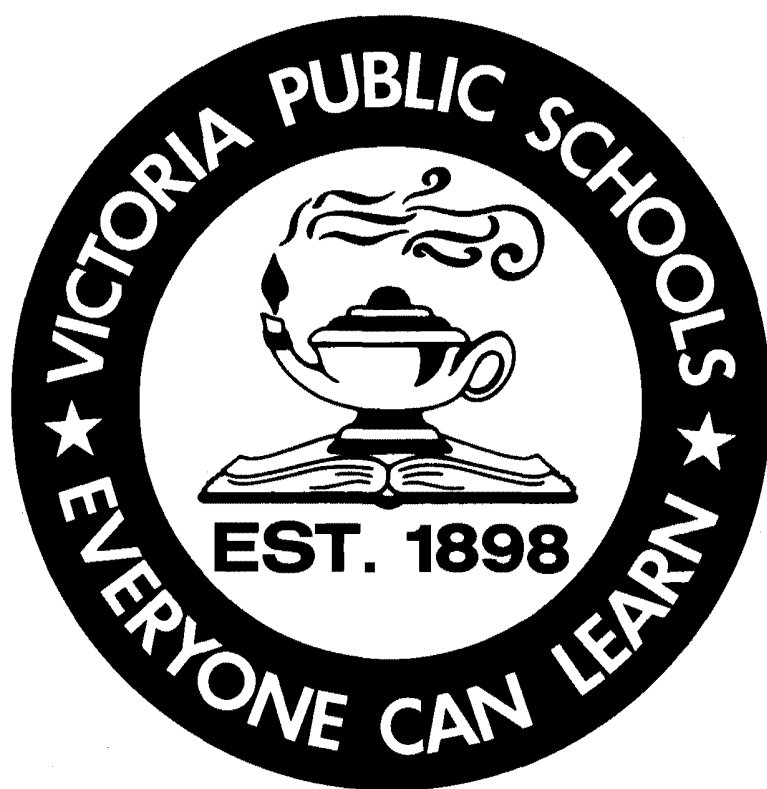
In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated.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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2026 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.

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

Waco, Texas
January 22, 2026



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Victoria Independent School District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the Victoria Independent School District for the fiscal year ended August 31, 2025. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages i-iv of this report.

FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the District's governmental funds reported combined ending balances of \$75,856,950. Approximately 69.3% of this total amount, \$52,567,858 is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$52,567,858, or 40.1% of total general fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Victoria Independent School District's finances, in a manner similar to a private-sector business.

The government-wide statements are comprised of the statement of net position and the statement of activities. These statements provide information about the activities of the District as a whole and present both long-term and short-term information about the District's overall financial status. The District's basic services are primarily financed by property taxes and inter-governmental revenues, and include instruction, extracurricular activities, curriculum, staff development, health services, general administration, and maintenance and operations.

The statement of net position presents information on all of the District's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the District that are principally supported by taxes and intergovernmental revenues (governmental activities) from business-type activities that are intended to recover all or a significant portion of their costs through user fees and charges. The governmental activities of the District are designed to educate and benefit the children of the community. Governmental activities by function for public schools in the State of Texas are uniform throughout the state. They include instruction and instructional-related services, instructional and school leadership, support services for students, administrative support services, non-student-based support services, ancillary services, debt service, and capital outlay for facilities and construction.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Victoria Independent School District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the Victoria Independent School District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The District maintains fifty-four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund which are considered to be major funds. Data from the other fifty-two governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general fund, debt service fund, capital projects fund, child nutrition fund, and Seamless Summer Program. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets.

Proprietary funds. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses enterprise funds to account for its aquatics center and fine arts center.

The second type of proprietary fund is the internal service fund. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses three internal service funds to report activities for its central supply system, its alternate hospital indemnity plan, and its self-funded workers' compensation program. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities within the government-wide financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the District. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations. The District is the trustee, or fiduciary, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

Notes to the Financial Statements

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Victoria Independent School District, the District experienced a change in net position of \$18,803,473 for the year ended August 31, 2025. A restatement of beginning net position due to the adoption of GASB Statement 101: *Compensated Absences*, in the amount of \$(8,998,450) is also reflected in the total net position amounts presented below.

TABLE I
VICTORIA INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
Current and other assets	\$ 88,770,089	\$ 90,537,399	\$ 129,148	\$ 118,043	\$ 88,899,237	\$ 90,655,442
Capital assets	<u>192,160,436</u>	<u>187,169,797</u>	<u>144,923</u>	<u>180,155</u>	<u>192,305,359</u>	<u>187,349,952</u>
Total assets	<u>280,930,525</u>	<u>277,707,196</u>	<u>274,071</u>	<u>298,198</u>	<u>281,204,596</u>	<u>278,005,394</u>
Deferred outflows of resources	<u>28,727,793</u>	<u>36,197,131</u>	-	-	<u>28,727,793</u>	<u>36,197,131</u>
Long-term liabilities	184,429,153	188,122,525	-	2,696	184,429,153	188,125,221
Current and other liabilities	<u>9,072,855</u>	<u>13,969,501</u>	-	<u>6,236</u>	<u>9,072,855</u>	<u>13,975,737</u>
Total liabilities	<u>193,502,008</u>	<u>202,092,026</u>	-	<u>8,932</u>	<u>193,502,008</u>	<u>202,100,958</u>
Deferred inflows of resources	<u>38,678,912</u>	<u>44,155,121</u>	-	-	<u>38,678,912</u>	<u>44,155,121</u>
Net position:						
Net investment in capital assets	94,957,062	92,716,241	144,923	177,459	95,101,985	92,893,700
Restricted	12,713,943	11,267,690	-	-	12,713,943	11,267,690
Unrestricted	<u>(30,193,607)</u>	<u>(36,326,751)</u>	<u>129,148</u>	<u>111,807</u>	<u>(30,064,459)</u>	<u>(36,214,944)</u>
Total net position	<u>\$ 77,477,398</u>	<u>\$ 67,657,180</u>	<u>\$ 274,071</u>	<u>\$ 289,266</u>	<u>\$ 77,751,469</u>	<u>\$ 67,946,446</u>

The District's total assets increased \$3,199,202 over 2025 and deferred outflows of resources decreased \$7,469,338. Additionally, the District's total liabilities decreased \$8,598,950 and deferred inflows of resources decreased \$5,476,209.

The District reported \$95,101,985 in net investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that is 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, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion, \$12,713,943, of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position may be used to meet the government's ongoing obligations.

TABLE II
VICTORIA INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities		Business-type Activities		Totals	
	2025	2024	2025	2024	2025	2024
REVENUES						
Program revenues:						
Charges for services	\$ 3,082,999	\$ 2,781,836	\$ 53,900	\$ 120,560	\$ 3,136,899	\$ 2,902,396
Operating grants and contributions	32,868,105	44,901,836	-	-	32,868,105	44,901,836
General revenues:						
Maintenance and operations taxes	54,955,400	52,670,011	-	-	54,955,400	52,670,011
Debt service taxes	8,441,267	8,053,769	-	-	8,441,267	8,053,769
Grants and contributions not restricted	74,244,105	64,462,294	-	-	74,244,105	64,462,294
Investment earnings	3,081,323	4,501,739	-	-	3,081,323	4,501,739
Miscellaneous	396,247	751,332	-	-	396,247	751,332
Total revenues	<u>177,069,446</u>	<u>178,122,817</u>	<u>53,900</u>	<u>120,560</u>	<u>177,123,346</u>	<u>178,243,377</u>
EXPENSES						
Governmental activities:						
Instruction	75,261,734	78,554,925	-	-	75,261,734	78,554,925
Instructional resources and media services	1,397,306	1,254,873	-	-	1,397,306	1,254,873
Curriculum and instructional staff development	6,994,220	6,033,055	-	-	6,994,220	6,033,055
Instructional leadership	2,938,901	3,604,494	-	-	2,938,901	3,604,494
School leadership	8,036,131	8,351,865	-	-	8,036,131	8,351,865
Guidance, counseling and evaluation services	5,540,844	5,993,394	-	-	5,540,844	5,993,394
Social work services	2,596,766	2,857,765	-	-	2,596,766	2,857,765
Health services	1,658,694	1,595,090	-	-	1,658,694	1,595,090
Student (pupil) transportation	3,921,492	3,665,667	-	-	3,921,492	3,665,667
Food services	8,568,525	9,069,046	-	-	8,568,525	9,069,046
Extracurricular activities	7,575,672	7,717,315	-	-	7,575,672	7,717,315
General administration	4,043,160	4,107,787	-	-	4,043,160	4,107,787
Facilities maintenance and operations	17,036,637	19,173,705	-	-	17,036,637	19,173,705
Security and monitoring services	3,278,325	3,119,449	-	-	3,278,325	3,119,449
Data processing services	3,336,348	3,411,270	-	-	3,336,348	3,411,270
Community services	593,920	295,593	-	-	593,920	295,593
Debt service - interest on long-term debt	3,573,691	3,818,220	-	-	3,573,691	3,818,220
Debt service - bond issuance cost and fees	-	1,000	-	-	-	1,000
Payments related to shared services arrangements	575,528	622,989	-	-	575,528	622,989
Other intergovernmental charges	1,322,884	1,311,712	-	-	1,322,884	1,311,712
Business-type activities:						
Aquatics Center	-	-	46	83,638	46	83,638
Fine Arts Center	-	-	69,049	77,432	69,049	77,432
Total expenses	<u>158,250,778</u>	<u>164,559,214</u>	<u>69,095</u>	<u>161,070</u>	<u>158,319,873</u>	<u>164,720,284</u>
EXCESS (DEFICIENCY) BEFORE TRANSFERS AND SPECIAL ITEMS	18,818,668	13,563,603	(15,195)	(40,510)	18,803,473	13,523,093
TRANSFERS IN (OUT)	-	(162,886)	-	162,886	-	-
INCREASE (DECREASE) IN NET POSITION	18,818,668	13,400,717	(15,195)	122,376	18,803,473	13,523,093
NET POSITION, BEGINNING, AS PREVIOUSLY REPORTED	<u>67,657,180</u>	<u>54,256,463</u>	<u>289,266</u>	<u>166,890</u>	<u>67,946,446</u>	<u>54,423,353</u>
CHANGE IN ACCOUNTING PRINCIPLE	<u>(8,998,450)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(8,998,450)</u>	<u>-</u>
NET POSITION, BEGINNING, AS RESTATED	<u>58,658,730</u>	<u>54,256,463</u>	<u>289,266</u>	<u>166,890</u>	<u>58,947,996</u>	<u>54,423,353</u>
NET POSITION, ENDING	<u>\$ 77,477,398</u>	<u>\$ 67,657,180</u>	<u>\$ 274,071</u>	<u>\$ 289,266</u>	<u>\$ 77,751,469</u>	<u>\$ 67,946,446</u>

Governmental Activities

The total cost of all government-wide activities for the year ended August 31, 2025 was \$158,250,778. Funding for these government-wide activities is by specific program revenue or through general revenues such as property taxes and investment earnings. The following is a summary of the governmental funds' activities:

- Program and general revenues for the year totaled \$177,069,446, a slight decrease since the prior year. This is primarily attributable to an increase in state allotment per student, netted against a decrease in property tax revenue resulting from a decrease to the tax rate. Expenses for the year decreased \$6,308,436, or 3.8% from the prior year, largely due to a decrease in spending within the Instruction function resulting from decreased payroll costs.
- Property taxes, including penalties and interest, increased 4.4% and accounted for 35.8% of total 2025 revenues. This increase in revenue was a result of the increase in the overall property tax rate.
- The District continues to be very successful in obtaining grants which support District goals and needs. New grant awards are strategically researched for their impact on District goals and improvement plans before applications are submitted.

Business-Type Activities

The net position of the District's business-type activities decreased by \$15,195 due primarily to increased contracted services and depreciation expenses.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the Victoria Independent School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

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.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$75,856,950, an increase of \$3,249,753. Approximately 69.3% of this total amount (\$52,567,858) constitutes unassigned fund balance available for the general operations of the District. The remainder of the fund balance is nonspendable (\$3,394,462), restricted (\$14,650,176), and committed or assigned (\$5,244,454). Restricted fund balance primarily relates to debt service property taxes, bond proceeds in capital projects funds and grant-restricted funds.

The General Fund is the chief operating fund of the Victoria Independent School District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$52,567,858, while total fund balance was \$58,875,914. 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 40.1% of total general fund expenditures, while total fund balance represents 45.0% of that same amount. Fund balance increased this year due to less than expected expenditures and prior year revenue settle-ups from the TEA.

The Debt Service Fund has a total fund balance of \$7,759,170, all of which is reserved for the payment of debt service. This amount represents 77% of the total debt requirement of \$10,070,600 for the subsequent fiscal year. The net increase in fund balance during the current year was due to an increase in property tax revenue outpacing the debt service requirements for the year. The largest portion of the debt service tax levy is collected prior to the required payment dates for debt.

Proprietary Funds

The District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. This includes both enterprise funds and internal service funds.

Enterprise funds' unrestricted net position at August 31, 2025, amounted to \$129,148. The total decrease in unrestricted net position of \$15,195 was primarily due to contracted services and depreciation expense.

Internal service funds total net position increased \$314,957 due to lower worker's compensation costs than expected and transfers in from the General Fund.

GENERAL FUND BUDGETARY HIGHLIGHTS

For the general fund, the final budgeted amount for revenues was \$137,262,335. This was a decrease of \$196,116 from the original budget estimate of \$137,458,451. The budget was amended for a decrease in local, state, and federal revenue. Actual revenues were \$4,938,563 above the final budgeted amounts due to more local and federal revenues than expected.

Over the course of the period, the District revised its budget several times. These adjustments resulted in actual expenditures of \$9,566,142 below the final budgeted amounts. The most significant positive variances were seen in the function areas of Instruction, School Leadership, Student Transportation, Facilities maintenance and operations, and Security and monitoring services. Staffing is budgeted at full employment level throughout the entire year. Budget amounts for vacant positions contribute to the variance between budgeted salaries and actual salaries. The expenditure budget variance represents a 6.8% variance on the total expenditure budget of \$140,507,569.

Budgetary amendments can be briefly summarized as follows:

- Amendments approved shortly after the beginning of the new fiscal year for amounts restricted and committed in the prior year.
- Amendments throughout the year for transfers to and from other funds.
- Amendments in late spring and summer to revise estimates for local and state revenue based on the latest information on student attendance numbers and tax collections.
- Amendments in late summer to revise estimates for expenditures after evaluation of encumbrances.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District's investment in capital assets as of August 31, 2025, amounts to \$192,305,359 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, and furniture and equipment, shown as follows net of depreciation:

TABLE III

VICTORIA INDEPENDENT SCHOOL DISTRICT

CAPITAL ASSETS NET OF DEPRECIATION

	Governmental Activities		
	2025	2024	Change
Land	\$ 5,741,689	\$ 5,751,494	\$ (9,805)
Land improvements	12,726,102	12,638,886	87,216
Buildings and improvements	263,994,005	249,979,278	14,014,727
Furniture and equipment	37,003,775	33,567,099	3,436,676
Right to use equipment	1,195,601	1,222,957	(27,356)
SBITA asset	469,279	303,858	165,421
Construction in progress	25,638,245	30,067,078	(4,428,833)
Total	346,768,696	333,530,650	13,238,046
Less: accumulated depreciation	(154,608,260)	(146,360,853)	(8,247,407)
Capital assets, net of depreciation	<u>\$ 192,160,436</u>	<u>\$ 187,169,797</u>	<u>\$ 4,990,639</u>
	Business-type Activities		
	2025	2024	Change
Furniture and equipment	\$ 227,455	\$ 227,455	\$ -
Right to use equipment	-	7,974	(7,974)
Total	227,455	235,429	(7,974)
Less: accumulated depreciation	(82,532)	(55,274)	(27,258)
Capital assets, net of depreciation	<u>\$ 144,923</u>	<u>\$ 180,155</u>	<u>\$ (35,232)</u>

The 2024-2025 fiscal year had significant capital asset projects, as approved by the Board through Fund Balance. Projects included preventative maintenance on roofs, bus replacements, general maintenance needs, emergency facility repairs, and school safety, technology, and instructional initiatives.

More detailed information about the District's capital assets is presented in Note IV to the financial statements.

Long-term Debt

At the end of the current fiscal year, the Victoria Independent School District had total bonded debt outstanding of \$100,510,543, a decrease of \$6,865,584 from the prior year. This decrease was primarily due to scheduled principal payments of \$6,335,000. The District's outstanding leases totaled \$423,785 at year end. The District's outstanding SBITA's totaled \$165,242 at year end. The District's outstanding financed purchases totaled \$824,050.

More detailed information about the District's long-term liabilities is presented in Note VI to the financial statements.

The Victoria Independent School District maintains an "AAA" rating from Standard & Poor's and an "Aaa" rating from Moody's for general obligation debt based on the guarantee from the State of Texas Permanent School Fund (PSF). The rating reflects the District's sizeable and relatively stable tax base, location in a regional economic and employment center and strong wealth levels. The District's underlying rating from Moody's is an Aa2 based on the full faith and credit pledge of the District. The underlying ratings were issued in October 2016 and both agencies cited the following comments:

- "Historical maintenance of strong reserves."
- "Standard management practices."
- "...manageable debt profile."

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the region is currently 4.9 percent which increased from the previous year. The state's average unemployment rate of 4.7 percent is lower than the local rate. The national unemployment rate of 4.5 percent is slightly lower than the state's unemployment rate.
- The average market value of residences increased from \$234,272 last year to \$239,402 this year.
- The general fund Maintenance & Operation (M&O) tax rate decreased slightly from \$0.6992 per \$100 of taxable property value to \$0.6969, due to continued state-mandated tax compression. Initially, the Board adopted a tax rate higher than allowed (\$0.7869), activating a Voter Approval Tax Rate Election (VATRE). The funding generated was to be used solely to increase staff salaries. The November 2024 VATRE failed, and the Board re-approved the M&O tax rate at \$0.6969. The Interest and Sinking (I&S) tax rate was held steady at \$0.1066 per \$100 of taxable property value as the Board of Trustees continued to pause the district's defeasance strategy, utilizing the I&S Fund Balance for a portion of the debt payment. The total tax rate was \$0.8035.
- The District's student attendance rate is expected to continue to recover following the COVID-19 pandemic. The steady increase from 89.9% in 2021-2022 to 92.9% in 2024-2025 is attributed to the renewed coordinated efforts between the school district and local truancy courts, as well as realigned student and family supports provided through the work of campus staff and the VISD Connection Center team.
- The District's enrollment has been declining over the last ten years. In 2015-2016 student enrollment was 14,502 at fall snapshot, while 2024-2025 student enrollment was 12,919 students. Each spring the Curriculum and Human Resources Departments, in collaboration with campus principals, review and adjust course offerings and staffing needed for the subsequent year's projected student enrollment.

REQUESTS FOR INFORMATION

This annual comprehensive financial report is designed to provide a general overview of the Victoria Independent School District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Michelle Yates, Chief Financial Officer, Victoria Independent School District, 102 Profit Drive, Victoria, TX 77901.



BASIC FINANCIAL STATEMENTS



VICTORIA INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

AUGUST 31, 2025

Data Control Codes	1 Governmental Activities	2 Business-type Activities	3 Total
ASSETS			
1110 Cash and cash equivalents	\$ 73,947,083	\$ 129,148	\$ 74,076,231
1220 Delinquent property taxes receivables	5,121,461	-	5,121,461
1230 Allowance for uncollectible taxes (credit)	(4,231,060)	-	(4,231,060)
1240 Due from other governments	9,528,355	-	9,528,355
1290 Other receivables (net)	270,946	-	270,946
1300 Inventories	2,042,363	-	2,042,363
1410 Prepaid items	2,090,941	-	2,090,941
Capital assets:			
1510 Land	5,741,689	-	5,741,689
1510 Land improvements, net	4,584,222	-	4,584,222
1520 Buildings and improvements, net	143,237,785	-	143,237,785
1530 Furniture and equipment, net	12,389,127	144,923	12,534,050
1550 Right to use equipment, net	419,758	-	419,758
1550 SBITA asset, net	149,610	-	149,610
1580 Construction in progress	25,638,245	-	25,638,245
1000 Total assets	<u>280,930,525</u>	<u>274,071</u>	<u>281,204,596</u>
DEFERRED OUTFLOWS OF RESOURCES			
1701 Deferred loss on bond refunding	2,821,431	-	2,821,431
1705 Deferred outflow related to pensions	12,231,991	-	12,231,991
1706 Deferred outflow related to OPEB	<u>13,674,371</u>	<u>-</u>	<u>13,674,371</u>
1700 Total deferred outflows of resources	<u>28,727,793</u>	<u>-</u>	<u>28,727,793</u>
LIABILITIES			
2110 Accounts payable	2,462,258	-	2,462,258
2140 Interest payable	155,526	-	155,526
2160 Accrued wages payable	5,640,643	-	5,640,643
2300 Unearned revenue	814,428	-	814,428
Noncurrent liabilities:			
Due within one year:			
2501 Debt and compensated absences	9,629,421	-	9,629,421
Due in more than one year:			
2502 Debt and compensated absences	101,570,952	-	101,570,952
2540 Net pension liability (proportionate share)	43,901,344	-	43,901,344
2545 Net OPEB liability (proportionate share)	<u>29,327,436</u>	<u>-</u>	<u>29,327,436</u>
2000 Total liabilities	<u>193,502,008</u>	<u>-</u>	<u>193,502,008</u>
DEFERRED INFLOWS OF RESOURCES			
2605 Deferred inflow related to pensions	5,873,509	-	5,873,509
2606 Deferred inflow related to OPEB	<u>32,805,403</u>	<u>-</u>	<u>32,805,403</u>
2600 Total deferred inflows of resources	<u>38,678,912</u>	<u>-</u>	<u>38,678,912</u>
NET POSITION			
3200 Net investment in capital assets	94,957,062	144,923	95,101,985
Restricted for:			
3820 Food service	4,896,568	-	4,896,568
3850 Debt service	7,721,752	-	7,721,752
3890 Individuals and organizations	95,623	-	95,623
3900 Unrestricted	<u>(30,193,607)</u>	<u>129,148</u>	<u>(30,064,459)</u>
3000 Total net position	<u>\$ 77,477,398</u>	<u>\$ 274,071</u>	<u>\$ 77,751,469</u>

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

VICTORIA INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes	1	Program Revenues 3
Functions/Programs	Expenses	Charges for Services
Primary government:		
Governmental activities:		
11 Instruction	\$ 75,261,734	\$ 1,176,929
12 Instructional resources and media services	1,397,306	-
13 Curriculum and staff development	6,994,220	-
21 Instructional leadership	2,938,901	-
23 School leadership	8,036,131	-
31 Guidance, counseling, and evaluation services	5,540,844	-
32 Social work services	2,596,766	-
33 Health services	1,658,694	-
34 Student transportation	3,921,492	-
35 Food service	8,568,525	135,261
36 Extracurricular activities	7,575,672	1,770,809
41 General administration	4,043,160	-
51 Facilities maintenance and operations	17,036,637	-
52 Security and monitoring services	3,278,325	-
53 Data processing services	3,336,348	-
61 Community services	593,920	-
72 Interest on long-term debt	3,573,691	-
93 Payments related to shared services arrangements	575,528	-
99 Other intergovernmental changes	1,322,884	-
[TG] Total governmental activities	<u>158,250,778</u>	<u>3,082,999</u>
Business-type activities:		
01 Aquatics Center	46	-
02 Fine Arts Center	69,049	53,900
[TB] Total business-type activities	<u>69,095</u>	<u>53,900</u>
[TP] Total primary government	<u>\$ 158,319,873</u>	<u>\$ 3,136,899</u>
General revenues and transfers:		
General revenues:		
MT Property taxes, levied for general purposes		
DT Property taxes, levied for debt service		
GC Grants and contributions not restricted to specific programs		
IE Investment earnings		
MI Miscellaneous		
TR Total general revenues and transfers		
CN Change in net position		
NB Net position, beginning, as previously reported		
Adjustments:		
PA Change in accounting principle		
NB Net position, beginning, as restated		
NE Net position, ending		

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

Program Revenues	Net (Expenses) Revenue and Changes in Net Position		
4	6	7	8
Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
\$ 11,143,126	\$ (62,941,679)	\$ -	\$ (62,941,679)
47,835	(1,349,471)	-	(1,349,471)
3,768,795	(3,225,425)	-	(3,225,425)
784,106	(2,154,795)	-	(2,154,795)
695,554	(7,340,577)	-	(7,340,577)
897,749	(4,643,095)	-	(4,643,095)
524,366	(2,072,400)	-	(2,072,400)
175,204	(1,483,490)	-	(1,483,490)
457,013	(3,464,479)	-	(3,464,479)
9,483,661	1,050,397	-	1,050,397
117,844	(5,687,019)	-	(5,687,019)
105,921	(3,937,239)	-	(3,937,239)
2,120,060	(14,916,577)	-	(14,916,577)
641,789	(2,636,536)	-	(2,636,536)
65,516	(3,270,832)	-	(3,270,832)
390,643	(203,277)	-	(203,277)
1,448,923	(2,124,768)	-	(2,124,768)
-	(575,528)	-	(575,528)
-	(1,322,884)	-	(1,322,884)
<u>32,868,105</u>	<u>(122,299,674)</u>	<u>-</u>	<u>(122,299,674)</u>
-	-	(46)	(46)
-	-	(15,149)	(15,149)
-	-	(15,195)	(15,195)
<u>\$ 32,868,105</u>	<u>\$ (122,299,674)</u>	<u>\$ (15,195)</u>	<u>\$ (122,314,869)</u>
	54,955,400	-	54,955,400
	8,441,267	-	8,441,267
	74,244,105	-	74,244,105
	3,081,323	-	3,081,323
	396,247	-	396,247
	<u>141,118,342</u>	<u>-</u>	<u>141,118,342</u>
	<u>18,818,668</u>	<u>(15,195)</u>	<u>18,803,473</u>
	<u>67,657,180</u>	<u>289,266</u>	<u>67,946,446</u>
	<u>(8,998,450)</u>	<u>-</u>	<u>(8,998,450)</u>
	<u>58,658,730</u>	<u>289,266</u>	<u>58,947,996</u>
	<u>\$ 77,477,398</u>	<u>\$ 274,071</u>	<u>\$ 77,751,469</u>

VICTORIA INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET
GOVERNMENTAL FUNDS

AUGUST 31, 2025

Data Control Codes		10	50
		General	Debt Service
ASSETS			
1110	Cash and cash equivalents	\$ 55,200,282	\$ 6,788,096
1220	Property taxes - delinquent	4,322,489	798,972
1230	Allowance for uncollectible taxes	(3,550,196)	(680,864)
1240	Due from other governments	5,643,012	97,476
1260	Due from other funds	3,606,047	873,598
1290	Other receivables	263,150	-
1300	Inventories	2,417	-
1410	Prepaid items	2,090,666	-
1000	Total assets	67,577,867	7,877,278
LIABILITIES			
2110	Accounts payable	1,134,375	-
2160	Accrued wages payable	5,156,734	-
2170	Due to other funds	873,598	-
2300	Unearned revenue	553,723	-
2000	Total liabilities	7,718,430	-
DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable revenue - property taxes	772,293	118,108
2602	Unavailable revenue - SHARS	211,230	-
2600	Total deferred inflows of resources	983,523	118,108
FUND BALANCES			
Nonspendable:			
3410	Inventories	2,417	-
3430	Prepaid items	2,090,666	-
Restricted for:			
3450	Food service	-	-
3470	Capital acquisition and contractual obligation	-	-
3480	Long-term debt	-	7,759,170
3490	Individuals and organizations	-	-
Committed for:			
3530	Capital expenditures for equipment	69,874	-
3545	Instructional initiatives	2,079,322	-
3545	School safety and security	100,000	-
3545	General maintenance	100,000	-
3545	Emergency facility repairs	500,000	-
3545	Campus activities	-	-
3545	Technology	310,885	-
3545	Transportation	900,000	-
Assigned for:			
3590	Purchases on order	154,892	-
3600	Unassigned	52,567,858	-
3000	Total fund balances	58,875,914	7,759,170
4000	Total liabilities, deferred inflows of resources and fund balances	\$ 67,577,867	\$ 7,877,278

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

Other Governmental	98 Total Governmental Funds
\$ 8,859,878	\$ 70,848,256
-	5,121,461
-	(4,231,060)
3,787,867	9,528,355
-	4,479,645
4,038	267,188
1,301,379	1,303,796
275	2,090,941
<u>13,953,437</u>	<u>89,408,582</u>
1,099,000	2,233,375
483,909	5,640,643
2,887,957	3,761,555
260,705	814,428
<u>4,731,571</u>	<u>12,450,001</u>
-	890,401
-	211,230
<u>-</u>	<u>1,101,631</u>
1,301,379	1,303,796
-	2,090,666
4,896,568	4,896,568
1,898,815	1,898,815
-	7,759,170
95,623	95,623
-	69,874
-	2,079,322
-	100,000
-	100,000
-	500,000
1,029,481	1,029,481
-	310,885
-	900,000
-	154,892
-	52,567,858
<u>9,221,866</u>	<u>75,856,950</u>
<u>\$ 13,953,437</u>	<u>\$ 89,408,582</u>



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

AUGUST 31, 2025

Total Fund Balances - Governmental Funds	\$ 75,856,950
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	192,136,840
2 Certain amounts are reported as deferred inflows of resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	
Property taxes	890,401
SHARS	211,230
3 Long-term liabilities, including bonds, compensated absences, financed purchases, leases, and SBITA's, are not due and payable in the current period and therefore are not reported in the funds. Also, the losses on refunding of bonds and the premium on issuance of bonds payable are not reported on the balance sheet in the funds.	(108,355,346)
4 Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(155,526)
5 Internal Service funds are used by the District's management to charge the costs of central supply, health insurance, and workers' compensation insurance to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. the net effect of this consolidation is to increase net position.	2,894,179
6 Included in the items related to debt is the recognition of the District's proportionate share of net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$12,231,991, a deferred resource inflow in the amount of \$5,873,509, and a net pension liability in the amount of \$43,901,344. This resulted in a decrease in net position.	(37,542,862)
7 Included in the items related to debt is the recognition of the District's proportionate share of net OPEB liability required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$13,674,371, a deferred resource inflow in the amount of \$32,805,403, and a net OPEB liability in the amount of \$29,327,436. This resulted in a decrease in net position.	(48,458,468)
29 Net position of governmental activities	<u>\$ 77,477,398</u>

VICTORIA INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		10	50	60
		General	Debt Service	Capital Projects
REVENUES				
5700	Local and intermediate sources	\$ 59,011,316	\$ 8,886,852	
5800	State program	81,626,407	1,448,923	
5900	Federal program	1,563,175	-	
5020	Total revenues	<u>142,200,898</u>	<u>10,335,775</u>	
EXPENDITURES				
Current:				
0011	Instruction	66,651,657	-	
0012	Instructional resources and media services	1,182,601	-	
0013	Curriculum and staff development	3,685,984	-	
0021	Instructional leadership	2,339,725	-	
0023	School leadership	7,874,450	-	
0031	Guidance, counseling, and evaluation services	5,248,268	-	
0032	Social work services	2,252,238	-	
0033	Health services	1,701,056	-	
0034	Student transportation	6,068,094	-	
0035	Food service	-	-	
0036	Extracurricular activities	4,401,289	-	
0041	General administration	3,886,649	-	
0051	Facilities maintenance and operations	17,177,544	-	
0052	Security and monitoring services	2,766,231	-	
0053	Data processing services	3,003,734	-	
0061	Community services	52,679	-	
Debt service:				
0071	Principal on long-term debt	661,643	6,335,000	
0072	Interest on long-term debt	92,510	3,735,475	
0073	Bond issuance costs and fees	-	1,000	
0081	Capital outlay	572,187	-	
Intergovernmental:				
0093	Payments related to shared service arrangements	-	-	
0099	Other intergovernmental charges	<u>1,322,888</u>	<u>-</u>	
6030	Total expenditures	<u>130,941,427</u>	<u>10,071,475</u>	
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>11,259,471</u>	<u>264,300</u>	
OTHER FINANCING SOURCES (USES)				
7912	Sale of capital assets	20,670	-	
7913	Issuance of lease	55,553	-	
7915	Transfers in	-	-	
7949	Issuance of SBITA	224,587	-	
8911	Transfers out	<u>(200,880)</u>	<u>-</u>	
7080	Total other financing sources (uses)	<u>99,930</u>	<u>-</u>	
1200	NET CHANGE IN FUND BALANCES	11,359,401	264,300	
0100	FUND BALANCES, BEGINNING, AS PREVIOUSLY REPORTED	47,516,513	7,494,870	11,681,417
Adjustments				
Change within the financial reporting entity				
- formerly a major fund				
		<u>-</u>	<u>-</u>	<u>(11,681,417)</u>
0100	FUND BALANCES, BEGINNING, AS RESTATED	<u>47,516,513</u>	<u>7,494,870</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 58,875,914</u>	<u>\$ 7,759,170</u>	<u>\$ -</u>

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

282		98
		Total
ESSER III	Other Governmental	Governmental Funds
	\$ 2,549,877	\$ 70,448,045
	1,787,882	84,863,212
	<u>25,634,858</u>	<u>27,198,033</u>
	<u>29,972,617</u>	<u>182,509,290</u>
	8,393,106	75,044,763
	1,161	1,183,762
	3,931,744	7,617,728
	863,118	3,202,843
	531,090	8,405,540
	739,930	5,988,198
	554,996	2,807,234
	62,779	1,763,835
	1,322	6,069,416
	8,286,522	8,286,522
	1,372,565	5,773,854
	-	3,886,649
	220,846	17,398,390
	604,409	3,370,640
	-	3,003,734
	431,939	484,618
	4,671	7,001,314
	475	3,828,460
	-	1,000
	11,898,073	12,470,260
	575,528	575,528
	-	1,322,888
	<u>38,474,274</u>	<u>179,487,176</u>
	<u>(8,501,657)</u>	<u>3,022,114</u>
	12,189	32,859
	-	55,553
	115,520	115,520
	-	224,587
	-	(200,880)
	<u>127,709</u>	<u>227,639</u>
	(8,373,948)	3,249,753
-	17,595,814	84,288,614
-	-	(11,681,417)
-	<u>17,595,814</u>	<u>72,607,197</u>
\$ -	\$ 9,221,866	\$ 75,856,950



RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2025

Net change in fund balances - total governmental funds \$ 3,249,753

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital outlay	16,089,659
Disposals of capital assets	(547,518)
Depreciation expense	(10,481,621)

Some receivables are not considered available revenues and are reported as deferred inflows in the governmental funds.	(446,474)
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The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities.

Issuance of debt:	
Lease	(55,553)
SBITA	(224,587)
Principal repayments:	
General obligation bonds	6,335,000
Lease	226,878
SBITA	194,884
Financed purchase	242,065
Amortization of:	
Premium on bond issuance	530,584
Deferred loss on bond refunding	(289,040)

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

Accrued interest payable on long-term debt	13,772
Compensated absences	(278,303)

Internal Service funds are used by the District's management to charge the costs of central supply, health insurance, and workers' compensation insurance to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. the net effect of this consolidation is to increase net position.

314,957

GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$4,057,846. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$4,050,755. Finally, the proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$1,415,500. The net result is a decrease in the change in net position.

(1,408,409)

GASB 75 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$903,445. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$877,133. Finally, the proportionate share of the TRS OPEB expense in the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$5,326,309. The net result is an increase in the change in net position.

5,352,621

Change in net position of governmental activities	<u>\$ 18,818,668</u>
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STATEMENT OF NET POSITION
PROPRIETARY FUNDS

AUGUST 31, 2025

	Business-Type Activities <u>Total Enterprise Funds</u>	Governmental Activities <u>Total Internal Service Funds</u>
ASSETS		
Current assets:		
Cash and temporary investments	\$ 129,148	\$ 3,098,827
Other receivables	-	3,758
Inventories	-	738,567
Total current assets	<u>129,148</u>	<u>3,841,152</u>
Noncurrent assets:		
Capital assets:		
Equipment, net	<u>144,923</u>	-
Total noncurrent assets	<u>144,923</u>	-
Total assets	<u>274,071</u>	<u>3,841,152</u>
LIABILITIES		
Current liabilities:		
Accounts payable	-	228,883
Due to other funds	-	718,090
Total current liabilities	<u>-</u>	<u>946,973</u>
Total liabilities	<u>-</u>	<u>946,973</u>
NET POSITION		
Net investment in capital assets	144,923	-
Unrestricted	<u>129,148</u>	<u>2,894,179</u>
Total net position	<u>\$ 274,071</u>	<u>\$ 2,894,179</u>

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

FOR THE YEAR ENDED AUGUST 31, 2025

	Business-Type Activities Total Enterprise Funds	Governmental Activities Total Internal Service Funds
OPERATING REVENUES		
Local and intermediate sources	\$ 53,900	\$ 1,582,109
Total operating revenues	<u>53,900</u>	<u>1,582,109</u>
OPERATING EXPENSES		
Payroll costs	294	-
Professional and contracted services	25,898	46,236
Supplies and materials	9,891	855,057
Other operating costs	473	390,186
Depreciation	<u>32,493</u>	<u>60,486</u>
Total operating expenses	<u>69,049</u>	<u>1,351,965</u>
OPERATING INCOME (LOSS)	(15,149)	230,144
NONOPERATING REVENUES (EXPENSES)		
Interest expense	-	(547)
Other nonoperating expenses	<u>(46)</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>(46)</u>	<u>(547)</u>
Income before transfers	<u>(15,195)</u>	<u>229,597</u>
Transfers in (out)	<u>-</u>	<u>85,360</u>
CHANGE IN NET POSITION	(15,195)	314,957
NET POSITION, BEGINNING	<u>289,266</u>	<u>2,579,222</u>
NET POSITION, ENDING	<u>\$ 274,071</u>	<u>\$ 2,894,179</u>

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2025

	Business-Type Activities Total Enterprise Funds	Governmental Activities Total Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from user charges	\$ 54,737	\$ 1,578,803
Cash payments to employees for services	(294)	-
Cash payments for suppliers for goods and services	(42,498)	(803,283)
Cash payments for insurance claims	-	(281,140)
Net cash provided (used) by operating activities	<u>11,945</u>	<u>494,380</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Cash received from (paid to) other funds	-	(102,665)
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>(102,665)</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on long-term debt	-	(63,204)
Interest on long-term debt	-	(929)
Net cash used in capital and related financing activities	<u>-</u>	<u>(64,133)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	<u>11,945</u>	<u>327,582</u>
CASH AND CASH EQUIVALENTS, BEGINNING	<u>117,203</u>	<u>2,771,245</u>
CASH AND CASH EQUIVALENTS, ENDING	<u>\$ 129,148</u>	<u>\$ 3,098,827</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Net operating income (loss)	\$ (15,149)	\$ 230,144
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	32,493	60,486
Change in assets and liabilities:		
(Increase) decrease in other receivables	837	(3,306)
(Increase) decrease in inventories	-	204,797
Increase (decrease) in accounts payable	<u>(6,236)</u>	<u>2,259</u>
Net cash provided (used) by operating activities	<u>\$ 11,945</u>	<u>\$ 494,380</u>

VICTORIA INDEPENDENT SCHOOL DISTRICT**EXHIBIT E-1**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS

AUGUST 31, 2025

	Private-Purpose Trust Fund	Custodial Fund
ASSETS		
Cash and cash equivalents	\$ 23,995	\$ 277,982
Other receivables	-	83
Total assets	<u>23,995</u>	<u>278,065</u>
LIABILITIES		
Accounts payable	-	17,706
Total liabilities	<u>-</u>	<u>17,706</u>
NET POSITION		
Restricted for:		
Scholarships	23,995	-
Student groups	-	260,359
Total net position	<u>\$ 23,995</u>	<u>\$ 260,359</u>

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION - FIDUCIARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2025

	Private-Purpose Trust Fund	Custodial Fund
ADDITIONS		
Collections from student groups	\$ 300	\$ 302,465
Total additions	<u>300</u>	<u>302,465</u>
DEDUCTIONS		
Payments on-behalf of student groups	-	294,919
Total deductions	<u>-</u>	<u>294,919</u>
NET INCREASE (DECREASE) IN FIDUCIARY NET POSITION	300	7,546
NET POSITION, BEGINNING	<u>23,695</u>	<u>252,813</u>
NET POSITION, ENDING	<u>\$ 23,995</u>	<u>\$ 260,359</u>

VICTORIA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2025

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB"). There are no component units included within the reporting entity.

B. Basis of Presentation

The accounting policies of the District substantially comply with the rules prescribed in the Texas Education Agency's *Financial Accountability System Resource Guide* (the Resource Guide). The accounting policies included in the Resource Guide conform to generally accepted accounting principles applicable to governmental units.

The Statement of Net Position and the Statement of Activities report information on all of the non-fiduciary activities of the District. 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 are offset by program revenues. 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 and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Program revenues included in the Statement of Activities reduce the cost of the function to be financed from general revenues. Taxes and other items not properly included among program revenues are instead reported as general revenues.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function.

Interfund activities among governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other sources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All interfund transactions among governmental funds and between governmental funds and internal service funds are eliminated on the Government-wide Statements. Interfund services provided and used are not eliminated in the process of consolidation. Interfund activities between governmental funds and fiduciary funds are reclassified as receivable or payable on the Government-wide Statement of Activities.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. In accordance with the provisions of GASB Statement No. 34, the fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related liabilities are accounted for through the governmental fund types.

The following are the District's major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program, and interest earnings. Expenditures include all costs associated with the daily operations of the District, except for specific programs funded by the federal or state government or the food service, debt service, and capital projects funds.

Debt Service Fund. This fund is used to account for revenues collected to pay interest and related costs and to retire long-term debt.

Other governmental funds include:

Capital Projects Fund. This fund is used to account for proceeds from the sale of bonds and other revenues to be used for authorized construction and other capital asset acquisitions.

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than private-purpose trust funds or capital projects) such as federal, state, or locally financed programs. Funds are legally restricted to expenditures for specified purposes.

Additionally, the District reports the following proprietary funds:

Internal Service Funds. These are unbudgeted funds, consisting of the Central Warehouse Fund, which accounts for services and materials charged to other funds; the Insurance Fund, which accounts for the alternate hospital indemnity plan and payment of claims; and the Workers' Compensation Fund, which accounts for workers' compensation contributions from the district and payment of employee claims. Operating revenue includes direct charges for insurance and warehouse goods. Operating expenses include payments for medical services, workers' compensation claims, insurance, materials, and administrative costs associated with each fund. Non-operating revenue includes interest income from investments.

Enterprise Funds. The Aquatics and Fine Arts Center are unbudgeted funds and account for usage of their respective facilities. Operating revenue includes usage of the Aquatics and Fine Arts Center facilities. Operating expenses include the cost of sales and services and administrative expenses.

The District reports the following fiduciary funds:

Private-purpose Trust Fund. This Fund accounts for donations for which the donor has stipulated that both the principal and the income may be used for the purposes that benefit the parties outside the District.

Custodial Fund. This Fund accounts for activities of student groups. This accounting reflects the District's custodial relationship with student activity organizations.

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and fiduciary fund financial statements. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets, deferred outflows (inflows), and all liabilities associated with the operation of these funds are included on the Statement of Net Position. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible to accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

Indirect costs earned from grant programs are recorded as revenues of the General Fund. These indirect costs are determined by applying approved indirect cost rates to actual expenditures of the programs.

The proprietary and fiduciary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, Net Position/Fund Balance, Revenues and Expenditure/Expenses

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased. All investments are reported at fair value, except for investments in investment pools, which are valued at net asset value per share, which approximates fair value. Money Market deposits are nonparticipating and are valued at cost.

2. Inventories

Inventories of supplies on the balance sheet are stated at weighted-average cost; food supplies are stated using first-in, first-out; and inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market values are supplied by the Texas Department of Human Services and recorded as inventory and revenue when received. When requisitioned, inventory is released and expenditures are charged for an equal amount. Inventories also include plant maintenance and operation supplies, as well as instructional supplies.

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide financial statements. Prepaid expenditures are recorded when purchased rather than when consumed.

4. Internal Balances

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds." Any residual balances outstanding between the governmental activities and fiduciary funds are reported in the government-wide financial statements as "internal balances."

5. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements and the proprietary fund financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential and the acquisition date. Maintenance, repairs, and equipment replacements of a routine nature are charged to expenditures as incurred and are not capitalized. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed. The District owns no assets that would be classified as infrastructure.

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

Assets	Useful Life
Land improvements	10-20 years
Buildings and improvements	20-40 years
Furniture, fixtures and equipment	7-10 years
Computer equipment	5-7 years
Buses	10 years
Automobiles	5 years
Light duty trucks	10 years
Right to use assets	5-10 years
Right to use - SBITAs	3-5 years

6. Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31st, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are presented below:

General	\$ 154,892
Internal service funds	589
Nonmajor governmental fun	<u>1,198,251</u>
	<u>\$ 1,353,732</u>

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. It is deferred charge on refunding and deferred outflow related to TRS reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension and OPEB liabilities.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of inflows, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenues from two sources: property taxes and school health and related services (SHARS). These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension and OPEB liabilities.

8. Unearned Revenue

Unearned revenue is recorded for revenue streams where cash is received before the performance obligations for the revenue have been met. The District had the following unearned revenues at August 31, 2025:

	General Fund	Nonmajor Governmental Funds	Total
Unearned revenue from TEA	341,360	\$ -	\$ 341,360
Other unearned revenues – athletics	148,818	-	148,818
Other unearned revenues – textbooks	40,613	-	40,613
Other unearned revenues – miscellaneous	<u>22,932</u>	<u>381,941</u>	<u>404,873</u>
Total unearned revenues	<u>\$ 553,723</u>	<u>\$ 381,941</u>	<u>\$ 935,664</u>

9. Arbitrage Payable

The Federal Tax Reform Act of 1986 requires issuers of tax-exempt debt to make payments to the United States Treasury for investment income received at yields that exceed the issuer's tax-exempt borrowing rates. The Treasury requires payment for each issue every five years. The estimated liability is updated annually for all tax-exempt issuances or changes in yields until such time payment of the calculated liability is due. The District does not have an estimated arbitrage liability as of August 31, 2025.

10. Compensated Absences

District employees earn state and local leave in accordance with Board policy. Leave balances may accumulate and are available for use in subsequent periods.

The District recognizes a liability for leave that is attributable to services already rendered, accumulates, and is more likely than not to be used for time off or otherwise paid or settled. Based on historical experience and management's evaluation, a large portion of accumulated state and local leave is considered more likely than not to be used or paid; therefore, a liability for such leave (including applicable payroll-related costs) has been recorded in the governmental activities.

11. Long-Term Obligations

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

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

12. Leases

The District is a lessee for noncancellable leases of equipment. The District recognizes a lease liability and an intangible right-to-use lease asset (lease asset) in the government-wide financial statements. The District recognizes lease liabilities with an initial, individual value of \$5,000 or more.

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

Key estimates and judgments related to leases include how the District determines (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

13. Subscription-Based Information Technology Arrangements

The District is a lessee for subscription-based IT arrangements (SBITAs). The District recognizes liability and an intangible right-to-use asset in the government-wide financial statements.

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

Key estimates and judgments related to SBITAs include how the District determines (1) the discount rate it uses to discount the expected payments to present value, (2) agreement term, and (3) agreed upon payments.

- The District uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the District generally uses its estimated incremental borrowing rate as the discount rate.
- The agreement term includes the noncancellable period of the SBITA.
- The agreed upon payments included in the measurement of the liability are composed of fixed payments and purchase option price that the District is reasonably certain to exercise.

The District monitors changes in circumstances that would require a remeasurement of its SBITA and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the liability. These right to use assets are reported with other capital assets and liabilities are reported with long-term debt on the statement of net position.

14. Fund Balances and Net Position

Government-Wide and Proprietary Fund Financial Statements

Net position represents the difference between assets, deferred outflows of resources, liabilities, and deferred inflows of resources. Net position is reported as restricted when there are limitations imposed on their use through either enabling legislation or by external restrictions imposed by creditors, grantors, laws or contractual agreements.

Net Investment in Capital Assets - the component of net position that reports the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt net of premiums and discounts, excluding unspent proceeds, that is directly attributable to the acquisition, construction, or improvement of these capital assets.

Restricted - the component of net position that reports the difference between assets and liabilities with restrictions placed on the funds by a source external to the district including statute, regulation, or contractual agreement.

Unrestricted - the difference between the assets and liabilities that is not reported in Net Investment in Capital Assets and Restricted Net Position. This represents the amount that is available for meeting future operational needs.

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.

Governmental Fund Financial Statements

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

Nonspendable - includes amounts that cannot be spent because they are either not in spendable form or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid items, and long-term receivables.

Restricted - includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors, or amounts restricted due to constitutional provisions or enabling legislation. This classification includes the child nutrition program, retirement of long-term debt, construction programs, and other federal and state grants.

Committed - includes fund balance amounts that are constrained for specific purposes that are internally imposed by the District through formal action of the highest level of decision-making authority. Committed fund balance is reported pursuant to resolution passed by the District's Board of Trustees. This classification includes campus activity funds; local special revenue funds; and potential litigation, claims and judgments.

Assigned - includes fund balance amounts that are self-imposed by the District to be used for a particular purpose. As defined by the Annual Operating Budget Policy, fund balance can be assigned by the District's Board, the Superintendent, or the Chief Financial Officer. This classification includes insurance deductibles, encumbrances, program start-up costs, projected budget deficit for subsequent years, and other legal uses.

Unassigned - includes residual positive fund balance within the General Fund which has not been classified within the other above-mentioned categories. Unassigned fund balance may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed, or assigned for those specific purposes.

When both restricted and unrestricted fund balances are available for use, it is the District's policy to use restricted resources first and then unrestricted resources. Furthermore, committed fund balances are reduced first, followed by assigned amounts and the unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

15. Data Control Codes

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

16. Accounting Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires District 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 basic financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

17. Pensions

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

18. Other Post-Employment Benefits

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

19. Change in Accounting Principle

During fiscal year 2025, the District adopted the following new accounting guidance:

GASB Statement No. 101, *Compensated Absences* – The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. Accordingly, the cumulative effect of the accounting change has been recognized in a restatement of beginning net position for the year ended August 31, 2024

II. 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 places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

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

The District's investments are reported as cash equivalents. The table below lists the investments held by the District at year-end:

<u>Investment Type</u>	<u>Rating</u>	<u>Weighted Average Maturity (Days)</u>	<u>Reported Value</u>
Money Market	AAAm	1	\$ 36,295
Lone Star	AAAm	92	<u>67,290,584</u>
			<u>\$ 67,326,879</u>
Portfolio weighted average maturity		92	

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

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

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

Additional policies and contractual provision governing investments for the District are specified below:

Credit Risk – This is the risk that a security issuer may default on an interest or principal payment. State law limits investment in local government pools to those that are rated AAA or equivalent by at least one Nationally Recognized Statistical Rating Organization (NRSRO). The District controls and monitors this risk by purchasing quality rated instruments that have been evaluated by agencies such as Standard and Poor's (S&P) or Moody's Investors Service, or by investing in public fund investment pools rated no lower than AAA or AAAm.

Custodial Credit Risk – Investments: For an investment this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The District's investments in Lone Star are not exposed to custodial risk. External investment pools are not subject to custodial risk because investments are not evidenced by securities that exist in physical or book entry form. State law limits investments in public funds investment pools to those rated no lower than AAA or AAAm or an equivalent rating by at least one nationally recognized rating service. As of August 31, 2025, the District's investments in Lone Star are rated AAAm.

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

Interest Rate Risk – The risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the District limits the weighted average maturity of its portfolio. Management considers interest rate risk to be minimal due to the diversity and liquidity requirements imposed on the external investment pools.

III. PROPERTY TAXES

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

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

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

IV. CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 5,751,494	\$ -	\$ (9,805)	\$ 5,741,689
Construction in progress	30,067,078	11,113,711	(15,542,544)	25,638,245
Total capital assets, not being depreciated	35,818,572	11,113,711	(15,552,349)	31,379,934
Capital assets, being depreciated:				
Land improvements	12,638,886	91,145	(3,929)	12,726,102
Buildings and improvements	249,979,278	266,642	13,748,085	263,994,005
Furniture and equipment	33,567,099	4,328,626	(891,950)	37,003,775
Right to use equipment	1,222,957	55,553	(82,909)	1,195,601
SBITA asset	303,858	224,587	(59,166)	469,279
Total capital assets, being depreciated	297,712,078	4,966,553	12,710,131	315,388,762
Less accumulated depreciation for:				
Land improvements	(7,750,040)	(394,197)	2,357	(8,141,880)
Buildings and improvements	(114,972,499)	(7,068,797)	1,285,076	(120,756,220)
Furniture and equipment	(22,921,752)	(2,558,088)	865,192	(24,614,648)
Right to use equipment	(565,809)	(292,943)	82,909	(775,843)
SBITA asset	(150,753)	(228,082)	59,166	(319,669)
Total accumulated depreciation	(146,360,853)	(10,542,107)	2,294,700	(154,608,260)
Total capital assets, being depreciated, net	151,351,225	(5,575,554)	15,004,831	160,780,502
Governmental activities capital assets, net	\$ 187,169,797	\$ 5,538,157	\$ (547,518)	\$ 192,160,436

	Beginning Balance	Increases	Decreases/ Reclassifications	Ending Balance
Business-type activities:				
Capital assets, being depreciated:				
Furniture and equipment	\$ 227,455	\$ -	\$ -	\$ 227,455
Right to use equipment	7,974	-	(7,974)	-
Total capital assets, being depreciated	<u>235,429</u>	<u>-</u>	<u>(7,974)</u>	<u>227,455</u>
Less accumulated depreciation for:				
Furniture and equipment	(50,039)	(32,493)	-	(82,532)
Right to use equipment	(5,235)	-	5,235	-
Total accumulated depreciation	<u>(55,274)</u>	<u>(32,493)</u>	<u>5,235</u>	<u>(82,532)</u>
Total capital assets, being depreciated, net	<u>180,155</u>	<u>(32,493)</u>	<u>(2,739)</u>	<u>144,923</u>
Business-type activities capital assets, net	<u>\$ 180,155</u>	<u>\$ (32,493)</u>	<u>\$ (2,739)</u>	<u>\$ 144,923</u>

Depreciation expense was charged to functions as follows:

Governmental activities:

Instruction	\$ 4,849,576
Instructional resource and media services	286,923
Curriculum and staff development	1,512
Instructional leadership	10,280
School leadership	293,707
Guidance, counseling and evaluation services	25,196
Social work services	14,848
Student transportation	677,747
Food service	912,608
Extracurricular activities	2,233,883
General administration	321,442
Facilities maintenance and operations	303,762
Security and monitoring services	17,849
Data processing services	439,409
Community services	153,365
Total depreciation expense - governmental activities	<u>\$ 10,542,107</u>

Business-type activities:

Fine Arts Center	\$ 32,493
Total depreciation expense - business-type activities	<u>\$ 32,493</u>

V. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The following is a summary of the District's transfers for the year ended August 31, 2025:

Transfers Out	Transfers In	Amount	Description
General fund	Nonmajor governmental funds	\$ 115,520	To supplement Shared Services Agreement for Deaf Education
General fund	Internal service funds	85,360	To supplement Central Supply operations
	Total	<u>\$ 200,880</u>	

Interfund balances at August 31, 2025, consisted of the following due to and due from other funds:

Receivable Fund	Payable Fund	Amount
General fund	Nonmajor governmental funds	\$ 2,887,957
General fund	Internal service funds	718,090
Debt service fund	General fund	873,598
Total		<u>\$ 4,479,645</u>

VI. LONG-TERM LIABILITIES

Changes in the District's long-term liabilities for the year ended August 31, 2025, are as follows:

	Beginning Balance	Additions	Retirements/ Adjustments	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 98,495,000	\$ -	\$ 6,335,000	\$ 92,160,000	\$ 6,660,000
Premium on bonds	8,881,127	-	530,584	8,350,543	-
Financed purchase	1,066,115	-	242,065	824,050	257,691
Leases	657,618	55,553	289,386	423,785	227,300
SBITA	145,584	224,587	204,929	165,242	165,242
Total long term debt	<u>109,245,444</u>	<u>280,140</u>	<u>7,601,964</u>	<u>101,923,620</u>	<u>7,310,233</u>
 Compensated absences	8,998,450	278,303	-	9,276,753	2,319,188
Net pension liability	55,879,804	-	11,978,460	43,901,344	-
Net OPEB liability	22,997,277	6,330,159	-	29,327,436	-
Total long term liabilities, governmental activities	<u>\$197,120,975</u>	<u>\$ 6,888,602</u>	<u>\$ 19,580,424</u>	<u>\$184,429,153</u>	<u>\$ 9,629,421</u>
 Business-Type Activities					
Leases	\$ 2,696	\$ -	\$ 2,696	\$ -	\$ -
Total long term liabilities, business-type activities	<u>\$ 2,696</u>	<u>\$ -</u>	<u>\$ 2,696</u>	<u>\$ -</u>	<u>\$ -</u>

General Obligation Bonds

Bonded debt consists of the following at August 31, 2025:

Series	Amounts of Original Issue	Matures Through	Interest Rate	Outstanding at 8/31/25	Due Within One Year
Series 2016, Unlimited Tax Refunding Bonds	\$ 129,175,000	2035	2-5%	\$ 69,945,000	\$ 6,225,000
Series 2022, Unlimited Tax School Building Bonds	<u>23,025,000</u>	2053	3-5%	<u>22,215,000</u>	<u>435,000</u>
Total	<u>\$ 152,200,000</u>			<u>\$ 92,160,000</u>	<u>\$ 6,660,000</u>

As of August 31, 2025, the debt service requirements of bonded indebtedness to maturity are as follows:

Year Ending August 31,	Governmental Activities Bonds		
	Principal	Interest	Total Requirements
2026	\$ 6,660,000	\$ 3,410,600	\$ 10,070,600
2027	7,005,000	3,068,975	10,073,975
2028	7,325,000	2,744,950	10,069,950
2029	7,630,000	2,440,925	10,070,925
2030	7,910,000	2,161,850	10,071,850
2031-2035	38,885,000	6,373,025	45,258,025
2036-2040	3,660,000	2,774,200	6,434,200
2041-2045	4,270,000	2,163,775	6,433,775
2046-2050	5,180,000	1,261,400	6,441,400
2051-2055	<u>3,635,000</u>	<u>221,900</u>	<u>3,856,900</u>
	<u>\$ 92,160,000</u>	<u>\$ 26,621,600</u>	<u>\$118,781,600</u>

The District's outstanding bonds payable contain a provision that, in an event of default, outstanding amounts will be paid from the corpus of the Texas Permanent School Fund.

Defeased Debt. As of August 31, 2025 the total amount of defeased bonds still outstanding is \$63,310,000 and will be callable between fiscal years 2025 and 2037.

Financed Purchase Payable

In the prior period, the District entered into a financed purchase agreement for leased Chromebooks. The District is required to make fixed annual payments of \$310,885. As of August 31, 2025, the value of the financed purchase is \$824,050. The financed purchase has an interest rate of 6.46%. The asset value of the Chromebooks as of August 31, 2025 is \$1,377,000 with accumulated amortization of \$393,428.

Principal and interest requirements to maturity are as follows:

Year Ending August 31,	Governmental Activities		
	Financed Purchase		
	Principal	Interest	Total Requirements
2026	\$ 257,691	\$ 53,194	\$ 310,885
2027	274,325	36,560	310,885
2028	292,034	18,851	310,885
	<u>\$ 824,050</u>	<u>\$ 108,605</u>	<u>\$ 932,655</u>

Lease Payable

The District entered into multiple leases as lessee for the right to use of copiers through multiple vendors in prior periods. The leases cover 30 copiers and the District is required to make fixed monthly payments ranging from \$43 to \$4,878. The leases have interest rates ranging from 0.39% to 11.00%. The value of the right to use asset as of August 31, 2025 is \$1,195,601 with accumulated amortization of \$775,843.

Principal and interest requirements to maturity are as follows:

Year Ending August 31,	Governmental Activities		
	Leases		
	Principal	Interest	Total Requirements
2026	\$ 227,300	\$ 9,120	\$ 236,420
2027	168,657	3,331	171,988
2028	24,202	297	24,499
2029	3,626	14	3,640
	<u>\$ 423,785</u>	<u>\$ 12,762</u>	<u>\$ 436,547</u>

SBITA Payable

During the fiscal year, the District entered into multiple subscriptions for the use of various software. As of August 31, 2025, the value of the subscription liability is \$165,242. The District is required to make annual fixed payments ranging from \$1,340 to \$23,200. The subscriptions have interest rates ranging from 0.37% to 11.00%. The value of the right to use asset as of August 31, 2025 is \$469,279 with accumulated amortization of \$319,669.

Principal and interest requirements to maturity are as follows:

Year Ending August 31,	Governmental Activities		
	SBITA		
	Principal	Interest	Total Requirements
2026	\$ 165,242	\$ 4,699	\$ 169,941
	<u>\$ 165,242</u>	<u>\$ 4,699</u>	<u>\$ 169,941</u>

VII. 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) and is established and administered in accordance with the Texas Constitution, Article XVI, Section 67, and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

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

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (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 the manner are determined by the system's actuary.

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2019 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%
Current fiscal year employer contributions		\$ 4,057,846
Current fiscal year member contributions		7,771,288
2024 measurement year NECE on-behalf contributions		4,853,844

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

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

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

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

- All public schools, charter schools, and regional educational service centers must contribute 1.8 percent of the member’s salary beginning in fiscal year 2024, gradually increasing to 2 percent in fiscal year 2025.
- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

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

Component	Result
Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2024	3.87% - The source for the rate is the Bond Buyers 20 Index which represents the estimated yield of a portfolio of 20 general obligation bonds maturing in 20 years based on a survey of municipal bond traders.
Last year ending August 31 in Projection Period (100 years)	2123
Inflation	2.30%
Salary Increases Including Inflation	2.95% to 8.95%
Ad Hoc Post-Employment Benefit Changes	None

The actuarial methods and assumptions are 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% 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%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the legislature during the 2019 session. It is assumed that future employer and state contributions will be 9.54% of payroll in fiscal year 2025 and thereafter. This includes all employer and state contributions for active and rehired retirees.

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

The long-term rate of return on pension plan investments is 7%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2024 are summarized below:

Asset Class¹	Target Allocation²	Long-Term Expected Geometric Real Rate of Return³	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	4.40%	1.00%
Non-U.S. Developed	13.00%	4.20%	0.80%
Emerging Markets	9.00%	5.20%	0.70%
Private Equity	14.00%	6.70%	1.20%
Stable Value			
Government Bonds	16.00%	1.90%	0.40%
Absolute Return	0.00%	4.00%	0.00%
Stable Value Hedge Funds	5.00%	3.00%	0.20%
Real Return			
Real Estate	15.00%	6.60%	1.20%
Energy, Natural Resources and Infrastructu	6.00%	5.60%	0.40%
Commodities	0.00%	2.50%	0.00%
Risk Parity			
Risk Parity	8.00%	4.00%	0.40%
Leverage			
Cash	2.00%	1.00%	0.00%
Asset Allocation Leverage	-6.00%	1.30%	-0.10%
Inflation Expectation			2.40%
Volatility Drag ⁴			-0.70%
Expected Return	<u>100.00%</u>		<u>7.90%</u>

¹ Absolute Return includes Credit Sensitive Investments.

² Target allocations are based on the FY2024 policy model.

³ Capital Market Assumptions(CMA) come from 2024 SAA Study SMA Survey (as of 12/31/2023)

⁴ The volatility drag results from the conversion between arithmetic and geometric mean returns.

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Proportionate share of the net pension liability:	\$ 70,121,570	\$ 43,901,344	\$ 22,167,022

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2025, the District reported a liability of \$43,901,344 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	\$ 43,901,344
State's proportionate share that is associated with the District	<u>52,613,038</u>
Total	<u>\$ 96,514,382</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, thru August 31, 2024.

At August 31, 2024 the employer's proportion of the collective net pension liability was 0.0718702400%, which was a decrease of 0.0094800556% from its proportion measured as of August 31, 2023.

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 August 31, 2025, the District recognized pension expense of \$11,754,392 and revenue of \$6,288,137 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 2,419,782	\$ 342,760
Changes in actuarial assumptions	2,266,720	303,890
Differences between projected and actual investment earnings	266,861	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	3,220,782	5,226,859
Contributions paid to TRS subsequent to the measurement date	4,057,846	-
Total as of fiscal year-end	<u>\$ 12,231,991</u>	<u>\$ 5,873,509</u>

The \$4,057,846 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 Total Pension Liability for the year ending August 31, 2026. Other amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal year Ended August 31,	Pension Expense Amount
2026	\$ (240,296)
2027	4,751,831
2028	276,067
2029	(2,069,648)
2030	(417,318)

VIII. RETIREE HEALTH, OTHER POST-EMPLOYMENT BENEFIT PLAN

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 with a special funding situation. The TRS-Care program was established in 1986 by the Texas Legislature.

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

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

Benefits Provided. TRS-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are 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 the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage.

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

Contributions. Contribution rates for 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 TRSCare 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 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75% of each active employee's pay for fiscal year 2025. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2024	2025
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%
Current fiscal year employer contributions		\$ 903,445
Current fiscal year member contributions		612,282
2024 measurement year NECE on-behalf contributions		1,099,745

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

Actuarial Assumptions. The actuarial valuation was performed as of August 31, 2023. Update procedures were used to roll forward the Total OPEB Liability to August 31, 2024. The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. All the demographic assumptions, including rates of retirement, termination, and disability, and most of the economic assumptions, including general inflation and salary increases, used in the OPEB valuation were identical to those in the respective TRS pension valuation. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2021.

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

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

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%
Discount Rate	3.87% as of August 31, 2024
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Projected Salary Increases	2.95% to 8.95%, including inflation
Healthcare Trend Rates	The initial medical trend rate was 6.75 percent for non-Medicare retirees. For Medicare retirees, trend rates are higher in the first two years due to anticipated growth but thereafter match those of non-Medicare retirees. The initial prescription drug trend rate was 7.25 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25
Election Rates	Normal Retirement: 62% participation rate prior to age 65 and 25% 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. There was a decrease of 0.26% in the discount rate since the previous year. Because the investments are held in cash and there is no intentional objective to advance fund the benefits, the single discount rate is equal to the prevailing municipal bond rate.

The source of the municipal bond rate is the Fidelity "20-year Municipal GO AA 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 percentage lower than and 1 percentage higher than the discount rate that was used (3.87%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.87%)	Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
Proportionate share of net OPEB liability	\$ 34,842,365	\$ 29,327,436	\$ 24,871,291

Healthcare Cost Trend Rates 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 assumed rate used.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 23,882,843	\$ 29,327,436	\$ 36,422,284

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At August 31, 2025, the District reported a liability of \$29,327,436 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 29,327,436
State's proportionate share that is associated with the District	36,746,880
Total	<u>\$ 66,074,316</u>

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

At the August 31, 2024, the employer's proportion of the collective Net OPEB Liability was 0.0966258831% which was a decrease of 0.0072541440% from its proportion measured as of August 31, 2023.

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

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

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

For the year ended August 31, 2025, the District recognized OPEB expense of \$(9,225,592) and revenue of \$(4,776,416) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ 5,621,085	\$ 14,635,981
Changes in actuarial assumptions	3,753,565	9,569,203
Differences between projected and actual investment earnings	-	82,126
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	3,396,276	8,518,093
Contributions paid to TRS subsequent to the measurement date	903,445	-
Total as of fiscal year-end	<u>\$ 13,674,371</u>	<u>\$ 32,805,403</u>

The \$903,445 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ending August 31, 2026. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Year Ended August 31,	OPEB Expense
2026	\$ (5,212,162)
2027	(3,883,898)
2028	(4,494,712)
2029	(3,200,090)
2030	(1,717,316)
Thereafter	(1,526,299)

IX. MEDICARE PART D – ON-BEHALF PAYMENTS

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$665,626, \$485,896, and \$462,782, were recognized for the years ended August 31, 2025, 2024, and 2023, respectively, as equal revenues and expenditures.

X. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year, and settlements have not exceeded coverage in the past three years.

Health Care Coverage

The District sponsors a modified self-insurance plan to provide an alternate hospital indemnity plan for employees that do not choose the regular health care coverage offered by TRS. Transactions related to the plan are accounted for in the Employee Insurance Fund (the Fund), an internal service fund of the District. The District contributes 100% of the premiums for this coverage.

Estimates of claims payable and of claims incurred but not reported (IBNR) at August 31, 2025, are reflected as accounts and claims payable of the Fund. The estimate of the claims incurred and not reported is calculated by third party administration based on claims filed during the current year. The plan is funded to discharge liabilities of the Fund as they become due.

Changes in the balances of claim liabilities during the years ended August 31, 2025 and 2024, are as follows:

	Year Ended August 31,	
	2025	2024
Unpaid claims, beginning of the year	\$ 57	\$ 2,467
Incurred claims (including IBNR) and changes in estimate	8,600	7,400
Claim payments	(8,000)	(9,810)
Unpaid claims, end of fiscal year	\$ 657	\$ 57
Net Position	<u>\$ 222,240</u>	<u>\$ 203,314</u>

Workers' Compensation Coverage

The District provides a limited-risk workers' compensation program for its employees through a self-funded plan. Claims are paid by a third-party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. According to state statute, the District is protected against unanticipated catastrophic claims and aggregate loss by coverage carried through Midwest Employers Casualty Company. Stop-loss coverage was in effect for each occurrence or for each employee for occupational disease for claims exceeding \$450,000 and minimum retention of \$3,017,518.

The costs associated with these self-insurance plans are reported as interfund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the internal service funds and operating expenditures of the general fund and special revenue funds. The liabilities of the workers' compensation self-insurance plan include incurred but not reported claims. These liabilities, reported in the fund at August 31, 2025, are based on the requirements of GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an amount for claims that have been incurred but not reported.

Because actual claim liabilities depend on such complex factors as inflation and changes in legal doctrines and damage awards, the process used in computing claim liability does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary.

The following represents the changes in approximate aggregate liabilities for the years ended August 31, 2025 and 2024:

	Year Ended August 31,	
	2025	2024
Liability balance, beginning of the year	\$ 198,509	\$ 336,000
Claims and changes in estimates	281,631	210,527
Claim payments	(273,140)	(348,018)
Liability balance, end of fiscal year	\$ 207,000	\$ 198,509
Net Position	\$ 2,668,930	\$ 2,379,397

XI. COMMITMENTS AND CONTINGENCIES

Construction Commitments

At August 31, 2025, the District is committed under construction contracts as follows:

Projects	Spent-to-Date	Remaining Commitment
Mission Valley Elementary Bond Project	\$ 25,149,016	\$ 489,229

Litigation

The District is not currently involved in any litigation which, in the opinion of the District's administration, would have a material effect on the financial statements.

Grant Programs

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

Contingent Liabilities

The District's administration is not aware of any contingent liabilities that would have a material effect on the financial statements as of August 31, 2025.

XII. SHARED SERVICE ARRANGEMENTS

The District is the fiscal agent for an SSA, which provides deaf education services to member districts whose students are enrolled in the Regional Day School for the Deaf (RDSPD). Other member districts include thirty-eight school districts in the area.

The District, acting as the fiscal agent, is responsible for employment of personnel, budgeting, accounting, and reporting. According to guidance provided in the TEA Financial Accounting Resource Guide, Update 16.0, the District has accounted for the activities of the SSA in the appropriate special revenue funds.

According to the SSA agreement, costs incurred by the RDSPD over and above the amount of state and federal funds received shall be divided among the member districts using a weighted formula based on average daily attendance.

Expenditures billed to the SSA members as of August 31, 2025, are summarized below:

Austwell - Tivoli Independent School District	\$ 1,272
Bay City Independent School District	31,400
Bloomington Independent School District	7,543
Boling Independent School District	10,584
Calhoun County Independent School District	31,754
Columbus Independent School District	14,775
Cuero Independent School District	17,302
East Bernard Independent School District	9,573
Edna Independent School District	13,879
El Campo Independent School District	30,175
Ezzell Independent School District	1,190
Ganado Independent School District	6,503
Goliad Independent School District	11,914
Hallettsville Independent School District	10,639
Industrial Independent School District	10,950
Karnes City Independent School District	9,323
Kenedy Independent School District	6,812
Louise Independent School District	4,740
Matagorda Independent School District	964
Meyersville Independent School District	1,351
Moulton Independent School District	2,623
Nordheim Independent School District	1,167
Nursery Independent School District	1,142
Palacios Independent School District	11,720
Refugio Independent School District	6,284
Rice CISD Independent School District	12,059
Runge Independent School District	1,533
Shiner Independent School District	6,572
Sweet Home Independent School District	1,275
Tidehaven Independent School District	9,551
Van Vleck Independent School District	9,600
Victoria Independent School District	115,520
Vysehrad Independent School District	741
Weimar Independent School District	6,487
Westhoff Independent School District	791
Wharton Independent School District	16,199
Woodsboro Independent School District	3,745
Yoakum Independent School District	13,611
Yorktown Independent School District	4,744
Total	<u>\$ 458,007</u>

XIII. CHANGES WITHIN THE FINANCIAL REPORTING ENTITY

For the current year, the District reported two changes in its financial reporting entity. The District previously reported the ESSER III Fund and Capital Projects Fund as major governmental funds. In the prior year, that classification was based on certain quantitative factors the fund had exceeded, in addition to management's conclusion that the fund was significant enough to merit presentation as a major fund for qualitative purposes. However, the quantitative threshold was not surpassed in the current year which resulted in the funds being reclassified as nonmajor funds. This change within the financial reporting entity did not result in a restatement of fund balance for the ESSER III Fund because it ended with zero fund balance as of August 31, 2024. The Capital Projects Fund had a restatement of fund balance in the amount of \$11,681,417. A summary of fund balance restatements as a result of the changes in the financial reporting entity is shown below.

	8/31/2024 As Previously Reported	Changes Within Financial Reporting Entity	8/31/2024 As Restated
Governmental Funds			
Major Funds:			
General Fund	\$ 47,516,513	\$ -	\$ 47,516,513
Debt Service Fund	7,494,870	-	7,494,870
Capital Projects Fund	11,681,417	(11,681,417)	-
ESSER III	-	-	-
Nonmajor funds	<u>5,914,397</u>	<u>11,681,417</u>	<u>17,595,814</u>
Total governmental funds	<u>\$ 72,607,197</u>	<u>\$ -</u>	<u>\$ 72,607,197</u>

XIV. CHANGE IN ACCOUNTING PRINCIPLE

During fiscal year 2025, the District adopted GASB Statement 101, *Compensated Absences*. In the prior year, the District did not report a compensated absences liability. With the adoption of the new GASB standard during the reporting period, the beginning compensated absences liability for fiscal year 2025 was \$8,998,450, per the District's analysis of historical leave earned and used by employees.

During the fiscal year 2025, the change in accounting principle described above, resulted in a restatement of beginning net position, as follows:

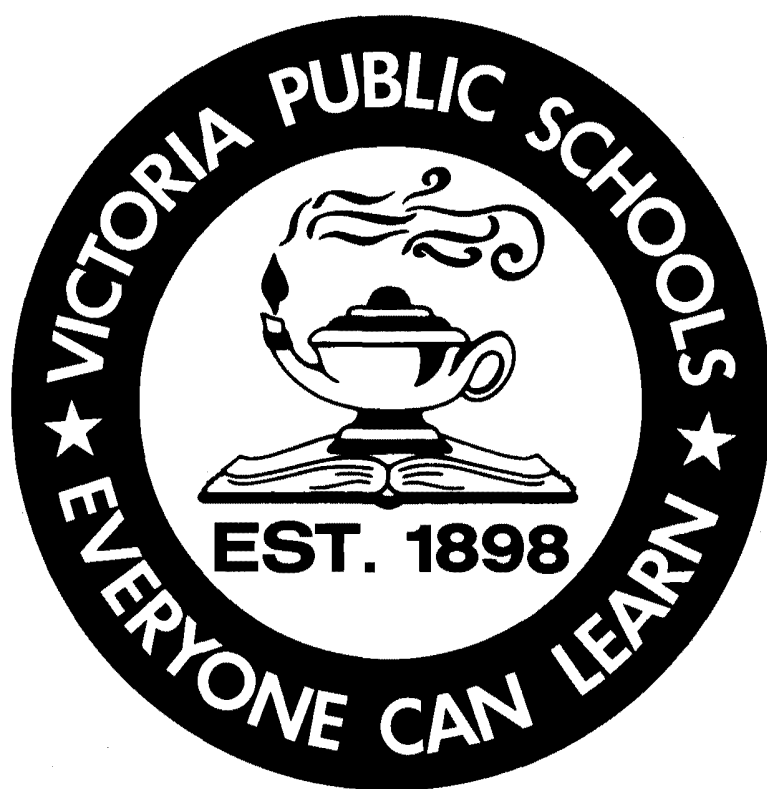
	8/31/2024 As Previously Reported	Change in Accounting	8/31/2024 As Restated
Governmental activities	<u>\$ 67,657,180</u>	<u>\$ (8,998,450)</u>	<u>\$ 58,658,730</u>
Total primary government	<u>\$ 67,657,180</u>	<u>\$ (8,998,450)</u>	<u>\$ 58,658,730</u>

XV. NEW ACCOUNTING PRONOUNCEMENTS

Significant new accounting standards issued by the GASB but not yet implemented by the District include the following:

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

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



REQUIRED SUPPLEMENTARY INFORMATION

VICTORIA INDEPENDENT SCHOOL DISTRICT

EXHIBIT G-1

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

FOR THE YEAR ENDED AUGUST 31, 2025

Data Control Codes		Budgeted Amounts		Actual	Variance with
				Amounts	Final Budget
		Original	Final	(GAAP Basis)	Positive (Negative)
REVENUES					
5700	Local and intermediate sources	\$ 66,014,994	\$ 60,500,202	\$ 59,011,316	\$ (1,488,886)
5800	State program	69,693,457	75,012,133	81,626,407	6,614,274
5900	Federal program	1,750,000	1,750,000	1,563,175	(186,825)
5020	Total revenues	137,458,451	137,262,335	142,200,898	4,938,563
EXPENDITURES					
Current:					
0011	Instruction	72,835,288	70,873,894	66,651,657	4,222,237
0012	Instructional resources and media services	1,702,553	1,262,950	1,182,601	80,349
0013	Curriculum and staff development	4,189,353	4,027,286	3,685,984	341,302
0021	Instructional leadership	2,696,252	2,664,571	2,339,725	324,846
0023	School leadership	8,456,094	8,368,544	7,874,450	494,094
0031	Guidance, counseling, and evaluation services	6,056,494	5,592,976	5,248,268	344,708
0032	Social work services	2,602,855	2,499,972	2,252,238	247,734
0033	Health services	2,534,329	1,841,989	1,701,056	140,933
0034	Student transportation	4,829,890	6,767,189	6,068,094	699,095
0035	Food services	26,250	26,250	-	26,250
0036	Extracurricular activities	4,422,971	4,806,129	4,401,289	404,840
0041	General administration	4,241,929	4,244,119	3,886,649	357,470
0051	Facilities maintenance and operations	17,294,702	18,070,859	17,177,544	893,315
0052	Security and monitoring services	3,122,498	3,327,825	2,766,231	561,594
0053	Data processing services	3,249,311	3,234,797	3,003,734	231,063
0061	Community services	22,879	65,236	52,679	12,557
Debt service:					
0071	Principal on long-term debt	-	661,644	661,643	1
0072	Interest on long-term debt	-	92,470	92,510	(40)
0081	Capital outlay	4,000	747,889	572,187	175,702
Intergovernmental:					
0099	Other intergovernmental charges	1,560,803	1,330,980	1,322,888	8,092
6030	Total expenditures	139,848,451	140,507,569	130,941,427	9,566,142
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(2,390,000)	(3,245,234)	11,259,471	14,504,705
OTHER FINANCING SOURCES (USES)					
7912	Sale of capital assets	-	-	20,670	20,670
7913	Issuance of lease	-	55,557	55,553	(4)
7949	Issuance of SBITA	-	-	224,587	224,587
8911	Transfers out	(110,000)	(250,000)	(200,880)	49,120
7080	Total other financing sources (uses)	(110,000)	(194,443)	99,930	294,373
1200	NET CHANGE IN FUND BALANCES	(2,500,000)	(3,439,677)	11,359,401	14,799,078
0100	FUND BALANCES, BEGINNING	47,516,513	47,516,513	47,516,513	-
3000	FUND BALANCES, ENDING	\$ 45,016,513	\$ 44,076,836	\$ 58,875,914	\$ 14,799,078

VICTORIA INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED BUDGETARY SCHEDULE

AUGUST 31, 2025

Budgetary Information

The Board of Trustees adopts an "appropriated" budget for the General Fund, Debt Service Fund, Child Nutrition Fund, and the Seamless Summer Program. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures.

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

- Prior to August 20th, the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- Prior to September 1st, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end as required by law. During the year, several amendments were necessary.
- Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

Excess of Expenditures over Budgeted Appropriations

During fiscal year 2025, expenditures exceeded appropriations in the following funds:

General Fund		
Interest on long-term debt	\$	40

VICTORIA INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Measurement year ended August 31,	2024	2023	2022	2021
District's proportion of the net pension liability (asset)	0.07187024%	0.08135030%	0.08259385%	0.06862685%
District's proportionate share of the net pension liability (asset)	\$ 43,901,344	\$ 55,879,804	\$ 49,033,847	\$ 17,476,829
State's proportionate share of the net pension liability (asset) associated with the District	<u>52,613,038</u>	<u>58,088,071</u>	<u>53,250,949</u>	<u>28,563,653</u>
Total	<u>\$ 96,514,382</u>	<u>\$ 113,967,875</u>	<u>\$ 102,284,796</u>	<u>\$ 46,040,482</u>
District's covered payroll	\$ 91,288,239	\$ 90,918,440	\$ 91,434,304	\$ 85,727,213
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	48.09%	61.46%	53.63%	20.39%
Plan fiduciary net position as a percentage of the total pension liability	77.51%	73.15%	75.62%	88.79%

2020	2019	2018	2017	2016	2015
0.06665969%	0.07356350%	0.08148558%	0.07921825%	0.08133195%	0.08255650%
\$ 35,701,570	\$ 38,240,605	\$ 44,851,640	\$ 25,329,729	\$ 30,734,135	\$ 29,182,624
<u>63,913,629</u>	<u>62,257,978</u>	<u>68,669,783</u>	<u>43,376,370</u>	<u>52,676,706</u>	<u>51,219,696</u>
<u>\$ 99,615,199</u>	<u>\$ 100,498,583</u>	<u>\$ 113,521,423</u>	<u>\$ 68,706,099</u>	<u>\$ 83,410,841</u>	<u>\$ 80,402,320</u>
\$ 86,158,404	\$ 85,097,187	\$ 85,467,772	\$ 86,611,924	\$ 86,289,639	\$ 84,075,903
41.44%	44.94%	52.48%	29.25%	35.62%	34.71%
75.54%	75.24%	73.74%	82.17%	78.00%	78.43%

VICTORIA INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Fiscal year ended August 31,	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Contractually required contribution	\$ 4,057,846	\$ 4,004,441	\$ 4,181,599	\$ 3,853,855
Contributions in relation to the contractually required contribution	<u>(4,057,846)</u>	<u>(4,004,441)</u>	<u>(4,181,599)</u>	<u>(3,853,855)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 94,186,547	\$ 91,288,239	\$ 90,918,440	\$ 88,348,325
Contribution as a percentage of covered payroll	4.31%	4.39%	4.60%	4.36%

2021	2020	2019	2018	2017	2016
\$ 2,927,309	\$ 2,598,529	\$ 2,493,627	\$ 2,658,343	\$ 2,623,685	\$ 2,633,257
<u>(2,927,309)</u>	<u>(2,598,529)</u>	<u>(2,493,627)</u>	<u>(2,658,343)</u>	<u>(2,623,685)</u>	<u>(2,633,257)</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
\$ 85,727,213	\$ 86,158,959	\$ 84,598,420	\$ 86,291,330	\$ 86,548,319	\$ 86,091,939
3.41%	3.02%	2.95%	3.08%	3.03%	3.06%

VICTORIA INDEPENDENT SCHOOL DISTRICT

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

FOR THE YEAR ENDED AUGUST 31, 2025

Measurement year ended August 31,	2024	2023	2022	2021
District's proportion of the net OPEB liability (asset)	0.0966258831%	0.1038800271%	0.1078045766%	0.1016719704%
District's proportionate share of the net OPEB liability (asset)	\$ 29,327,436	\$ 22,997,277	\$ 25,812,734	\$ 39,219,422
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>36,746,880</u>	<u>27,749,750</u>	<u>31,487,479</u>	<u>52,545,286</u>
Total	<u>\$ 66,074,316</u>	<u>\$ 50,747,027</u>	<u>\$ 57,300,213</u>	<u>\$ 91,764,708</u>
District's covered payroll	\$ 91,288,239	\$ 90,918,440	\$ 91,434,304	\$ 85,727,213
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	32.13%	25.29%	28.23%	45.75%
Plan fiduciary net position as a percentage of the total OPEB liability	13.70%	14.94%	11.52%	6.18%

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

2020	2019	2018	2017
0.1001789480%	0.1048582052%	0.1155047961%	0.1124758114%
\$ 38,082,542	\$ 49,588,731	\$ 57,672,602	\$ 48,911,511
<u>51,173,808</u>	<u>65,892,330</u>	<u>71,392,993</u>	<u>65,185,572</u>
<u>\$ 89,256,350</u>	<u>\$ 115,481,061</u>	<u>\$ 129,065,595</u>	<u>\$ 114,097,083</u>
\$ 86,158,404	\$ 85,097,187	\$ 85,467,772	\$ 86,611,924
44.20%	58.27%	67.48%	56.47%
4.99%	2.66%	1.57%	0.91%

VICTORIA INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM****FOR THE YEAR ENDED AUGUST 31, 2025**

Fiscal year ended August 31,	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
Contractually required contribution	\$ 903,445	\$ 877,323	\$ 901,133	\$ 885,405
Contributions in relation to the contractually required contribution	<u>(903,445)</u>	<u>(877,323)</u>	<u>(901,133)</u>	<u>(885,405)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 94,186,547	\$ 91,288,239	\$ 90,918,440	\$ 88,348,325
Contribution as a percentage of covered payroll	0.96%	0.96%	0.99%	1.00%

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

<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
\$ 794,018	\$ 730,089	\$ 709,540	\$ 741,356
<u>(794,018)</u>	<u>(730,089)</u>	<u>(709,540)</u>	<u>(741,356)</u>
\$ -	\$ -	\$ -	\$ -
\$ 85,727,213	\$ 86,158,959	\$ 84,598,420	\$ 86,291,330
0.93%	0.85%	0.84%	0.86%

APPENDIX C

FORMS OF CO-BOND COUNSEL'S OPINIONS

September __, 2026

WE HAVE ACTED as Co-Bond Counsel for the Victoria Independent School District (the “District”) in connection with an issue of bonds (the “Bonds”) described as follows:

VICTORIA INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026, dated September 1, 2026, in the aggregate principal amount of \$_____.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the “Order”) adopted by the Board of Trustees of the District authorizing their issuance.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. ICI-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

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

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

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that under current law and subject to the restrictions hereinafter described, interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum tax and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. The opinion in (a) and (b) of the preceding sentence is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order that interest thereon not be included in gross income for federal income tax purposes. Failure by the District to comply with the Covenants (as defined below), among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue. The District may in its discretion, but has not covenanted to, take any and all such actions as may be required by future changes in the Code and applicable regulations in order that interest on the Bonds remain excludable from gross income for federal income tax purposes. We express no opinion regarding other federal tax consequences of the ownership of or receipt or accrual of interest on the Bonds.

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters.

IN PROVIDING THE FOREGOING OPINIONS, without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the District as to certain facts relevant to both our opinion and requirements of the Code. The District has covenanted to comply with the current provisions of the Code regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents relating to the issuance of the Bonds (the "Covenants").

IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, 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 income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

September __, 2026

Page 3

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. Our services as Co-Bond Counsel to the District have been limited to delivering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. Our services have not included any financial or other non-legal advice. We express no opinion herein as to the financial resources of the District, its ability to provide for payment of the Bonds or the accuracy or completeness of any information, including the District's Preliminary Official Statement dated August 12, 2026 and the District's Official Statement dated August __, 2026, that may have been relied upon by anyone in making the decision to purchase Bonds. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very Truly Yours,

**LAREDO**

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Laredo, Texas 78041
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SAN ANTONIO

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CORPUS CHRISTI

711 Carancahua St., Suite 907
Corpus Christi, Texas 78401
Phone: (361) 333-2229

September __, 2026

WE HAVE ACTED as Co-Bond Counsel for the Victoria Independent School District (the “District”) in connection with an issue of bonds (the “Bonds”) described as follows:

VICTORIA INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026, dated September 1, 2026, in the aggregate principal amount of \$_____.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the order (the “Order”) adopted by the Board of Trustees of the District authorizing their issuance.

WE HAVE ACTED as Co-Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity we have examined the Constitution and laws of the State of Texas; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds, as described in the Order. The transcript contains certified copies of certain proceedings of the District; certain certifications and representations and other material facts within the knowledge and control of the District, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds. We have also examined executed Bond No. ICI-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the District or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the District’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the District enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy,

insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

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

EXCEPT AS DESCRIBED HEREIN, we express no opinions as to any other matters.

IN PROVIDING THE FOREGOING OPINIONS, without undertaking to verify the same by independent investigation, we have relied on certifications by representatives of the District as to certain facts relevant to our opinion. The District has covenanted to comply with the current provisions of the law regarding, among other matters, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds, all as set forth in the proceedings and documents relating to the issuance of the Bonds (the "Covenants").

IN ADDITION, EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, 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 income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. Our services as Co-Bond Counsel to the District have been limited to delivering the foregoing opinion based on our review of such proceedings and documents as we deem necessary to approve the validity of the Bonds and the tax-exempt status of the interest thereon. Our services have not included any financial or other non-legal advice. We express no opinion herein as to the financial resources of the District, its ability to provide for payment of the Bonds or the accuracy or completeness of any information, including the District's Preliminary Official Statement dated August 12, 2026 and the District's Official Statement dated August __, 2026, that may have been relied upon by anyone in making the decision to purchase Bonds. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions

represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very Truly Yours,

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

APPENDIX D

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

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

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The PSF Corporation has 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>2023²</u>	<u>2024</u>	<u>2025</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$2,076	\$2,156	\$2,156
PSF(SBOE) Distribution	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-	-
PSF(SLB) Distribution	-	-	-	300	600	600 ³	415	115	-	-
Per Student Distribution	215	212	247	306	347	341	432	440	430	428

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

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

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

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

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

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

¹ Includes only distributions 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>
	As of <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 CDBGP Rules provide that the PSF may be used to guarantee bonds issued for the acquisition, construction, repair, or renovation of an educational facility for an open-enrollment charter holder and equipping real property of an open-enrollment charter school and/or to refinance promissory notes executed by an open-enrollment charter school, each in an amount in excess of \$500,000 the proceeds of which loans were used for a purpose described above (so-called new money bonds) or for refinancing bonds previously issued for the charter school that were approved by the Attorney General (so-called refunding bonds). Refunding bonds may not be guaranteed under the Charter District Bond Guarantee Program if they do not result in a present value savings to the charter holder.

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

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

Capacity Limits for the Guarantee Program

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

Prior to 2007, various legislation was enacted modifying the calculation of the State Capacity limit; however, in 2007, Senate Bill 389 ("SB 389") was enacted, providing for increases in the capacity of the Guarantee Program, and specifically providing that the SBOE may by rule increase the capacity of the Guarantee Program from two and one-half times the cost value of the PSF to an amount not to exceed five times the cost value of the PSF, provided that the increased limit does not violate federal law and regulations and does not prevent bonds guaranteed by the Guarantee Program from receiving the highest available credit rating, as

determined by the SBOE. SB 389 further provided that the SBOE shall at least annually consider whether to change the capacity of the Guarantee Program. Additionally, on May 21, 2010, the SBOE modified the SDBGP Rules, and increased the State Capacity Limit to an amount equal to three times the cost value of the PSF. Such modified regulations, including the revised capacity rule, became effective on July 1, 2010. The SDBGP Rules provide that the Education Commissioner will estimate the available capacity of the PSF each month and may increase or reduce the State Capacity Limit multiplier to prudently manage fund capacity and maintain the AAA credit rating of the Guarantee Program but also provide that any changes to the multiplier made by the Education Commissioner are to be ratified or rejected by the SBOE at the next meeting following the change. See “Valuation of the PSF and Guaranteed Bonds” below.

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

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

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

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

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

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

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

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

2017 Legislative Changes to the Charter District Bond Guarantee Program

The CDBGP Capacity is established by the Act. During the 85th Texas Legislature, which concluded on May 29, 2017, Senate Bill 1480 (“SB 1480”) was enacted. SB 1480 amended the Act to modify how the CDBGP Capacity is established effective as of

September 1, 2017, and made other substantive changes to the Charter District Bond Guarantee Program. Prior to the enactment of SB 1480, the 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.

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> <u>(\$)</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 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.