

OFFICIAL STATEMENT
Dated August 4, 2026

NEW ISSUE - BOOK-ENTRY-ONLY



ENHANCED/UNENHANCED RATINGS: Moody's - "Aa2"
PSF Guaranteed - "Aaa"
(See "APPENDIX E - The Permanent School Fund
Guarantee Program" and "OTHER PERTINENT
INFORMATION - Municipal Bond Ratings" herein)

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

\$27,000,000
FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Gillespie, Blanco and Kendall Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

Dated Date: August 1, 2026

Due: February 15 as shown on page -ii- herein

The "Fredericksburg Independent School District Unlimited Tax School Building Bonds, Series 2026" (the "Bonds"), as shown on page -ii- of this Official Statement are direct obligations of the Fredericksburg Independent School District (the "District") and are payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the District. The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 2, 2026 (the "Election"), and an order authorizing the issuance of the Bonds (the "Order") adopted by the Board of Trustees (the "Board") of the District on June 24, 2026. As permitted by the provisions of Chapter 1371, the Board, in the Order, delegated the authority to certain District officials (each, an "Authorized Official") to execute an approval certificate (the "Approval Certificate") establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an Authorized Official on August 4, 2026. See "THE BONDS - Authority for Issuance" herein.

Interest on the Bonds will accrue from August 1, 2026 (the "Dated Date"), will be payable until stated maturity or prior redemption on February 15 and August 15 of each year, commencing February 15, 2027, and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be issued as fully registered obligations in principal denominations of \$5,000, or integral multiples thereof within a stated maturity. The Bonds will be issued in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Bonds will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar, initially BOKF, NA, Dallas, Texas, to the Securities Depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Proceeds from the sale of the Bonds will be used for the purposes (i) authorized under the election, and (ii) of paying for professional services associated with the costs of issuance of the Bonds. See "THE BONDS - Use of Proceeds" herein.

The District has received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "APPENDIX E - The Permanent School Fund Guarantee Program" herein.

**For Stated Maturities, Principal Amounts, Interest Rates, Initial Yields,
CUSIP Numbers and Redemption Provisions for the Bonds, see page -ii- herein**

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers named below (the "Underwriters") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. Certain legal matters will be passed upon for the Underwriters by their legal counsel, Cantu Harden Montoya LLP, San Antonio, Texas. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about August 18, 2026.

RAYMOND JAMES

FHN FINANCIAL CAPITAL MARKETS

HILLTOPSECURITIES

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

**\$27,000,000
FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
(A political subdivision of the State of Texas located in Gillespie, Blanco and Kendall Counties, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026**

CUSIP No. Prefix 355838⁽¹⁾

\$8,690,000 Serial Bonds

Stated Maturity (Feb. 15)	Principal Amount (\$)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix⁽¹⁾
2027	2,050,000	5.000	2.680	KB8
2028	1,960,000	5.000	2.790	KC6
2029	50,000	5.000	2.930	KD4
2030	50,000	5.000	3.030	KE2
2031	50,000	5.000	3.150	KF9
2032	50,000	5.000	3.230	KG7
2033	50,000	5.000	3.380	KH5
2034	50,000	5.000	3.480	KJ1
2035	50,000	5.000	3.580	KK8
2036	100,000	5.000	3.680	KL6
2037	110,000	5.000	3.780 ⁽²⁾	KM4
2038	120,000	5.000	3.870 ⁽²⁾	KN2
2039	150,000	5.000	3.940 ⁽²⁾	KP7
2040	205,000	5.000	4.050 ⁽²⁾	KQ5
2041	280,000	5.000	4.110 ⁽²⁾	KR3
2042	330,000	4.000	4.300	KS1
2043	430,000	5.000	4.210 ⁽²⁾	KT9
2044	605,000	4.125	4.400	KU6
2045	975,000	5.000	4.340 ⁽²⁾	KV4
2046	1,025,000	5.000	4.420 ⁽²⁾	KW2

(Interest to accrue from the Dated Date)

\$18,310,000 Term Bonds

\$ 6,075,000 - 5.000% - Term Bonds Due February 15, 2051 - Priced to Yield 4.670%⁽²⁾ CUSIP No. Suffix KX0⁽¹⁾
\$12,235,000 - 5.000% - Term Bonds Due February 15, 2054 - Priced to Yield 4.740%⁽²⁾ CUSIP No. Suffix KY8⁽¹⁾

(Interest to accrue from the Dated Date)

REDEMPTION PROVISIONS

The District reserves the right to redeem the Bonds maturing on and after February 15, 2037 in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2036 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the Bonds maturing on February 15, 2051 and February 15, 2054 (the "Term Bonds") are also subject to mandatory sinking fund redemption. (See "THE BONDS - Redemption Provisions of the Bonds" herein.)

⁽¹⁾ CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (CGS) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright © 2025 CUSIP Global Services. All rights reserved. CUSIP data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the Underwriters, the District or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein. Further, CUSIP numbers are subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a partial defeasance of the Bonds.

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on February 15, 2036, the first optional call date for the Bonds, at a redemption price of par, plus accrued interest to the redemption date.

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
234 Friendship Lane
Fredericksburg, Texas

BOARD OF TRUSTEES

Name	Position	Total Years Served	Term Expires May	Occupation
Matt Seidenberger	President	4	2028	Bank Executive
Keri Hensley	Vice President	3	2029	Business Owner
Taylor Ward	Secretary	3	2029	Bank Executive
Judge Edwards	Trustee	8	2027	Business Owner
Rusty Jenschke	Trustee	2	2027	Business Owner
Brian Lehne	Trustee	9	2029	Construction Executive
Gayle Schoessow	Trustee	1	2028	Attorney

ADMINISTRATION - FINANCE RELATED

Name	Title	Total Years Experience	Total Years With District
Dr. Calvin Bowers ⁽¹⁾	Superintendent	17	1st
Jill Minshew	Assistant Superintendent Business/Finance	16	6

⁽¹⁾ The Board of Trustees named Dr. Calvin Bowers as the lone finalist for Superintendent of Schools at their April 23, 2026 meeting.

CONSULTANTS AND ADVISORS

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Fredericksburg, Texas

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Austin, Texas

Bond Counsel

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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

This Official Statement does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources 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 Underwriters.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement.

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 THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION FOR THE PURCHASE THEREOF.

The Financial Advisor 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, their responsibilities to the District and 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.

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

None of the District, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding (i) DTC or its book-entry-only system described under the caption "BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC, and (ii) the Texas Permanent School Fund Guarantee Program described under "APPENDIX E - The Permanent School Fund Guarantee Program" herein as such information has been provided by the Texas Education Agency.

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

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

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

OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

THE DISTRICT	The Fredericksburg Independent School District (the "District") is located primarily in Gillespie County with portions of the District extending into Blanco and Kendall Counties. The District is governed by a seven-member Board of Trustees (the "Board"). Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.
THE BONDS	The Bonds mature on February 15 in each of the years 2027 through 2054 inclusive. Interest on the Bonds shall accrue from the Dated Date (identified below) and is payable semi-annually on February 15 and August 15 commencing on February 15, 2027, until stated maturity or prior redemption.
DATED DATE	August 1, 2026
REDEMPTION	The District reserves the right to redeem the Bonds maturing on or after February 15, 2037, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2036 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the Bonds maturing on February 15, 2051 and February 15, 2054 (the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is BOKF, Dallas, Texas. The District intends to use the Book-Entry-Only System of The Depository Trust Company. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)
SECURITY FOR THE BONDS	The Bonds constitute direct obligations of the District payable from an annual ad valorem tax levied against all taxable property located therein, without legal limitation as to rate or amount.
TAX MATTERS	In the opinion of Norton Rose Fulbright US LLP, Austin, Texas, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel."
GUARANTY PROGRAM FOR SCHOOL DISTRICT BONDS	The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed under the Guarantee Program (hereinafter defined) that will automatically become effective when the Attorney General of Texas approves the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (1) the purposes authorized under the May 2, 2026 election, and (ii) paying costs associated with the issuance of the Bonds. See "THE BONDS - Use of Proceeds" herein.

MUNICIPAL BOND RATING	Moody's Investors Service, Inc. ("Moody's") has assigned its municipal bond rating of "Aaa" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. In addition, Moody's has assigned its underlying unenhanced rating of "Aa2" to the District's ad valorem tax-supported indebtedness, including the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" and "OTHER PERTINENT INFORMATION - Municipal Bond Rating" herein.
FUTURE BOND ISSUES	After the issuance of the Bonds the District will have \$132,665,000 remaining authorized but unissued debt. The District anticipates the issuance of additional voter authorized debt in the next 12 to 18 months. The District may potentially issue refunding obligations for debt service savings.
PAYMENT RECORD	The District has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated on or about August 18, 2026.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

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OFFICIAL STATEMENT

relating to

\$27,000,000

FREDERICKSBURG SCHOOL DISTRICT

(A political subdivision of the State of Texas located in Gillespie, Blanco and Kendall Counties, Texas)

UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026

INTRODUCTION

This Official Statement of Fredericksburg Independent School District (the "District") is provided to furnish certain information in connection with the sale of the District's \$27,000,000 Unlimited Tax School Building Bonds, Series 2026 (the "Bonds").

This Official Statement, which includes the cover page and the appendices hereto, provides certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the District and, during the offering period, from the District's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the Underwriters with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access ("EMMA") system. See "CONTINUING DISCLOSURE" herein for a description of the District's undertaking to provide certain information on a continuing basis. Capitalized terms used, but not defined herein, shall have the meanings ascribed thereto in the Order (defined below).

THE BONDS

General Description

The Bonds are dated August 1, 2026 (the "Dated Date") and will accrue interest from the Dated Date, and such interest shall be payable on February 15 and August 15 in each year, commencing February 15, 2027, until stated maturity or prior redemption. The Bonds will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page -ii- of this Official Statement.

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

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, 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 (defined herein) of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Authority for Issuance

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Sections 45.001 and 45.003(b)(1), as amended, Texas Education Code, Chapter 1371, as amended, Texas Government Code ("Chapter 1371"), an election held in the District on May 2, 2026 (the "Election"), and an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Trustees (the "Board") of the District on June 24, 2026. As permitted by the provisions of Chapter 1371, the Board, in the Bond Order, delegated the authority to certain District officials (each, an "Authorized Official") to execute an approval certificate (the "Approval Certificate," and, together with the Bond Order, the "Order") establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an Authorized Official on August 4, 2026.

Security for Payment

The Bonds constitute direct obligations of the District payable from the proceeds of an ad valorem tax levied against all taxable property located therein, without any legal limitation as to rate or amount.

Permanent School Fund Guarantee

The District has applied for and received conditional approval from the Texas Education Agency for the payment of principal of and interest on the Bonds to be guaranteed under the Permanent School Fund Guarantee Program which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds. See "APPENDIX E - The Permanent School Fund Guarantee Program" herein.

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 E - The Permanent School Fund Guarantee Program" herein for pertinent information regarding the Permanent School Fund Guarantee Program.

Payment Record

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

Use of Proceeds

The proceeds of the Bonds (which include certain premium allocations) represent the first installment of voted bonds (described below) approved at the Election held in the District on May 2, 2026. Following the issuance of the Bonds, the District has \$132,665,000 authorized but unissued bonds as further described below. See "VALUATION AND DEBT DATA - Authorized But Unissued General Obligation Bonds" in APPENDIX A attached hereto.

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

Purpose	Amount Authorized	Amount Previously Issued	Amount This Issue	Amount Remaining
designing, constructing, renovating, improving, modernizing, expanding, upgrading, updating, acquiring, and equipping school facilities (and any necessary or related removal of existing facilities), and the purchase of buses and Vehicles	\$160,000,000	\$-0-	\$27,335,000*	\$132,665,000

* Includes certain premium allocated to the voted authorization.

Future Issues

The District does not anticipate the issuance of any voter authorized debt in the next 12 to 18 months, except to potentially refund bonds for debt service savings.

Legality

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US, LLP, Austin, Texas, as Bond Counsel. The legal opinion of Bond Counsel will accompany the bond certificates deposited with DTC or be printed on the Bonds. The form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated to occur on or about August 18, 2026.

Redemption Provisions of the Bonds

Optional Redemption. The District reserves the right to redeem the Bonds maturing on February 15, 2037, at the option of the District, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 2036 or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption. In addition, the Bonds maturing on February 15, 2051 and February 15, 2054 (the "Term Bonds") are also subject to mandatory sinking fund redemption.

Mandatory Redemption. The Bonds maturing on February 15, 2051 and February 15, 2054 (the "Term Bonds") are also subject to mandatory sinking fund redemption prior to stated maturity from moneys required to be deposited into the interest and sinking fund for the Bonds (the "Interest and Sinking Fund") for such purpose and shall be redeemed in part,

by lot or other customary method, at the principal amount thereof plus accrued interest to the date of redemption in the following principal amounts on February 15 in each of the years as set forth below:

Term Bond Maturing February 15, 2051		Term Bond Maturing February 15, 2054	
Mandatory Redemption	Principal Amount	Mandatory Redemption	Principal Amount
February 15, 2047	\$1,090,000	February 15, 2052	\$2,245,000
February 15, 2048	1,150,000	February 15, 2053	4,995,000
February 15, 2049	1,205,000	February 15, 2054*	4,995,000
February 15, 2050	1,275,000		
February 15, 2051*	1,355,000		

*Stated Maturity.

The principal amount of a Term Bond required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the option of the District, by the principal amount of any Term Bond of such stated maturity which, at least 50 days prior to the mandatory sinking fund redemption date, (1) shall have been defeased or acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District with money in the Interest and Sinking Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions described above and not theretofore credited against a mandatory sinking fund redemption requirement.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the District shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, 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 each registered owner of a Bond to be redeemed, in whole or in part, at the address of the holder appearing on the Bond Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Order when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations (defined below) of such maturities and interest payment dates and bearing such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of cash and Government Obligations. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the District's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Order).

The Order provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District authorizes the defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Order does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, the District has the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Defeasance will automatically cancel the Permanent School Fund Guarantee with respect to those defeased Bonds.

Amendments

The District may amend the Order without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the District may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount, the redemption price therefor, 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 percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, waiver, or rescission.

Default and Remedies

If the District defaults in the payment of principal, interest or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, and the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the District's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. 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 beyond 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 United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the

pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein for a description of the procedures to be followed for payment of the Bonds by the Permanent School Fund in the event the District fails to make a payment on the Bonds when due). The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

SOURCES AND USES OF FUNDS

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

<u>Sources of Funds:</u>	
Par Amount of Bonds	\$27,000,000.00
Net Reoffering Premium on the Bonds	677,014.25
Accrued Interest	<u>63,344.18</u>
Total Sources	\$27,740,358.43
<u>Uses of Funds:</u>	
Deposit to Construction Fund	\$27,335,000.00
Deposit to the Bond Fund (including accrued interest)	63,344.18
Underwriters' Discount	153,039.40
Costs of Issuance and Contingency	<u>188,974.85</u>
Total Uses	\$27,740,358.43

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar BOKF, Dallas, Texas. The Bonds will be issued in fully registered form in multiples of \$5,000 or integral multiple thereof for any one stated maturity, and principal and interest will be paid by the Paying Agent/Registrar. If the date for the payment of the principal or interest on, or redemption price of, the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Successor Paying Agent/Registrar

The District covenants that until the Bonds are paid it will at all times maintain and provide a paying agent/registrar. In the Order, the District retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District must be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the registered owner entitled to receive a payment of interest on a Bond is the last business day of the month next preceding each interest payment date; provided, however, that the Record Date for the one-time irregular interest payment shall be the Delivery Date.

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. 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 (5) business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each registered owner of a Bond appearing on the Bond Register at the close of business on the last business day next preceding the date of mailing of such notice.

Registration, Transferability and Exchange

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

Limitation on Transfer of Bonds

Neither the District nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

In the event the Book-Entry-Only System has been discontinued, and any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same maturity and amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the District and the Paying Agent/Registrar evidence satisfactory to establish to the District and the Paying Agent/Registrar that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the District and the Paying Agent/Registrar with bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities,

through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings' rating of "AA+." The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of This Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the District, printed physical Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Order and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

AD VALOREM TAX PROCEDURES

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

Valuation of Taxable Property

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property. The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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 TAX PROCEDURES – District and Taxpayer Remedies").

State Mandated Homestead Exemptions

State law grants, with respect to school district taxes imposed for general elementary and secondary public school purposes, (1) a \$140,000 exemption of the appraised value of all homesteads, (2) a \$60,000 exemption of the appraised value of the residence 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 reducing or repealing 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. See "APPENDIX A - TAXATION DATA - 2023 Tax Deductions Allowed" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. Pursuant to voter approval at a Statewide election held on November 4, 2025, legislation passed by the State legislature and signed by the Governor during the Legislature (as defined herein) provides a person with an exemption from taxation by a taxing unit of \$125,000 of the appraised value of 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 (or, if the person leases such property, 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 damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, the governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the Governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code, as amended.

Tax Increment Reinvestment Zones

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

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

Tax Limitation Agreements

The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended) allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district could only levy and collect M&O taxes on the agreed-to limited appraised property value. For the purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district was not subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts"). 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 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 TAX PROCEDURES – Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

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

The Tax Code as Applied to the District

The District grants the State mandated exemption to the market value of residence homesteads of \$140,000.

The District grants the State mandated exemption of \$60,000 to the market value of the residence homestead to disabled persons and persons 65 years of age or older.

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

The District, with certain exceptions, does not tax non-business personal property; and the Gillespie Central Appraisal District collects the District's taxes.

The District does not permit split payments and discounts.

The District does not tax freeport property.

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 E – 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 E 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 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 become both a floor and a ceiling, denying school districts meaningful discretion in setting their tax rates. In response to the Texas Supreme Court decisions, the Legislature enacted multiple laws which made substantive changes in the way the Finance System is funded, in efforts to address decisions declaring the Finance System unconstitutional.

On May 13, 2016, the Texas Supreme Court issued its opinion in the most recent litigation, *Morath v. The Texas Taxpayer and Student Fairness Coalition, et al.*, No. 490 S.W.3d 826 (Tex. 2016) (“*Morath*”). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the Legislature in part in response to prior decisions of the Texas Supreme Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Texas Supreme 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 22, 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. The District can make no representations or predictions concerning the outcome of this litigation, how the State Legislature may respond to such litigation, or the effect, if any, that this litigation or future legislation 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* upheld the constitutionality of the Finance System but noted that the Finance System was “undeniably imperfect.” While not compelled by the *Morath* decision to reform the Finance System, the Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated that any future determination of unconstitutionality “would not, however, affect the district’s authority to levy the taxes necessary to retire previously issued bonds, but would instead require the Legislature to cure the system’s unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions” (collectively, the “Contract Clauses”), which prohibit the enactment of laws that impair prior obligations of contracts.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of future legislation or litigation, or how such legislation or future court orders may affect the District’s financial condition, revenues or operations. While the disposition of any possible future litigation or the enactment of future legislation to address school funding in Texas could substantially adversely affect the financial condition, revenues or operations of the District, as noted herein, 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 litigation or legislation. See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM.”

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview

The following language constitutes only a summary of the Finance System. The information contained under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and only reflects the District's understanding based on information available to the District as of the date of this Official Statement. For a more complete description of school finance and fiscal management in the State, reference is made to Chapters 43 through 49 of the Texas Education Code, as amended. Additionally, prospective investors are encouraged to review the Property Tax Code (as defined herein) for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the defined tax rates.

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

2025 Legislative Session

The regular session of the 89th Texas Legislature 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 increased: (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 (the “SCP”) is a statutorily-defined percentage of the rate of \$1.00 per \$100 that is used to determine a school district’s Maximum Compressed Tax Rate (described below). The SCP is the lesser of three alternative calculations: (1) 93% or a lower percentage set by appropriation for a school year; (2) a percentage determined by formula if the estimated total taxable property value of the State (as submitted annually to the State Legislature by the State Comptroller) has increased by at least 2.5% over the prior year; and (3) the prior year SCP. For any year, the maximum SCP is 93%. For the State fiscal year ending in 2026, the State Compression Percentage is set at 63.22%.

Maximum Compressed Tax Rate

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

In calculating and making available school districts’ MCRs for the 2025-2026 school year, the TEA shall calculate and make available the rates as if the increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 89th Legislature, Regular Session, 2025, took effect. Such calculation for the 2025-2026 school year expires September 1, 2026. Subject to voter approval at a Statewide election to be held on November 4, 2025, the residential homestead exemption under Section 1-b(c), Article VIII, Texas Constitution would increase (1) the State mandated general homestead exemption from \$100,000 to \$140,000, and (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000. 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. Additionally, a school district’s levy of Copper Pennies is subject to compression if the guaranteed yield (i.e., the guaranteed level of local tax revenue and State aid generated for each cent of tax effort) of Copper Pennies is increased from one year to the next (see “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts – Tier Two”).

State Funding for School Districts

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

The first level of funding, Tier One, is the basic level of funding guaranteed to all school districts based on a school district’s Tier One Tax Rate. Tier One funding may then be “enriched” with Tier Two funding. Tier Two provides a guaranteed entitlement for each cent of a school district’s Enrichment Tax Rate, allowing a school district increase or decrease its

Enrichment Tax Rate to supplement Tier One funding at a level of the school district's own choice. While Tier One funding may be used for the payment of debt service (except for school districts subject to the recapture provisions of Chapter 49 of the Texas Education Code, as discussed herein), and in some instances is required to be used for that purpose (see "TAX RATE LIMITATIONS - I&S Tax Rate Limitations"), Tier Two funding may not be used for the payment of debt service or capital outlay.

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

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

Tier One

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

The Basic Allotment for school districts with a Tier One Tax Rate equal to the school district's MCR, is \$6,160 plus the guaranteed yield increment adjustment (the "GYIA") for each student in ADA and is revised downward for school districts with a Tier One Tax Rate lower than the school district's MCR. The GYIA is established by October 1 of each even-numbered year for the subsequent biennium. For the 2026-27 biennium, the GYIA is set at \$55. The Basic Allotment is then supplemented for all school districts by various weights to account for differences among school districts and their student populations. Such additional allotments include, but are not limited to, increased funds for students in ADA who: (i) attend a qualified special education program, (ii) are diagnosed with dyslexia or a related disorder, (iii) are economically disadvantaged, or (iv) have limited English language proficiency. Additional allotments to mitigate differences among school districts include, but are not limited to: (i) a transportation allotment for mileage associated with transporting students who reside two miles or more from their home campus, (ii) a fast growth allotment (for school districts in the top 25% of enrollment growth relative to other school districts), (iii) a college, career and military readiness allotment to further Texas' goal of increasing the number of students who attain a post-secondary education or workforce credential, and (iv) a teacher incentive allotment to increase teacher compensation retention in disadvantaged or rural school districts. A school district's total Tier One funding, divided by the district's Basic Allotment is a school district's measure of students in "Weighted Average Daily Attendance" ("WADA"), which serves to calculate Tier Two funding.

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

Tier Two

Tier Two supplements Tier One funding and provides two levels of enrichment with different guaranteed yields (i.e., Golden Pennies and Copper Pennies) depending on the school district's Enrichment Tax Rate. Golden Pennies generate a guaranteed yield equal to the Basic Allotment multiplied by 0.02084. For the 2026-2027 State fiscal biennium, school districts are guaranteed a yield on each Golden Penny levied of \$129.52 per student in WADA in. 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. A school district may use additional state aid received from an IFA award only to pay the principal of and interest on the bonds for which the district received the aid. The guaranteed level of State and local funds per student percent of local tax effort applicable to the bonds may not be reduced below the level provided for the year in which the bonds were issued. For the 2026-2027 State fiscal biennium, the State Legislature did not appropriate any funds for new IFA awards; however, awards previously granted in years the State Legislature did appropriate funds for new IFA awards will continue to be funded.

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

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

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

Tax Rate and Funding Equity

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

For the 2026-2027 school year, school districts will be held harmless and entitled to additional state aid to the extent that state and local revenue used to service eligible debt is less than the state and local revenue that would have been available to the district under state law providing for state aid to districts to account for increases in the general residence homestead exemption and the elderly or disabled tax ceiling 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, although they may continue to receive State funds for certain competitive grants and certain programs that remain outside the Foundation School Program.

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

Options for Local Revenue Levels in Excess of Entitlement

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

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 2025-2026 fiscal year, the District was designated as an "excess local revenue" district by the TEA. According to currently available information from TEA, the District is subject to recapture and, therefore, the District is required to exercise one of the wealth equalization options permitted under applicable State law. The District has notified the TEA that it intends to reduce its wealth per student pursuant to Option 3, an agreement to purchase attendance credits pursuant to Chapter 49, Texas Education Code, as amended (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue in Excess of Entitlement" herein).

A district's "excess local revenue" must be tested for each future school year and, if it exceeds the maximum permitted level, the District must reduce its wealth per student by the exercise of one of the permitted wealth equalization options. Accordingly, if the District's wealth per student should exceed the maximum permitted value in future school years, it may be required each year to exercise one or more of the wealth reduction options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district's combined property tax base, and the District's ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

For a detailed discussion of State funding for school districts, see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM - State Funding for School Districts."

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 December 18, 1965 in accordance with the provisions of Texas Revised Civil Statutes Annotated, Article 2784e-1, as amended.

The maximum maintenance tax rate per \$100 of taxable value that may be adopted by an independent school district is the sum of \$0.17 and the school district's MCR. The District's MCR is, generally, inversely proportional to the change in taxable property values both within the District and the State, and is subject to recalculation annually. For any year, highest possible MCR for an independent school district is \$0.93.

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 a proposition 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 school district bonded indebtedness (see "THE BONDS - Security for Payment").

Section 45.0031, Texas Education Code, as amended ("Section 45.0031"), requires a 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 district voters 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. In demonstrating the ability to pay debt service at a rate of \$0.50, a district may take into account EDA and IFA allotments to the district, which effectively reduce the district's local share of debt service, and may also take into account Tier One funds allotted to the district. The District is required to deposit any State allotments provided solely for payment of debt service into the District's interest and sinking fund upon receipt of such amounts. In addition, the District must, prior to levying an interest and sinking fund tax rate that exceeds \$0.50 per \$100 of assessed valuation, credit to the interest and sinking fund other State assistance, including Tier One funds that may be used for either operating purposes or for payment of debt service, in an amount equal to the amount needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Once the prospective ability to pay such tax has been shown and the bonds are issued, a district may levy an unlimited tax to pay debt service. Taxes levied to pay refunding bonds issued pursuant to Chapter 1207, Texas Government Code, as amended, are not subject to the \$0.50 tax rate test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the \$0.50 threshold tax rate test when applied to subsequent bond issues. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code, as amended, as new debt and are subject to the threshold tax rate test. Under current law, a district may demonstrate its ability to comply with the \$0.50 threshold tax rate test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a district uses projected future taxable values to meet the \$0.50 threshold tax rate 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 district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the \$0.50 threshold tax rate test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The Bonds are issued for school building purposes pursuant to Chapter 45, Texas Education Code, as new debt and are therefore subject to the threshold tax rate test. The District has not utilized projected property values or State assistance to satisfy the \$0.50 test in connection with the prior bond issues.

Public Hearing and Voter-Approval Tax Rate

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

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

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

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

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

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

EMPLOYEE RETIREMENT PLAN AND OTHER POST-EMPLOYMENT BENEFITS

The District's employees participate in a retirement plan with the State of Texas; the Plan is administered by the Teacher Retirement System of Texas. The District has no pension fund expenditures or liabilities. Formal collective bargaining agreements relating directly to wages and other conditions of employment are prohibited by State law, as are strikes by teachers. There are various local, state and national organized employee groups who engage in efforts to better terms and conditions of employment of school employees. Some districts have adopted a policy to consult with employer groups with respect to certain terms and conditions of employment. Some examples of these groups are the Texas State Teachers Association, the Texas Classroom Teachers Association, the Association of Texas Professional Educators and the National Education Association.

INVESTMENT POLICIES

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

Legal Investments

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

repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the Public Funds Investment Act.

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

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

As a school district that qualifies as an "issuer" under Chapter 1371, the District 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.

Current Investments*

As of May 31, 2026, the following percentages of the District's investable funds were invested as indicated below:

<u>Category of Investments</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investments</u>
Texas CLASS Pool	\$ 8,183,320	16.30%	Daily liquidity
Lone Star Pool	20,387,880	40.79%	Daily liquidity
LOGIC Pool	9,219,371	18.45%	Daily liquidity
Texas Range	<u>12,226,042</u>	<u>24.46%</u>	Daily liquidity
Total	\$49,976,613	100.00%	

* Unaudited.

As of such date, the market value of such investments (as determined by the District by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. 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.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The District will furnish the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the District and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. 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 therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE BONDS" (exclusive of the subcaptions "Payment Record," "Permanent School Fund Guarantee," and "Default and Remedies," as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" (except under the subcaption "The School Finance System as applied to the District," as to which no opinion is expressed), "TAX RATE LIMITATIONS - M&O Tax Rate Limitations" (first paragraph only), "LEGAL MATTERS" (excluding the last sentence of this paragraph and the information under the subcaption "Litigation"), "TAX MATTERS", "CONTINUING DISCLOSURE" (excluding the information under the subcaption "Compliance with Prior Agreements," as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," and "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale" in the Official Statement and such 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 description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Bond Counsel's legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Cantu Harden Montoya LLP, San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds.

Though it represents the Financial Advisor and the Underwriters from time to time in matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents the District with respect to the issuance of the Bonds. The legal opinion to be delivered concurrently with the delivery of the Bonds expresses the professional judgment of the attorneys rendering the opinion as to the legal issues expressly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise from the transaction.

Litigation

In the opinion of various officials of the District, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the District in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the District.

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

TAX MATTERS

Tax Exemption

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

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

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

defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

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

Ancillary Tax Consequences

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

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

CONTINUING DISCLOSURE

The District in the Order has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information from MSRB".

Annual Reports

The District will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type in this Official Statement in APPENDIX A, attached hereto, exclusive of the tables reflecting "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes," "Estimated Interest & Sinking Fund Management Index 2025/26" and "2026/2027 Pro Forma Interest & Sinking Fund Management Index," respectively, and in APPENDIX C attached hereto. Additionally, the tables which provide neither quantitative financial information nor operating data for the District, including, but not limited to the "Authorized But Unissued General Obligation Bonds" and "Anticipated Issuance of Additional Bonds," have not been and will not be included in the District's annual filings. The District will update and provide this information to the MSRB within 6 months after the end of each fiscal year ending in or after 2026.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission (the "SEC") Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is June 30. Accordingly, it must provide updated information by the last day of February in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events

The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a financial obligation of the District, 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 the Order, the District adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports." The District will provide each notice described in this paragraph to the MSRB. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (with the exception of the Texas Permanent School Fund guarantee), or liquidity enhancement.

For these purposes, any event described in clause (12) of 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. For the purposes of the above described event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

Availability of Information from MSRB

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with 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 (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the

provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Agreements

During the last five (5) years, the District has complied in all material respects with all previous continuing disclosure agreements made by it in accordance with the Rule.

CYBERSECURITY

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

WEATHER EVENTS

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

Authenticity of Financial Information

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

Registration and Qualification of Bonds for Sale

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

It is the obligation of the 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.

Municipal Bond Rating

Moody's Investors Service, Inc. ("Moody's") has assigned its enhanced municipal bond rating of "AAA" to the Bonds based on the guarantee thereof by the Texas Permanent School Fund. In addition, Moody's has assigned its underlying unenhanced rating of "Aa2" to the District's ad valorem tax-supported indebtedness, including the Bonds. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein.

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

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.

Financial Advisor

SAMCO Capital Markets, Inc. (the "Financial Advisor") is employed as the 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. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinions of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the District for the investment of bond proceeds or other funds of the District upon the request of the District.

The Financial Advisor 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 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.

Underwriting

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the District at the price equal to the initial offering prices to the public, as shown on page -ii- herein, less an Underwriters' discount of \$153,039.40, and no accrued interest. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their 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 Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and their respective affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the District for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the District (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the District.

The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Forward-Looking Statements

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

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

Information from External Sources

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

Authorization of the Official Statement

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

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

The Order approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Underwriters.

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT

/s/ Matt Seidenberger
President, Board of Trustees

ATTEST:

/s/ Taylor Ward
Secretary, Board of Trustees

APPENDIX A
Selected Financial Information
of the District

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VALUATION AND DEBT DATA

ASSESSED VALUATION

Total 2026 Appraised Valuation of District	\$16,061,043,498
Less: Exemptions and Exclusions	<u>7,580,060,459</u>
Total Taxable Assessed Valuation ⁽¹⁾⁽²⁾	\$8,480,983,039

Source: Gillespie Central Appraisal District, Kendall Appraisal District, and Blanco Appraisal District.

⁽¹⁾ Includes frozen values.

⁽²⁾ Includes \$85,815,986 in property value under review.

DIRECT DEBT

Total All Bonded Indebtedness Payable from Ad Valorem Taxes (at 8-15-2026)	\$100,200,000
Less: Interest & Sinking Fund Cash Balance (unaudited at 5-31-2026)	<u>3,825,419</u>
Net Bonded Indebtedness Payable from Ad Valorem Taxes	\$96,374,581*

* Includes the Bonds.

DEBT RATIOS

Ratio of Total Bonded Debt (\$100,200,000*) to 2026 Taxable Assessed Valuation (\$8,480,983,039)	1.18%
Ratio of Total Bonded Debt (\$100,200,000*) to 2026 Total Appraised Valuation (\$16,061,043,498)	0.62%
Ratio of Net Bonded Debt (\$96,374,581*) to 2026 Taxable Assessed Valuation (\$8,480,983,049)	1.14%
Ratio of Net Bonded Debt (\$96,374,581*) to 2026 Appraised Valuation (\$16,061,043,498)	0.60%

* Includes the Bonds.

AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

After the issuance of the Bonds the District will have \$132,665,000 remaining authorized but unissued debt. The District anticipates the issuance of additional voter authorized debt in the next 12 to 18 months. The District may potentially issue refunding obligations for debt service savings.

OUTSTANDING DEBT BY ISSUES

<u>Unlimited Tax Bonds:</u>	<u>Original Amount</u>	<u>Amount Outstanding At 8-15-2026</u>
School Building Bonds, Series 2015	\$ 7,500,000	\$ 2,340,000
School Building Bonds, Series 2016	9,000,000	3,920,000
School Building Bonds, Series 2022	77,820,000	66,940,000
School Building Bonds, Series 2026 (the "Bonds")	27,000,000	<u>27,000,000</u>
Total Debt		\$100,200,000

Non-Funded Debt

The District operates no capital leases. Commitments under operating (non-capital) lease agreements for equipment (mainly copy machines) provides for minimum future rental payments as of June 30, 2025 as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2026	\$ 90,778
2027	<u>47,188</u>
Total Minimum Rentals	\$137,966

Source: District's 2025 Annual Financial Report

AREA, VALUATION AND BONDED DEBT DATA

Area of District in Square Miles	759
Area of District in Acres	485,760
Total Direct Bonded Debt (\$100,200,000) Per Acre	\$206.27
2026 Taxable Assessed Valuation (\$8,480,983,039) Per Acre	\$17,459.20

* Includes the Bonds.

ENROLLMENT AND AVERAGE DAILY ATTENDANCE DATA

2025/26 Enrollment (6-1-26)	2,922
2025/26 Average Daily Attendance (6-1-26)	2,741
2026 Taxable Assessed Valuation (\$8,480,983,039) Per Enrollment	\$2,902,458.26

POPULATION AND PER CAPITA INDEBTEDNESS

2025 District Population Estimate	22,724
2026 Per Capita Taxable Assessed Valuation (\$8,480,983,039)	\$373,216.99
Per Capita Direct Debt (\$100,200,000)	\$4,409.43

* Includes the Bonds.

DIRECT AND ESTIMATED GROSS OVERLAPPING FUNDED DEBT PAYABLE FROM AD VALOREM TAXES

Expenditures of the various taxing bodies overlapping the territory of the District are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the District. These political taxing bodies are independent of the District and may incur borrowings to finance their expenditures. The following statement of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "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 below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of direct and overlapping extended debt of these various taxing bodies:

<u>Political Subdivision</u>	<u>Gross Debt</u>		<u>Percent Overlapping</u>	<u>Amount</u>
	<u>Amount</u>	<u>As Of</u>		<u>Overlapping</u>
Blanco County	\$ 9,020,000	6-1-2026	0.93%	\$ 83,886
Gillespie County	6,180,000	6-1-2026	90.87%	5,615,766
Kendall County	24,160,000	6-1-2026	0.07%	16,982
Fredericksburg, City of	12,220,000	6-1-2026	100.00%	12,220,000
Stonewall WC&ID	3,800,000	6-1-2026		<u>3,800,000</u>
Total Net Overlapping Funded Debt				\$21,736,634
Fredericksburg ISD	100,200,000	8-15-2026	100.00%	<u>100,200,000</u> *
Total Direct and Estimated Overlapping Funded Debt				\$121,936,634
Ratio to 2026 Assessed Valuation (\$8,480,983,039)				1.44%

* Includes the Bonds

**Consolidated Schedule of Bonded Issue Principal Requirements
(Year Ending June 30 in Each of the Years 2027 - 2054 Inclusive)**

2027	\$ 4,665,000	
2028	4,610,000	
2029	2,210,000	
2030	1,440,000	
	1,905,000	14.80%
2031	-	
2032	1,865,000	
2033	2,350,000	
2034	2,405,000	
2035	2,385,000	
	2,400,000	26.18%
2036	-	
2037	2,495,000	
2038	2,595,000	
2039	2,720,000	
2040	2,865,000	
	3,045,000	39.88%
2041	-	
2042	3,200,000	
2043	3,410,000	
2044	3,730,000	
2045	4,245,000	
	4,450,000	58.87%
2046	-	
2047	4,680,000	
2048	4,915,000	
2049	5,110,000	
2050	5,325,000	
2051	5,555,000	84.41%
2052	-	
2053	5,635,000	
2054	4,995,000	100.00%
	\$100,200,000	

* Includes the Bonds.

TAXATION DATA

HISTORICAL VALUATIONS, TAX RATES, AND COLLECTION DATA

Tax Year	Assessed Valuation	Tax Rate	% Collections		Year Ending
			Current	Total	
2015	\$2,725,936,050	\$1.1462	97.82%	99.73%	6-30-16
2016	2,963,946,519	1.1462	98.21%	100.10%	6-30-17
2017	3,340,446,344	1.1462	98.03%	99.73%	6-30-18
2018	3,623,775,653	1.1462	97.92%	99.71%	6-30-19
2019	4,140,083,720	1.0762	98.13%	99.89%	6-30-20
2020	4,283,686,675	1.0553	97.79%	99.83%	6-30-21
2021	5,253,444,490	0.9782	98.53%	100.70%	6-30-22
2022	6,137,129,583	0.9608	98.25%	99.44%	6-30-23
2023	6,814,400,052	0.7754	98.21%	100.03%	6-30-24
2024	7,350,153,020	0.7731	97.63%	98.98%	6-30-25
2025	8,401,343,610	0.7731	(In Process of Collection)		6-30-26

* Tax Years 2015 through 2024 assessed valuation figures taken from the District's audited financial statement for year ended June 30, 2025. 2025 figure taken from the Gillespie Central Appraisal District, the Kendall Appraisal District, and the Blanco Appraisal District.

TAX RATE DISTRIBUTION

<u>Tax Year</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Local Maintenance	\$0.6669	\$0.6669	\$0.6692	\$0.8546	\$0.8720
Interest & Sinking Fund	<u>0.1062</u>	<u>0.1062</u>	<u>0.1062</u>	<u>0.1062</u>	<u>0.1062</u>
Total	\$0.7731	\$0.7731	\$0.7754	\$0.9608	\$0.9782

Source: The District

2026 TAX EXEMPTIONS ALLOWED

The District has granted exemptions to property owners and for persons over 65 years of age and has granted those exemptions under the law for disabled property owners and veterans, and agricultural exclusions as provided. The exemptions in each of the categories listed are shown below:

Homestead - State-mandated General \$140,000	\$ 932,355,576
Homestead - State-mandated Over-65 or Disabled \$60,000	234,209,918
Homestead - 100% Disabled or Unemployable Veterans Homestead	60,047,099
Homestead - Disabled Veterans and Surviving Spouse	3,462,778
Homestead - 10% Appraisal Cap Adjustment	153,758,388
Productivity Loss	6,077,180,896
Disabled Persons	2,709,064
Other	<u>116,336,740</u>
Total Deductions Allowed	\$7,580,060,459

* Source: The Gillespie Central Appraisal District, the Kendall Appraisal District, and the Blanco Appraisal District.

SCHEDULE OF DELINQUENT TAXES RECEIVABLE (UNAUDITED) FISCAL YEAR ENDED JUNE 30, 2025

<u>Last Ten Years Ended June 30</u>	<u>Ending Balance 6/30/2025</u>
2016 and prior	\$ 145,744
2017	25,632
2018	29,089
2019	42,863
2020	93,343
2021	158,832
2022	242,462
2023	322,244
2024	338,420
2025	<u>1,344,860</u>
Total	\$2,743,389

Source: District's 2025 Annual Financial Report

PRINCIPAL TAXPAYERS

Name	Type of Property	2026 Net Taxable Assessed Valuation	% of Total 2026 Assessed Valuation
Permian Highway Pipeline	Pipeline	\$179,135,640	2.11%
Boot Ranch Holdings LLC	Real Estate	45,462,040	0.54%
LCRA Transmission Services	Utility	39,201,230	0.46%
Central Texas Electric COOP	Utility	38,042,360	0.45%
Double Hall LLC	Construction	30,635,000	0.36%
Methodist Healthcare System of San Antonio LLD LLP	Hospital	28,028,427	0.33%
Fredericksburg MF LP	Real Estate	27,000,000	0.32%
The Village of Grape Creek LLC	Real Estate	22,099,870	0.26%
James Avery Craftsman Inc #364	Jewelry Manufacturing	21,016,750	0.25%
D & E Scully Family Trust	Individual	<u>18,736,160</u>	<u>0.22%</u>
Total		\$449,357,477	5.30%

Source: Gillespie Central Appraisal District, the Kendall Appraisal District, and the Blanco Appraisal District.

TAXPAYERS BY CLASSIFICATION

	Assessed Valuation 2026	% Of Total	Assessed Valuation 2025	% Of Total	Assessed Valuation 2024	% Of Total
Single-Family Residential	\$ 4,052,710,630	25.23%	\$ 3,877,585,874	24.36%	\$ 3,688,997,118	23.99%
Multi-Family Residential	143,084,458	0.89%	160,461,733	1.01%	91,871,044	0.60%
Vacant-Platted Lots	331,400,581	2.06%	325,855,113	2.05%	347,777,293	2.26%
Qualified Open Space	6,197,563,082	38.59%	6,210,037,290	39.02%	6,153,857,174	40.02%
Rural Land (Non-Qualified)	2,412,395,372	15.02%	2,442,010,465	15.34%	2,429,748,415	15.80%
Commercial	2,175,554,691	13.55%	2,230,351,646	14.01%	2,051,012,892	13.34%
Industrial	48,765,260	0.30%	48,797,824	0.31%	49,359,000	0.32%
Utilities	286,809,957	1.79%	211,770,543	1.33%	197,466,610	1.28%
Commercial Personal	235,267,060	1.46%	213,727,704	1.34%	209,590,750	1.36%
Industrial Personal	106,074,140	0.66%	105,876,350	0.67%	100,093,490	0.65%
Mobile Homes	43,133,337	0.27%	41,885,460	0.26%	40,903,606	0.27%
Residential Inventory	19,946,950	0.12%	38,655,350	0.24%	5,582,420	0.04%
Special Inventory	<u>8,337,930</u>	<u>0.05%</u>	<u>10,011,130</u>	<u>0.06%</u>	<u>10,249,860</u>	<u>0.07%</u>
Total Appraised Value	\$16,061,043,498	100.00%	\$15,917,026,482	100.00%	\$15,376,509,672	100.00%
Less Exemptions and Exclusions:	<u>7,580,060,459</u>		<u>7,515,682,872</u>		<u>7,018,766,079</u>	
Net Taxable Assessed Valuation	\$ 8,480,983,039		\$8,401,343,610		\$8,357,743,593	

Source: Gillespie Central Appraisal District, the Kendall Appraisal District, and the Blanco Appraisal District. Includes \$85,815,986 in value under review.

ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2025/2026

Interest & Sinking Fund Balance at 6-30-2025	\$ 3,451,126
Estimated Income from \$0.1062 @ 95% Collected Using 2025 Taxable Assessed Valuation of \$8,401,343,610	8,386,893
Estimated Other Income (includes EDA)	<u>1,000,000</u> *
Estimated Total Funds Available	11,938,019
2026 Debt Service Requirement	<u>7,939,221</u>
Estimated Interest & Sinking Fund Balance at 6-30-2026.....	\$3,998,798

(*) The amount of State aid for debt service may substantially differ from year to year, depending upon a number of factors, including amounts, if any, appropriated for that purpose by the Texas Legislature from time to time.

CONSOLIDATED DEBT SERVICE REQUIREMENTS INCLUDING THE BONDS AT ACTUAL RATES

FISCAL YEAR 30-JUNE	CURRENTLY OUTSTANDING DEBT SERVICE REQUIREMENTS	THE BONDS AT ACTUAL RATES				GRAND TOTAL OF ALL DEBT SERVICE
		PRINCIPAL DUE 2/15	INTEREST DUE 8/15	INTEREST DUE 2/15	TOTAL	
2027	\$ 5,697,353.90	\$ 2,050,000.00		\$ 722,868.92	\$ 2,772,868.92	\$ 8,470,222.82
2028	5,645,027.40	1,960,000.00	\$ 619,453.13	619,453.13	3,198,906.25	8,843,933.65
2829	5,062,834.90	50,000.00	570,453.13	570,453.13	1,190,906.25	6,253,741.15
2030	4,225,066.40	50,000.00	569,203.13	569,203.13	1,188,406.25	5,413,472.65
2031	4,646,926.00	50,000.00	567,953.13	567,953.13	1,185,906.25	5,832,832.25
2032	4,544,800.00	50,000.00	566,703.13	566,703.13	1,183,406.25	5,728,206.25
2033	4,939,050.00	50,000.00	565,453.13	565,453.13	1,180,906.25	6,119,956.25
2034	4,879,050.00	50,000.00	564,203.13	564,203.13	1,178,406.25	6,057,456.25
2035	4,741,300.00	50,000.00	562,953.13	562,953.13	1,175,906.25	5,917,206.25
2036	4,612,900.00	100,000.00	561,703.13	561,703.13	1,223,406.25	5,836,306.25
2037	4,605,900.00	110,000.00	559,203.13	559,203.13	1,228,406.25	5,834,306.25
2038	4,600,500.00	120,000.00	556,453.13	556,453.13	1,232,906.25	5,833,406.25
2039	4,596,500.00	150,000.00	553,453.13	553,453.13	1,256,906.25	5,853,406.25
2040	4,583,700.00	205,000.00	549,703.13	549,703.13	1,304,406.25	5,888,106.25
2041	4,582,300.00	280,000.00	544,578.13	544,578.13	1,369,156.25	5,951,456.25
2042	4,576,700.00	330,000.00	537,578.13	537,578.13	1,405,156.25	5,981,856.25
2043	4,571,900.00	430,000.00	530,978.13	530,978.13	1,491,956.25	6,063,856.25
2044	4,567,900.00	605,000.00	520,228.13	520,228.13	1,645,456.25	6,213,356.25
2045	4,556,650.00	975,000.00	507,750.00	507,750.00	1,990,500.00	6,547,150.00
2046	4,548,150.00	1,025,000.00	483,375.00	483,375.00	1,991,750.00	6,539,900.00
2047	4,541,900.00	1,090,000.00	457,750.00	457,750.00	2,005,500.00	6,547,400.00
2048	4,537,400.00	1,150,000.00	430,500.00	430,500.00	2,011,000.00	6,548,400.00
2049	4,526,800.00	1,205,000.00	401,750.00	401,750.00	2,008,500.00	6,535,300.00
2050	4,515,600.00	1,275,000.00	371,625.00	371,625.00	2,018,250.00	6,533,850.00
2051	4,503,600.00	1,355,000.00	339,750.00	339,750.00	2,034,500.00	6,538,100.00
2052	3,525,600.00	2,245,000.00	305,875.00	305,875.00	2,856,750.00	6,382,350.00
2053	-	4,995,000.00	249,750.00	249,750.00	5,494,500.00	5,494,500.00
2054	-	4,995,000.00	124,875.00	124,875.00	5,244,750.00	5,244,750.00
	<u>\$120,935,408.60</u>	<u>\$27,000,000.00</u>	<u>\$13,173,253.13</u>	<u>\$13,896,122.05</u>	<u>\$54,069,375.17</u>	<u>\$175,004,783.77</u>

2026/2027 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest & Sinking Fund Balance at 6-30-2026	\$ 3,998,798
Estimated Income from \$0.1062 @ 95% Collected Using Estimated 2026 Preliminary Taxable Assessed Valuation of \$8,480,983,039	8,556,463
Estimated Other Income	<u>1,000,000</u>
Total Estimated Funds Available	13,555,261
2026/27 Debt Service Requirement	<u>8,470,223</u>
Estimated Interest & Sinking Fund Balance at 6-30-2027	\$ 5,085,038

FIVE-YEAR RECORD OF FINANCIAL OPERATIONS

The following summary of the District's results of operation reflects the District's historical performance under prior systems of school finance in Texas. For a description of the prior systems, the revised current system, and how the District's future financial performance may be affected by the revised system and ongoing litigation, see "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS" and "CURRENT SCHOOL FINANCE SYSTEM" herein.

	Year Ended 6/30				
	2025	2024	2023	2022	2021
<u>REVENUE</u>					
Federal Sources	\$63,787,926	\$ 62,253,828	\$ 66,969,790	\$ 6,448,501	\$ 6,226,123
State Sources	4,607,387	4,789,794	3,870,787	3,674,403	5,730,289
Local Sources	<u>4,091,869</u>	<u>5,864,848</u>	<u>5,986,213</u>	<u>55,368,555</u>	<u>49,242,242</u>
Total all Revenue	<u>72,487,182</u>	<u>72,908,470</u>	<u>76,826,790</u>	<u>65,491,459</u>	<u>61,198,654</u>
<u>EXPENDITURES</u>					
Instruction	23,745,696	22,088,669	20,703,698	19,679,772	19,129,973
Instruction Related	3,206,202	3,796,213	3,019,857	3,122,260	2,881,672
Pupil Services	8,460,426	9,016,530	7,389,000	6,749,425	6,205,213
General Administration	1,514,917	1,591,647	1,435,355	1,486,641	1,335,505
Debt Service	7,924,496	7,608,365	7,408,178	5,366,749	4,503,602
Plant Maintenance & Operation	5,387,221	4,461,128	3,704,881	3,771,271	3,574,216
Construction	22,894,880	45,402,492	7,784,180	297,344	8,267,955
Data Processing	841,769	808,345	742,695	856,879	1,196,080
Security & Monitoring	1,102,081	706,172	667,943	86,469	115,430
Community Service	432,858	562,788	461,088	477,109	505,648
Intergovernmental	<u>21,742,588</u>	<u>18,159,923</u>	<u>25,600,521</u>	<u>19,657,031</u>	<u>17,687,549</u>
Total all Expenditures	<u>97,253,134</u>	<u>114,202,272</u>	<u>78,917,396</u>	<u>61,550,950</u>	<u>65,402,843</u>
Total Other Resources and (Uses)	<u>(117,634)</u>	<u>(205,168)</u>	<u>82,896,702</u>	<u>82,896,702</u>	<u>-0-</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Uses	<u>(24,765,953)</u>	<u>(41,088,634)</u>	<u>80,806,096</u>	<u>4,127,365</u>	<u>(4,204,189)</u>
Fund Balance Beginning of Year	<u>59,522,897</u>	<u>100,611,531</u>	<u>19,805,435</u>	<u>15,678,069</u>	<u>19,882,258</u>
Fund Balance End of Year	<u>\$34,874,578</u>	<u>\$ 59,522,897</u>	<u>\$100,611,531</u>	<u>\$19,805,435</u>	<u>\$15,678,069</u>
General Fund Balance End of Year ⁽¹⁾⁽²⁾	<u>\$16,841,892</u>	<u>\$18,844,506</u>	<u>\$ 18,487,574</u>	<u>\$15,826,972</u>	<u>\$12,306,937</u>

⁽¹⁾ The estimated General Fund Balance for the Fiscal Year Ending 2026 is approximately \$14.9 million. Approximately, \$1.85 million of the change from the previous fiscal year is related to capital expenditures that will be reimbursed from the Series 2026 proceeds.

⁽²⁾ The change in General Fund Balance from Fiscal Year Ending 2024 to 2025 was largely due to an expenditure of \$1.0 million for HVAC replacement and a larger recapture payment than expected.

	Year Ended 6/30				
	2025	2024	2023	2022	2021
Assessed Valuation	\$7,350,153,020	\$6,814,400,052	\$6,137,129,583	\$5,253,444,470	\$4,283,686,675
Total Tax Rate	\$0.7731	\$0.7754	\$0.9608	\$0.0982	\$1.0553
Percent of Debt Service to Total	8.14%	6.66%	9.39%	9.21%	6.88%

Source: The District and the District's audited financial statements.

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APPENDIX B

GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

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THE DISTRICT

This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the District is located. It does not constitute a part of this Official Statement. Information in this Appendix has been obtained from sources that are believed to be reliable, although no investigation has been made to verify the accuracy of such information.

General

Fredericksburg Independent School District (the "District") is located in central Texas in the scenic Texas Hill Country about 70 miles north of San Antonio and 75 miles west of Austin. The District is located almost entirely in Gillespie County, with the exception of two small portions that extend into Kendall and Blanco Counties. Located within the District at the crossroads of U.S. Highways 290 and 87 is the city of Fredericksburg, the county seat of Gillespie County.

The District contains an area of 759 square miles. The District's 2000 population - 21,951; 2025 population estimate - 22,724.

Administration

Policy making and supervisory functions are the responsibility of and are vested in a seven-member Board of Trustees (the "Board"). Members of the Board serve three-year staggered terms with elections being held each year on the first Saturday in May. The Board delegates administrative responsibilities to the Superintendent of Schools.

Present Facilities

<u>School Facility</u>	<u>Grade Span</u>	<u>Enrollment At 5-28-2026</u>
Fredericksburg Primary School	Prek3-1st	488
Fredericksburg Elementary School	2-5	717
Stonewall Elementary	K-5	96
Fredericksburg Middle School	6-8	626
Fredericksburg High School	9-12	990
Gillespie County High School	9-12	<u>5</u>
Total		2,922

Accreditation

Every campus is fully accredited by the Texas Education Agency. The High School and Stonewall Elementary School have attained recognized status through the Texas Assessment of Academic Skills. All other campuses are acceptable rated.

Curriculum

The mission of the District is to improve the academic performance of all students by meeting their educational needs, and to develop their potential to become responsible, productive citizens. To achieve this, the District will work in partnership with parents, students, educators, and the community, and will use resources in an effective and efficient manner.

The District offers a wide range of studies, including programs in special education, vocational education, bilingual/ESL, gifted and talented, honors, and a competency-based alternative high school. The District has earned recognition for many of its programs, including the Governor's Award for Academic Excellence.

The District and the community have joined as participants in America 2000, the national plan to meet the educational needs of the next century.

UIL literary competitions annually involve a minimum of 50 students at the high school and half of all middle school students. Nearly 85% of high school students participate in the District's vocational programs, which receive state and national recognition for their competitive teams. Over half of all high school girls and boys participate in some form of athletics, and over 30% of high school students are involved in the Fine Arts program (Band/Choir) that is a consistent sweepstakes winner.

Student Performance

The District boasts active, involved students who reflect the values of the community. Approximately 73% of high school seniors plan to attend a college or university. Fredericksburg High School regularly produces National Merit Scholars.

The District's students perform at and above state levels on college entrance exams.

Lifelong Learning

The District is an off-campus site for Texas Tech - Hill Country. Dual college-credit courses are available from Angelo State University and UT OnRamps programs.

The District also offers Adult Basic Education, including English As A Second Language and GED programs.

A Community Education program, recognized as one of the outstanding programs in the state, encourages people of all ages and interests to become lifelong learners. Schedules are mailed out three times per year.

Food Service

The District cafeteria provides well-balanced and nutritional meals for staff and students each school day and has a very high participation rate because of the quality of food prepared.

Budget and Personnel

The general operating fund revenue budget for the 2025-2026 year is \$56,165,000. The District employs approximately 490 people, including professional and other, and will have an annual general fund payroll of \$30,525,000. The 222 teachers average over 14 years of experience, and the district-wide student/teacher ratio is 13.4 to 1.

Employee Retirement, Teacher Retirement System of Texas

The District has no financial responsibility for the Teacher Retirement System of Texas, with employees contributing 8.00% of their annual compensation and the State of Texas contributing 7.75%.

Enrollment and Percentage Change

<u>School Year</u>	<u>Average Daily Membership</u>	<u>Average Daily Attendance</u>	<u>% ADA Increase/Decrease</u>
2014-15	2,957	2,845	1.8%
2015-16	3,060	2,940	3.3%
2016-17	3,126	2,987	1.6%
2017-18	3,097	2,970	-0.6%
2018-19	3,034	2,918	-1.8%
2019-20	3,058	2,993	2.6%
2020-21	2,980	2,827	-5.5%
2021-22	3,101	2,862	1.24%
2022-23	3,080	2,830	-1.1%
2023-23	2,993	2,777	-1.9%
2024-25	3,018	2,771	-0.2%
2025-26*	2,965	2,742	-1.1%

* As of 6-15-2026.

In addition to the District, the St. Mary's Catholic Church operates a parochial school in Fredericksburg, offering pre-kindergarten through eighth grade, with an enrollment of approximately 300 students.

* Source: Fredericksburg ISD

GENERAL AND STATISTICAL INFORMATION REGARDING THE AREA

Gillespie County

Gillespie County (the "County") is a west central Texas county with an economy based on agriculture, tourism and manufacturing. Named for Texas Ranger Captain R. A. Gillespie, the County was a pioneer and historic German settlement created and organized from Bexar and Travis Counties in 1848. The area of the County is 1,055 square miles.

City of Fredericksburg

Incorporated in 1846, the city of Fredericksburg (the "City") is the county seat of Gillespie County. The City is recognized for its wide, well-maintained thoroughfares and well-kept homes and yards. It owns and operates its electric, water and sewer systems.

Demographics

	Population		Location (distance in miles from)	
	County	City		
2025 est.	28,527	11,893		
2020	26,725	10,875	Austin	75
2010	24,837	10,530	Dallas	260
2000	20,814	8,911	Houston	235
1990	17,204	6,934	San Antonio	65

County Labor Force (as of April 2026)

Labor Force	13,808
Unemployment	405
Total Employment	13,403
% Unemployment	2.9%

Major Employers

Name	Product	Number of Employees
Hill Country Memorial Hospital	Health Care	656
Fredericksburg ISD	Public Education	497
HEB	Supermarket	250
Wal-Mart	Retail Store	239
Knopp Nursing/Retirement Homes	Nursing and Retirement	185
City of Fredericksburg	City Government	160
Gillespie County	County Government	160
Allen Keller Company	Construction	110
Fredericksburg Enterprises	Lodging	104
Harper ISD	Public Education	95
Central Texas Electric Co-op	Electric Utility	90
Boot Ranch	Golf Resort	89
Security State Bank	Financial Institution	85
James Avery Craftsman	Jewelry Making	76

Agriculture

Cash crops include the famous Hill Country peaches, and grapes have always flourished resulting in several established wineries and plans for more. Other agriculture income is provided through cattle, sheep and goats as well as other cash crops. Gillespie County's large white-tail deer population makes the area a favorite of the hunters.

The Texas Hill Country is known for its Texas wild flowers and Fredericksburg's industry includes Wildseed Farms, Ltd., which produces wild flower seeds sown world-wide.

Transportation

All areas of the District are easily accessible to major highways. U.S. Highway 87 bisects the District from San Antonio to the south and Mason, Brady and San Angelo to the north. U.S. Highway 290 bisects the District from Austin to the east and Junction and El Paso to the west. State Highway 16 bisects the District from Kerrville to the southwest and Llano to the northeast. In addition, numerous farm and ranch roads and many paved county roads serve the District.

Interstate Carriers:	2	Overnight Courier Service:	Federal Express, UPS
Intrastate Carriers:	4	Commercial Air Service:	San Antonio (70 miles)
Number of Local Terminals:	1		Austin (75 miles)
Highway Bus Service:	Kerrville/Greyhound	Charter Air Service:	Gillespie County Airport

Minerals

Minerals produced include sand, gravel, granite and gypsum.

Higher Education

Some area universities and colleges include Austin Community College Fredericksburg Campus, University of Texas at Austin, University of Texas at San Antonio, Trinity University, Schreiner College Kerrville, and Southwest Texas State University at San Marcos.

Tourism and Recreation

Tourism is a traditional industry in Gillespie County because of the scenic Hill Country and the hunting and fishing attractions. Over one million people annually visit Fredericksburg and Gillespie County.

Fredericksburg has been designated as a Historic District and is on the National Register of Historic Places by the National Park Service, Washington, D.C.

Major attractions include LBJ National Park, Admiral Nimitz Museum, George Bush Gallery of the Pacific War, Enchanted Rock, Pioneer Museum, and Fort Martin Scott.

Located just outside Fredericksburg is the Lady Bird Johnson Municipal Park, comprising 190 acres of wooded picnic and recreation areas. The park also includes an eighteen-hole golf course, putting greens, driving range, swimming pool, baseball diamond, volleyball, badminton and tennis courts, fishing and boating on a 20-acre lake and overnight camping areas.

Hunting white-tailed deer and wild turkey is the leading sport of the Texas Hill Country and in Gillespie County. Day leases and season hunting leases are obtained from private landowners. Fishing is found in the Pedernales River and smaller streams and lakes.

Utilities

<i>Natural Gas:</i>	BTU Electric & Gas Company, diversified transmission and distribution company
<i>Water:</i>	City of Fredericksburg and private wells.
<i>Electricity:</i>	City of Fredericksburg and Central Texas Electric Co-op.
<i>Telephone:</i>	Verizon

Community Services

One progressive weekly newspaper and two radio stations serve approximately a ten-county area.

A sixty-one-bed modern hospital is located in Fredericksburg with a complete staff of competent and medical personnel in attendance around the clock. Gillespie County Emergency Medical Services has operated for approximately 20 years, using both a combination of paid and volunteer personnel to staff three ambulances twenty-four hours a day, seven days a week. Four clinics are located in Fredericksburg. In addition, a large veterans hospital is located in nearby Kerrville.

Twenty-six churches, located in the City and in rural areas of the District, represent most major denominations.

* Source: *The Texas Almanac and Fredericksburg Chamber of Commerce.*

APPENDIX C

Audited Financial Statements

The information contained in this appendix consists of the Fredericksburg Independent School District Audited Financial Statements (the "Report") for the fiscal year ended June 30, 2025.

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

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*ANNUAL FINANCIAL AND
COMPLIANCE REPORT*

**FREDERICKSBURG
INDEPENDENT SCHOOL DISTRICT**

Fredericksburg, Texas

For the Year Ended
June 30, 2025

CERTIFICATE OF BOARD

Fredericksburg Independent School District
Name of School District

Gillespie
County

086901
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ✓ approved _____ disapproved for the year ended June 30, 2025 at a meeting of the Board of Trustees of such school district on the 21st of January, 2026.



Signature of Board Secretary



Signature of Board President

If the Board of Trustees disapproved of the auditors' report, the reasons(s) for disapproving it is (are):
(attach list as necessary)



NEFFENDORF & BLOCKER, P.C.

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Fredericksburg Independent School District
Fredericksburg, Texas 78624

Report on the Audit of the Financial Statements

Opinions

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

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

Emphasis of Matter- Change in Accounting Principle

As discussed in Note M to the financial statements, in 2025 the Fredericksburg Independent School District adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. As a result of this adoption, the District restated its beginning net position as of June 30, 2025 to reflect the cumulative effect of applying the new standard. Our opinion is not modified with respect to this matter.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

TEL: 830 997 3348 EMAIL: info@nb-cpa.com

P.O. Box 874 • 909 N Llano Street, Fredericksburg, TX 78624

MEMBER AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS & TEXAS SOCIETY OF CPAs

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the district's proportionate share of the net pension liability, schedule of district's contributions, schedule of the district's proportionate share of the OPEB liability and the schedule of district's contributions for other post-employment benefits on pages 4-13 and 53-62 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 Fredericksburg Independent School District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-4. These schedules have been subjected to the auditing procedures applied in the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2026, on our consideration of the Fredericksburg Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Fredericksburg Independent School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Fredericksburg Independent School District's internal control over financial reporting and compliance.

Neffendorf & Blocker, P.C.

NEFFENDORF & BLOCKER, P.C.

Fredericksburg, Texas

January 8, 2026

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



This section of the Fredericksburg Independent School District's annual financial report presents FISD Administration's discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2025. Please read this narrative overview and analysis of the financial activities of the District in conjunction with the District's financial statements, which follow this section.

DISTRICT HIGHLIGHTS

The Fredericksburg Independent School District (FISD) is located in central Texas in the Texas Hill Country area. Following are some district highlights:

- FISD Vision: Inspiring Excellence
- FISD Mission: To guide students to be the best version of themselves and achieve unlimited potential.
- In Fredericksburg ISD we believe:
 - Students will be challenged and engaged as creative and collaborative problem solvers with academic confidence.
 - Parents and Families are engaged partners who both need and provide appropriate levels of support and good communication so that all partners can be accountable.
 - Teachers build individualized relationships with students and families to strengthen academic confidence, inspire an ongoing desire to learn and to be a positive, contributing member of society.
 - Campus Leaders are accountable to the community, staff, and students through active engagement, academic confidence, and team driven results.
 - The Superintendent and Central Office Staff have a supportive role in the district, to facilitate, communicate, evaluate, and monitor all aspects of the district's goals.
 - The School Board is the voice of the community by demonstrating accountability, instituting checks and balances, providing governance oversight, and bridging the gap between the community and the district.
- FISD Goals
 - High Performing Students
 - Highly Engaged Staff
 - Strong Community Partnerships
 - Strategic Resource Management
- The Texas Education Agency rated FISD as a B (82) on the A – F Accountability scale in 2025.
- FISD has one high school serving grades 9 through 12. There is one middle school serving grades 6 through 8. There is one large elementary school in the city serving grades 2 through 5 and one small rural elementary school that serves grades K through 5. A primary school serves grade Pre-K through grade 1. Additionally, there is one alternative high school.
- The enrollment of the district increased slightly from 2023-2024. Enrollment approximated 3,030.
- FISD administrative offices is located in the city of Fredericksburg in Gillespie County. The estimated population of the city in 2024 per the U.S. Census was 11,766, which is just over 41% of the population of the entire county of 28,159.
- FISD has approximately 500 employees that handle school district business in more than 606,000 square feet on nearly 177 acres.
- The FISD is located mainly in Gillespie County but also has a small amount of property that extends into Blanco and Kendall counties.
- The land area of the city is only 9.25 square miles, but the square miles that the school district serves is 758.
- The district is considered a wealthy school district based on property wealth per student according to the Texas Education Agency. Therefore, the district sent just over \$19 million of local property tax revenue to the state of Texas to fund other school districts in the current fiscal year. This amounted to almost 40% of local property tax revenue sent out of the district, however, 61.65% of the students in the district qualified as Economically Disadvantaged.
- According to the U.S. Census, the median household income was \$57,474 annually as compared to the state average of \$76,292. However, the median home value was \$442,800 in Fredericksburg, but only \$260,000 in the state as a whole.
- The population of the city is 78% Anglo and 20% Hispanic, yet the population of the school district students was 44% Anglo, 54% Hispanic, and 2% various other.
- The oldest school building in use in the district was built in 1875, while the newest campus was built in 2025. The district continues to renovate older buildings and build additions to existing facilities.

FINANCIAL HIGHLIGHTS

- In May 2022, the voters of Fredericksburg Independent School District approved a \$82,000,000 bond issue. This bond issue is the biggest bond issuance in the history of the District. Inclusive playground additions at our elementary & primary campuses, outdoor restrooms at Primary School, Athletic improvements, and new buses were already completed in previous years. A new building for Fredericksburg Middle School at a new site has been completed and ready for students for the 2025-2026 school year. Additional uses of the funds will be for Career Technical additions and renovations at Fredericksburg High School, safety, security, and technology updates.
- The District's total net position for governmental activities increased by \$739,996 during 2024-2025 to \$44,834,183 at June 30, 2025 (Exhibits A-1 and B-1).
- The General Fund reported an ending fund balance this year of \$16,841,892 (Exhibits C-1 and C-3), which is a decrease of \$2,002,614. This decrease is primarily attributable to necessary HVAC replacements and other facility maintenance expenses incurred during the year as well as an increase in Recapture owed.
- Since its inception, for the 23rd year in a row, FISD earned a rating of Passed (Superior Achievement) by the Texas Education Agency (TEA) under its Financial Integrity Rating System of Texas (FIRST). Superior Achievement is the highest rating possible and is based on criteria used to determine the overall financial health and stability of school districts throughout Texas.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of four parts

- **Management's Discussion and Analysis (this section)**
- **Basic Financial Statements**
- **Required Supplementary Information**
- **Combining statements for non-major governmental funds (optional).**

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

- The first two statements (Exhibits A-1 and B-1) are *government-wide financial statements* that provide both long-term and short-term information about the District's overall financial status. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.
- The remaining statements are *fund financial statements* that focus on individual parts of the government, reporting the District's operations in more detail than the government-wide statements.

Fund financial statements may include governmental funds statements, proprietary fund statements, and fiduciary fund statements.

- *The governmental funds statements* tell how general government services were financed in the short term as well as what remains for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.
- *Proprietary fund statements* offer short-term and long-term financial information about the activities the government operates like businesses.
- *Fiduciary fund statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of those outside the district.

The financial statements also include notes that explain some of the information in the financial statements with narrative and provide additional data needed for full disclosure in the government-wide statements or the fund financial statements. The section of the report containing combining statements is not required by the Texas Education Agency (TEA) but contains detailed information about the District's individual funds.

The statements are followed by a section of required supplementary information titled **TEA Required Schedules** that further explains and supports the information in the financial statements. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants it receives.

Government-wide Financial Statements – Reporting the District as a Whole

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

The two government-wide statements report the District's net position and how they have changed. Net position (the difference between the District's assets and liabilities) is one way to measure the District's financial health. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in the District's tax base, changes in the District's average daily attendance and the condition of District facilities.

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

Fund Financial Statements – Reporting the District's Most Significant Funds

The fund financial statements provide more detailed information about the District's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes. Laws and contracts require the District to establish some funds. Other funds, such as Campus Activity Funds, are set up to help the District manage and control money for particular purposes.

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

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on how cash, and other financial assets that can readily be converted to cash, flow in and out and the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. We provide additional information at the bottom of the governmental funds statement that explains the relationship (or differences) between them because this information does not encompass the additional long-term focus of the government-wide statements.
- *Proprietary funds*—These funds provide the same type of information as the government-wide financial statements, only in more detail. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District has no business-type activities or enterprise funds. 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. At year end, the District has no Internal Service Funds.
- *Fiduciary funds*—The District is the trustee, or fiduciary, for certain funds. Due to a trust arrangement, the District is responsible for assets that can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. Fiduciary funds for the District include scholarship and student activity funds.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

All of the District's restricted net position represents proceeds from tax collections that are restricted for bond debt payment and capital projects and other minor purposes.

Unrestricted net position reflects a deficit created by a prior period adjustment resulting from the implementation of GASB 75 in fiscal year 2018 for OPEB. Although the District reports a deficit, the deficit is primarily due to reporting the District's proportionate share of the net OPEB liability. The total district liability is reported in the governmental activities; however, the actual liability does not require the use of current resources at the fund level, which results in a timing difference since the TRS-Care plan is funded on a pay-as-you-go basis. The District has made all contractually required contributions as noted in the required supplementary information and has sufficient fund balance to meet the District's ongoing obligations to students and creditors.

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

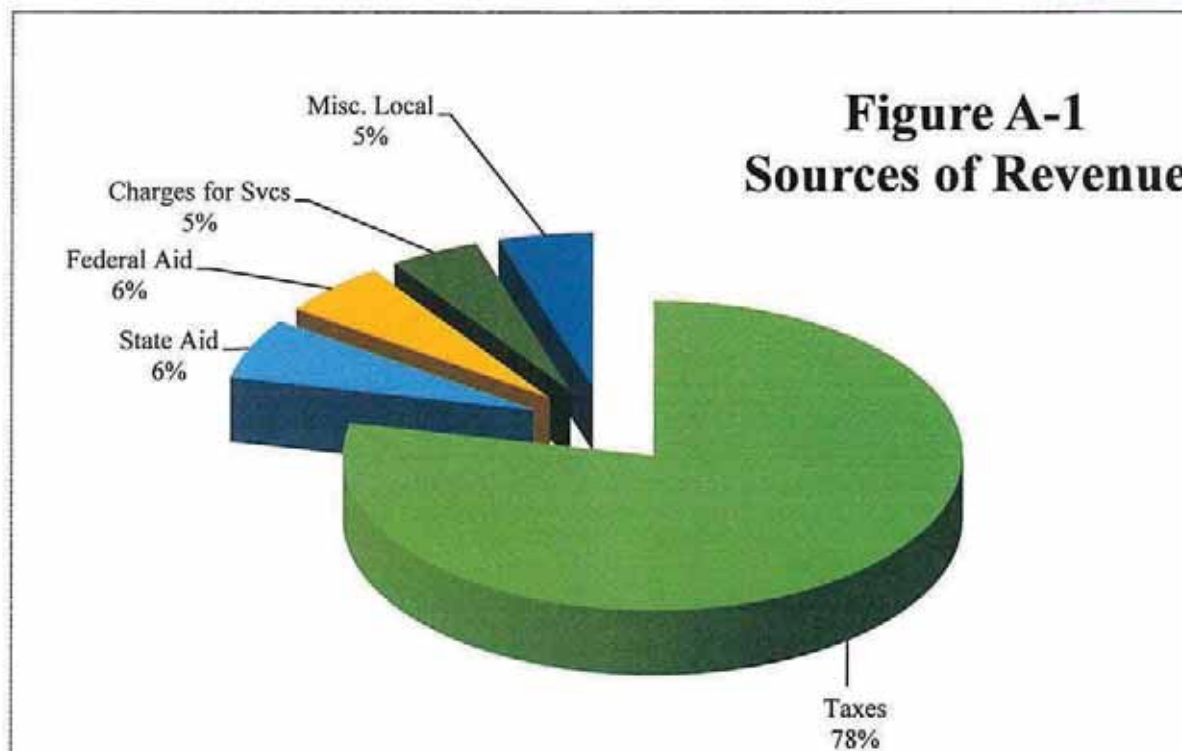


Table A-1 provides detail on the District's combined net position, which was \$44,834,183 on June 30, 2025.

**Table A-1
Fredericksburg Independent School District
Net Position**

	2024 / 2025	2023 / 2024	% Change
Current Assets	\$ 66,370,432	\$ 91,044,864	-27.10%
Noncurrent Assets	\$ 357,134	\$ 70,627	405.66%
Capital Assets	\$ 112,184,217	\$ 91,880,077	22.10%
Total Assets	\$ 178,911,783	\$ 182,995,568	-2.23%
 Deferred Outflows of Resources	 \$ 5,951,320	 \$ 7,188,417	 -17.21%
 Current Liabilities	\$ 33,001,016	\$ 33,427,916	-1.28%
Noncurrent Liabilities	\$ 98,400,713	\$ 102,027,742	-3.55%
Total Liabilities	\$ 131,401,729	\$ 135,455,658	-2.99%
 Deferred Inflows of Resources	 \$ 8,627,191	 \$ 10,634,140	 -18.87%
 Net Position:			
Net Investment in Capital Assets	\$ 43,042,469	\$ 41,197,373	4.48%
Restricted for Federal and State Programs	\$ 1,065,870	\$ 1,169,357	-8.85%
Restricted for Debt Service	\$ 3,451,126	\$ 2,913,020	18.47%
Unrestricted	\$ (2,725,282)	\$ (1,185,563)	129.87%
Total Net Position	\$ 44,834,183	\$ 44,094,187	1.68%

The District's total revenues were \$72.5 million (Exhibit C-3). A significant portion (78%) of the District's revenue comes from local taxes.



Senate Bill 2, which passed during the 2nd special called 88th legislative session, along with a voter approved constitutional amendment in November 2023 provided property tax relief in the form of increased homestead exemptions (from \$40,000 to \$100,000) and required a district's M&O rate to be reduced by an additional \$0.107. This legislation, along with House Bill 3, which passed during the 86th legislative session in 2019, resulted in a 2024-2025 M&O tax rate of \$0.6669, a drop of almost 35.9% in 6 years.

Governmental Activities

The combined tax rate for 2024-2025 decreased from the prior year by \$0.0023 to \$0.7731.

- The tax rate for the General Operating Fund decreased from the prior year by \$0.0023 to \$0.6669 per \$100 of valuation.
- The Debt Service portion of the tax rate was the same as in the prior year at \$0.1062.

The total cost of all programs and services was \$70.55 million (Exhibit B-1). Of these costs, 51% are for instructional and student support services and 27% paid to educate students from another district under Recapture ruling. Other costs total 22%.

The amount that our taxpayers paid for these activities through property taxes was \$56.8 million. Costs paid by those who directly benefited from the programs totaled \$3.4 million. State and Federal Grants and Contributions covered \$3.1 million of these costs.

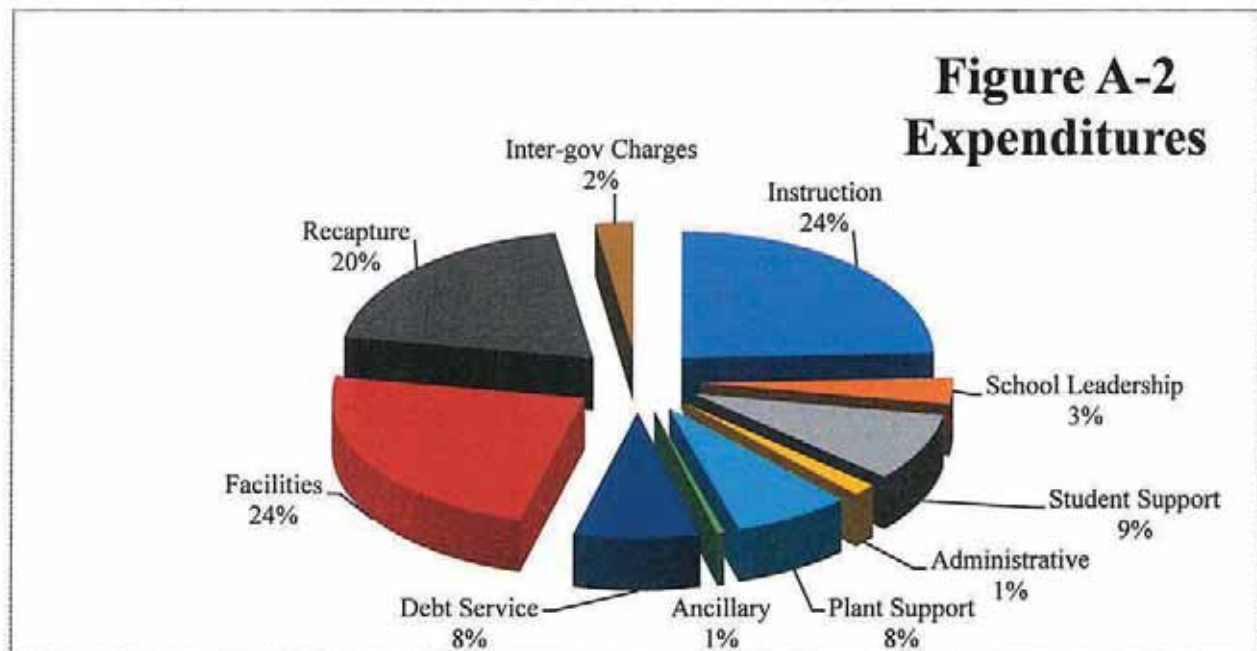
Table A-2
Fredericksburg Independent School District
Changes in Net Position

	2024 / 2025	2023 / 2024	% Change
Program Revenues:			
Charges for Services	\$ 3,405,001	\$ 3,373,207	0.94%
Operating Grants & Contributions	\$ 3,055,147	\$ 5,602,458	-45.47%
General Revenues:			
Property Taxes	\$ 56,807,835	\$ 52,363,121	8.49%
State Aid - Formula Grants	\$ 1,721,570	\$ 1,199,208	43.56%
Grants & Contributions-not restricted	\$ 2,728,015	\$ 3,250,287	-16.07%
Investment Earnings	\$ 2,773,531	\$ 5,161,850	-46.27%
Other	\$ 1,573,820	\$ 1,384,151	13.70%
Total Revenues	\$ 72,064,919	\$ 72,334,282	-0.37%
Chapter 49 (Robin Hood) payments	\$ 19,360,746	\$ 16,026,118	20.81%
Revenues available to the District	\$ 52,704,173	\$ 56,308,164	-6.40%
Expenses:			
Instruction & Related Services	\$ 24,259,148	\$ 23,231,447	4.42%
Instructional & School Leadership	\$ 3,251,758	\$ 3,374,105	-3.63%
Student Support Services	\$ 8,444,710	\$ 8,539,901	-1.11%
General Administrative	\$ 1,545,940	\$ 1,688,750	-8.46%
Plant Support Services	\$ 7,219,278	\$ 6,018,561	19.95%
Ancillary Services	\$ 444,191	\$ 579,347	-23.33%
Debt Service	\$ 3,254,798	\$ 3,477,245	-6.40%
Facilities Acquisition & Construction	\$ 384,074	\$ 904,567	-57.54%
Inter-governmental charges	\$ 2,381,842	\$ 2,133,805	11.62%
Total Expenses	\$ 51,185,739	\$ 49,947,728	2.48%
Increase (Decrease) in Net Position	\$ 1,518,434	\$ 6,360,436	-76.13%
Net Position Beginning	\$ 44,094,187	\$ 37,733,751	16.86%
Change in Accounting Principle	\$ (778,438)	\$ -	-100%
Net Position Ending	\$ 44,834,183	\$ 44,094,187	1.68%

Table A-3 below presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars. The cost of all governmental activities this year was \$70.55 million (Exhibit B-1).

**Table A-3
Fredericksburg Independent School District
Net Cost of Selected District Functions**

	Total Cost			Net Cost		
	2024/2025	2023/2024	% Change	2024/2025	2023/2024	% Change
Instruction	\$ 24,259,148	\$ 23,231,447	4.42%	\$ 23,276,866	\$ 20,316,347	14.57%
School Leadership	\$ 3,251,758	\$ 3,374,105	-3.63%	\$ 3,333,117	\$ 3,319,875	0.40%
Extra/Co-Curricular	\$ 2,095,549	\$ 2,183,310	-4.02%	\$ 1,813,859	\$ 1,707,673	6.22%
General Administration	\$ 1,545,940	\$ 1,688,750	-8.46%	\$ 1,592,840	\$ 1,667,689	-4.49%
Plant Maintenance & Operations	\$ 7,219,278	\$ 6,018,561	19.95%	\$ 6,944,927	\$ 5,591,907	24.20%
Debt Service – Interest & Charges	\$ 3,254,798	\$ 3,477,245	-6.40%	\$ 3,254,798	\$ 3,477,245	-6.40%
Contracted Instructional Services	\$ 19,360,746	\$ 16,026,118	20.81%	\$ 19,360,746	\$ 16,026,118	20.81%



The District's total expenditures were \$97,253,134 (Exhibit C-3). Note that the direct instructional percentage increases from 24% to 50% when the Recapture payment to other school districts and TEA and Debt Service and Construction expenditures are removed from the calculation.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from all governmental fund types totaled \$72.5 million, a decrease of \$400 thousand. The recapture payment increased by approximately \$3.3 million, providing a net decrease of approximately \$3.7 million available to the district. Student enrollment increased by 25, or less than 1%, which matched initial estimates. Among other increased costs, a 3.5% market median raise was provided to teaching staff, and a 3% midpoint raise was provided to all other employees. Payroll costs comprise about 80% of the district's operating expenditures.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget monthly as needed. General Fund actual expenditures were \$1.2 million below final budget amounts (Exhibit G-1).

The most significant positive variances resulted from unfilled staffing positions during the year. Staffing is budgeted for full employment of all positions during the year, however, since the pandemic, full staffing has been difficult to obtain. Budget amounts for vacant positions throughout the year are not adjusted in the budget since they are expected to be filled by the next budget cycle. Spending was controlled due to the strict budget system the school district utilizes.

Resources available were \$295 thousand less than the final budgeted amount. This was mainly due to reduced property taxes received than anticipated.

School Nutrition Fund Highlights

On December 1, 2007, in fiscal 2007-2008, the District became a self-operated, self-sustaining School Nutrition Program. Since that time, the District fully serves the school nutrition needs of FISD students. The School Nutrition Fund ended with a positive fund balance of \$1,075,614 for the fiscal year which is within the allowable level (see Exhibit H-1, H-2, and J-2).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the fiscal year, the District had cumulatively invested \$111.9 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4 and Note III, H) This amount represents a net increase (including additions and deductions) of approximately \$20.4 million over the prior year.

**Table A-4
Fredericksburg Independent School District
Capital Assets
(Net of accumulated depreciation)**

	Governmental Activities		% Change
	2024/2025	2023/2024	
Land	\$ 9,058,389	\$ 9,326,942	-2.88%
Building & Improvements	\$ 76,389,996	\$ 75,413,784	1.29%
Equipment	\$ 14,554,283	\$ 13,461,782	8.12%
Construction in Progress	\$ 69,773,665	\$ 48,253,368	44.60%
Totals at historical cost	\$ 169,776,333	\$146,455,876	15.92%
Total Accumulated Depreciation	\$ (57,837,197)	\$(54,991,919)	5.17%
Net Capital Assets	\$ 111,939,136	\$ 91,463,957	22.39%

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



Long Term Debt

At year-end the District had \$77,730,000 in bonds outstanding as shown in Table A-5 and on Exhibit A-1. More detailed information about the District's debt is presented in the Notes III, I to the financial statements.

**Table A-5
Fredericksburg Independent School District
Long Term Debt**

<u>2024/2025</u>	<u>2023/2024</u>	<u>% change</u>
\$77,730,000	\$81,980,000	-5.18%

Bond Ratings

The District's bonds presently carry "AAA" ratings with an underlying rating from Moody's Investors Service of "Aa2".

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's budget for the next year 2025–2026 was adopted on June 23, 2025. The following factors were considered by the Board in adopting the budget for 2025–2026:

Revenues

- The General Operating Fund revenue budget was approved for just over \$52 million reflecting approximately \$4 million less than the final budget for the prior year due to expected increase to homestead exemption.
- For 2025-26, both the M&O rate and I&S rate remained at \$0.6669 and \$0.1062, respectively, for a total tax rate of \$0.7731.
- The Gillespie County certified tax roll freeze adjusted taxable value totaling \$6.95 billion for 2025-2026 for the District reflects an increase of approximately \$330 million or 5% over the adjusted roll for the prior year.
- Average Daily Attendance (ADA) is a component of the state funding formulas for schools in Texas. An increase in average daily attendance can result in increased state funding, depending on other factors in the formula. Changes in ADA usually result from overall changes in the student population. Total refined average daily attendance (ADA) changes slightly from year to year. From 2019-2020 through 2021-2022, TEA held Districts harmless for partial attendance drops due to the pandemic. The below numbers include those adjustments from TEA.

Fiscal Year	Refined ADA	Percentage Change
2011-2012	2,769	
2012-2013	2,804	+ 1.30%
2013-2014	2,794	- 0.30%
2014-2015	2,844	+ 1.80%
2015-2016	2,940	+ 3.40%
2016-2017	2,987	+ 1.60%
2017-2018	2,970	- 0.50%
2018-2019	2,918	- 1.75%
2019-2020	2,949	+ 1.06%
2020-2021	2,827	- 4.14%
2021-2022	2,862	+ 1.24%
2022-2023	2,830	- 1.12%
2023-2024	2,777	- 1.87%
2024-2025	2,771	-0.22%
2025-2026	2,773 est	+0.07%

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



Expenditures

- The General Operating Fund expenditure budget was approved for just over \$54 million, resulting in a deficit budget of \$1.7 million. This deficit was approved consciously by the School Board in order to maintain a quality education for FISD students despite State Legislative funding support.
- There was a 12% on average increase for teachers due to State Legislative teacher compensation requirements, and a 3% midpoint compensation increase for all other employees.
- The recapture payment to TEA is estimated at \$13.8 million for 2025-2026. This is a decrease of over \$5 million in expenditures. State and local revenue will also decrease for an estimated net increase of revenue available to FISD of \$3 million. This increase in revenue will be offset by the teacher compensation increases mandated by the State.
- The District's fund balance position as of June 30, 2025 reflects funds available to use for one-time or capital expenditures. The Board has identified a number of projects for consideration from the committed fund balance in the general fund.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the FISD Assistant Superintendent for Business or log on at <https://www.fisd.org/our-district/departments/financial-transparency>.

BASIC FINANCIAL STATEMENTS

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2025

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 29,276,963
1120 Current Investments	31,780,362
1220 Property Taxes - Delinquent	2,743,389
1230 Allowance for Uncollectible Taxes	(137,169)
1240 Due from Other Governments	1,444,932
1290 Other Receivables, Net	1,210,512
1300 Inventories	51,443
1410 Prepayments	357,134
Capital Assets:	
1510 Land	9,058,389
1520 Buildings, Net	30,448,613
1530 Furniture and Equipment, Net	2,658,469
1550 Right-to-Use Leased Assets, Net	129,293
1553 SBITA Assets, Net	115,788
1580 Construction in Progress	69,773,665
1000 Total Assets	178,911,783
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS Pension	2,917,680
1706 Deferred Outflow Related to TRS OPEB	3,033,640
1700 Total Deferred Outflows of Resources	5,951,320
LIABILITIES	
2110 Accounts Payable	4,506,748
2140 Interest Payable	1,335,481
2150 Payroll Deductions and Withholdings	314,944
2160 Accrued Wages Payable	3,664,192
2180 Due to Other Governments	19,310,848
2300 Unearned Revenue	370,110
Noncurrent Liabilities:	
2501 Due Within One Year: Loans, Note, Leases, etc.	3,498,693
Due in More than One Year:	
2502 Bonds, Notes, Loans, Leases, etc.	79,727,120
2540 Net Pension Liability (District's Share)	11,183,744
2545 Net OPEB Liability (District's Share)	7,489,849
2000 Total Liabilities	131,401,729
DEFERRED INFLOWS OF RESOURCES	
2602 Deferred Resource Inflow of Lease Receivable	1,049,918
2605 Deferred Inflow Related to TRS Pension	374,290
2606 Deferred Inflow Related to TRS OPEB	7,202,983
2600 Total Deferred Inflows of Resources	8,627,191
NET POSITION	
3200 Net Investment in Capital Assets and Right-to-Use Lease Assets	43,042,469
Restricted:	
3820 Restricted for Federal and State Programs	1,065,870
3850 Restricted for Debt Service	3,451,126
3900 Unrestricted	(2,725,282)
3000 Total Net Position	\$ 44,834,183

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

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

EXHIBIT B-1

FOR THE YEAR ENDED JUNE 30, 2025

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position	
		3	4	6	
		Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	
Expenses					
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 23,865,916	\$ -	\$ 885,621	\$ (22,980,295)
12	Instructional Resources and Media Services	283,060	-	55,448	(227,612)
13	Curriculum and Instructional Staff Development	110,172	-	41,213	(68,959)
21	Instructional Leadership	1,223,818	-	(21,317)	(1,245,135)
23	School Leadership	2,027,940	-	(60,042)	(2,087,982)
31	Guidance, Counseling, and Evaluation Services	2,432,936	-	616,422	(1,816,514)
32	Social Work Services	249,010	-	78,461	(170,549)
33	Health Services	514,793	-	27,767	(487,026)
34	Student (Pupil) Transportation	1,021,309	-	(34,339)	(1,055,648)
35	Food Services	2,131,113	769,603	1,237,105	(124,405)
36	Extracurricular Activities	2,095,549	322,718	(41,028)	(1,813,859)
41	General Administration	1,545,940	-	(46,900)	(1,592,840)
51	Facilities Maintenance and Operations	5,098,469	98,197	(119,521)	(5,119,793)
52	Security and Monitoring Services	1,170,238	-	308,428	(861,810)
53	Data Processing Services	950,571	-	(12,753)	(963,324)
61	Community Services	444,191	124,361	30,582	(289,248)
72	Debt Service - Interest on Long-Term Debt	3,243,748	-	-	(3,243,748)
73	Debt Service - Bond Issuance Cost and Fees	11,050	-	-	(11,050)
81	Capital Outlay	384,074	-	-	(384,074)
91	Contracted Instructional Services Between Schools	19,327,746	-	-	(19,327,746)
92	Incremental Costs related to WADA	33,000	-	-	(33,000)
93	Payments Related to Shared Services Arrangements	1,586,178	2,090,122	110,000	613,944
99	Other Intergovernmental Charges	795,664	-	-	(795,664)
[TP] TOTAL PRIMARY GOVERNMENT:		\$ 70,546,485	\$ 3,405,001	\$ 3,055,147	(64,086,337)
Data Control Codes	General Revenues:				
	Taxes:				
MT	Property Taxes, Levied for General Purposes				49,526,343
DT	Property Taxes, Levied for Debt Service				7,281,492
SF	State Aid - Formula Grants				1,721,570
GC	Grants and Contributions not Restricted				2,728,015
IE	Investment Earnings				2,773,531
MI	Miscellaneous Local and Intermediate Revenue				1,573,820
TR	Total General Revenues				65,604,771
CN	Change in Net Position				1,518,434
NB	Net Position - Beginning as Previously Reported				44,094,187
PA	Change in Accounting Principle				(778,438)
	Net Position - Beginning as Restated and Adjusted				43,315,749
NE	Net Position - Ending				\$ 44,834,183

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

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2025

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 27,336,262	\$ 935,573	\$ 4
1120 Investments - Current	11,443,387	2,490,413	16,930,182
1220 Property Taxes - Delinquent	2,444,482	298,907	-
1230 Allowance for Uncollectible Taxes	(122,224)	(14,945)	-
1240 Due from Other Governments	722,838	25,140	-
1260 Due from Other Funds	959,537	-	-
1290 Other Receivables	128,274	-	-
1300 Inventories	26,215	-	-
1410 Prepayments	347,070	-	-
1000 Total Assets	<u>\$ 43,285,841</u>	<u>\$ 3,735,088</u>	<u>\$ 16,930,186</u>
LIABILITIES			
2110 Accounts Payable	\$ 793,585	\$ -	\$ 3,685,171
2150 Payroll Deductions and Withholdings Payable	295,520	-	-
2160 Accrued Wages Payable	3,073,729	-	-
2170 Due to Other Funds	316,509	-	-
2180 Due to Other Governments	19,310,848	-	-
2300 Unearned Revenue	331,500	-	-
2000 Total Liabilities	<u>24,121,691</u>	<u>-</u>	<u>3,685,171</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	2,322,258	283,962	-
2600 Total Deferred Inflows of Resources	<u>2,322,258</u>	<u>283,962</u>	<u>-</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	26,215	-	-
3430 Prepaid Items	347,070	-	-
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3470 Capital Acquisition and Contractual Obligation	-	-	13,245,015
3480 Retirement of Long-Term Debt	-	3,451,126	-
Committed Fund Balance:			
3510 Construction	4,500,000	-	-
3545 Other Committed Fund Balance	2,500,000	-	-
Assigned Fund Balance:			
3590 Other Assigned Fund Balance	135,512	-	-
3600 Unassigned Fund Balance	9,333,095	-	-
3000 Total Fund Balances	<u>16,841,892</u>	<u>3,451,126</u>	<u>13,245,015</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 43,285,841</u>	<u>\$ 3,735,088</u>	<u>\$ 16,930,186</u>

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

		Total	
Other		Governmental	
Funds		Funds	
\$	1,005,124	\$	29,276,963
	916,380		31,780,362
	-		2,743,389
	-		(137,169)
	696,954		1,444,932
	13,315		972,852
	2,312		130,586
	25,228		51,443
	10,064		357,134
\$	2,669,377	\$	66,620,492
\$	27,992	\$	4,506,748
	19,424		314,944
	590,463		3,664,192
	656,343		972,852
	-		19,310,848
	38,610		370,110
	1,332,832		29,139,694
	-		2,606,220
	-		2,606,220
	25,228		51,443
	-		347,070
	1,065,870		1,065,870
	-		13,245,015
	-		3,451,126
	-		4,500,000
	245,447		2,745,447
	-		135,512
	-		9,333,095
	1,336,545		34,874,578
\$	2,669,377	\$	66,620,492

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FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2025

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 34,874,578
Capital assets and Right-to-Use Lease Assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$147,300,216 and the accumulated depreciation was (\$55,420,139). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	3,562,590
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the capital outlays and debt principal payments is to increase net position. Similarly, the principal payments on Right-to-Use Lease Assets and SBITA Assets are not expenses, rather they are decreases in the Right-to-Use Lease Liabilities and the SBITA Liabilities. These payments must be reclassified and shown as reductions to these liabilities increasing Net Position.	27,767,358
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to TRS included a deferred resource outflow in the amount of \$2,917,680, a deferred resource inflow in the amount of \$374,290, and a net pension liability in the amount of \$11,183,744. This resulted in a decrease in net position.	(8,640,354)
Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability as required by GASB 75. The net position related to TRS included a deferred resource outflow in the amount of \$3,033,640, a deferred resource inflow in the amount of \$7,202,983, and a net OPEB liability in the amount of \$7,489,849. This resulted in a decrease in net position.	(11,659,192)
The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(3,153,213)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	2,082,416
Net Position of Governmental Activities	\$ 44,834,183

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

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 51,547,259	\$ 7,883,614	\$ 1,313,493
5800 State Program Revenues	3,496,614	378,246	-
5900 Federal Program Revenues	574,725	-	-
5020 Total Revenues	55,618,598	8,261,860	1,313,493
EXPENDITURES:			
Current:			
0011 Instruction	19,458,988	-	1,278,371
0012 Instructional Resources and Media Services	181,330	-	-
0013 Curriculum and Instructional Staff Development	47,140	-	-
0021 Instructional Leadership	773,346	-	-
0023 School Leadership	1,978,878	-	-
0031 Guidance, Counseling, and Evaluation Services	1,127,760	-	-
0032 Social Work Services	162,879	-	-
0033 Health Services	441,202	-	17,577
0034 Student (Pupil) Transportation	1,000,038	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	1,964,593	-	-
0041 General Administration	1,512,963	-	-
0051 Facilities Maintenance and Operations	5,338,635	-	48,586
0052 Security and Monitoring Services	591,542	-	200,482
0053 Data Processing Services	625,428	-	216,341
0061 Community Services	390,615	-	-
Debt Service:			
0071 Principal on Long-Term Liabilities	192,296	4,250,000	-
0072 Interest on Long-Term Liabilities	4,967	3,462,704	-
0073 Bond Issuance Cost and Fees	-	11,050	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	319,658	-	22,575,222
Intergovernmental:			
0091 Contracted Instructional Services Between Schools	19,327,746	-	-
0092 Incremental Costs Associated with Chapter 41	33,000	-	-
0093 Payments to Fiscal Agent/Member Districts of SSA	1,470,178	-	-
0099 Other Intergovernmental Charges	795,664	-	-
6030 Total Expenditures	57,738,846	7,723,754	24,336,579
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,120,248)	538,106	(23,023,086)
OTHER FINANCING SOURCES (USES):			
7913 Right-to-Use Lease and SBITA Proceeds	117,634	-	-
1200 Net Change in Fund Balances	(2,002,614)	538,106	(23,023,086)
0100 Fund Balance - July 1 (Beginning)	18,844,506	2,913,020	36,268,101
3000 Fund Balance - June 30 (Ending)	\$ 16,841,892	\$ 3,451,126	\$ 13,245,015

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

		Total	
Other		Governmental	
Funds		Funds	
\$	3,043,559	\$	63,787,925
	732,527		4,607,387
	3,517,144		4,091,869
	7,293,230		72,487,181
	2,628,005		23,365,364
	95,588		276,918
	56,274		103,414
	432,123		1,205,469
	21,855		2,000,733
	1,253,404		2,381,164
	83,546		246,425
	45,355		504,134
	-		1,000,038
	2,213,817		2,213,817
	150,255		2,114,848
	1,954		1,514,917
	-		5,387,221
	310,057		1,102,081
	-		841,769
	42,243		432,858
	3,305		4,445,601
	174		3,467,845
	-		11,050
	-		22,894,880
	-		19,327,746
	-		33,000
	116,000		1,586,178
	-		795,664
	7,453,955		97,253,134
	(160,725)		(24,765,953)
	-		117,634
	(160,725)		(24,648,319)
	1,497,270		59,522,897
\$	1,336,545	\$	34,874,578

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2025

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ (24,648,319)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to decrease the change net position. Similarly, current year principal payments on Right-to-Use Leases and SIBTAs are also reclassified as reductions to the Right-To-Use Lease Liability and the SBITA liability which will result in an increase in the change in Net Position.	27,767,358
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease the change in net position.	(3,153,213)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase the change in net position.	935,747
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 \$884,451. 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 the change in net position totaling \$858,950. 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 \$665,643. The net result is a decrease in the change in net position.	(640,142)
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 \$189,932. 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 the change in net position totaling \$187,521. Finally, the proportionate share of the TRS OPEB expense on the plan as a whole had to be recorded. The net OPEB expense increased the change in net position by \$1,254,592. The net result is an increase in the change in net position.	1,257,003
Change in Net Position of Governmental Activities	\$ 1,518,434

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

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2025

	836-849 Investment Trust Fund	Custodial Fund
ASSETS		
Cash and Cash Equivalents	\$ 8,830	\$ 249,298
Investments - Current	522,522	-
Other Receivables	1,827	-
Restricted Assets	55,035	-
Total Assets	<u>588,214</u>	<u>\$ 249,298</u>
NET POSITION		
Expendable Endowment	533,179	-
Nonexpendable Endowment	55,035	-
Restricted for Other Purposes	-	249,298
Total Net Position	<u>\$ 588,214</u>	<u>\$ 249,298</u>

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

FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2025

	836-849 Investment Trust Fund	Custodial Fund
ADDITIONS:		
Extracurricular Activities Other than Athletics	\$ -	\$ 86,597
Earnings from Temporary Deposits	27,413	-
Contributions, Gifts and Donations	19,319	160,000
Total Additions	<u>46,732</u>	<u>246,597</u>
DEDUCTIONS:		
Professional and Contracted Services	2,045	7,621
Supplies and Materials	-	21,708
Other Deductions	77,038	78,061
Total Deductions	<u>79,083</u>	<u>107,390</u>
Change in Fiduciary Net Position	(32,351)	139,207
Total Net Position - July 1 (Beginning)	<u>620,565</u>	<u>110,091</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 588,214</u></u>	<u><u>\$ 249,298</u></u>

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fredericksburg Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) applicable to governmental units. The District also complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds. GASB is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of Trustees (the Board), a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and it has the exclusive power and duty to govern and oversee the management of the District. All powers and duties not specifically delegated by statute to the TEA or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined in governmental accounting and financial reporting standards. There are no component units included within the reporting entity.

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

B. BASIS OF ACCOUNTING AND PRESENTATION

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Fredericksburg Independent School District nonfiduciary activities with most of the interfund activities removed. Governmental Activities, which normally are supported by taxes, state foundation funds, grants, and other intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support (i.e., internal service funds are considered governmental activities and not business-type activities). The District currently has no business-type activities.

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

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or Statement of Net Position. Bond issue costs are expensed when incurred. Bond premiums, discounts, and other related items are deferred and amortized over the life of the bonds. Interest payable on capital appreciation bonds is recognized as an increase in long-term debt and an increase in interest expense as accreted.

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

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are

Fredericksburg Independent School District
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clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense is specifically identified by function and is included in the direct expense to each function allocated. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Interfund activities between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Net Position.

Fund Financial Statements

Separate financial statements are provided for governmental funds and fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. Major governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from local sources consist primarily of property taxes. Amounts have been recorded for property tax revenues collected through June 30, 2025. State revenues 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.

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

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

The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are non-operating. The District has no such funds.

C. GOVERNMENTAL FUND TYPES

The District reports the following major governmental funds:

General Fund – This fund is established to account for resources used for general operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund, and undesignated fund balances are considered resources available for current operations.

Debt Service Fund – This fund is used to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which tax has been dedicated. This is a budgeted fund and any

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unused sinking fund balances will be transferred to the general fund after all of the related debt obligations have been met.

Capital Projects Fund – This governmental fund is established to account for proceeds, on a modified accrual basis, from the sale of bonds and other resources to be used for Board-authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the debt service fund and are used to retire related bond principal.

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

Governmental Funds:

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

The food service fund is the only required budgeted special revenue fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds. The District's food service fund is considered a special revenue fund since it meets the following criteria: (1) user fees are charged to supplement the National School Lunch Program (NSLP), (2) the general fund subsidizes the food service program for all expenditure in excess of NSLP, and (3) the District does not consider the food service program completely self-supporting. Food service fund balances, if any, are used exclusively for child nutrition program purposes.

Fiduciary Funds:

1. **Private Purpose Trust Funds** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the scholarship fund.
2. **Custodial Funds** - The District accounts for resources held for others in a custodial capacity in custodial funds. The District's Custodial Funds are the Student Activity Account and the Incubator Program.

D. FUND BALANCE POLICY

Fredericksburg Independent School District adopted GASB Statement 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Nonspendable- The nonspendable classification represents assets that will be consumed or "must be maintained in tact" and therefore will never convert to cash, such as inventories of supplies and endowments.

Restricted- Provisions of laws, contracts, and grants specify how fund resources can be used in the restricted classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees.

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

Assigned- The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting.

Unassigned- Amounts not included in other spendable classifications.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures

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should be charged to restricted balances first.

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

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Totals
Non-Spendable:					
Inventories	\$ 26,215	\$ -	\$ -	\$ 25,228	\$ 51,443
Prepaid Items	347,070	-	-	-	347,070
Restricted For:					
School Nutrition	-	-	-	1,065,870	1,065,870
Bond Capital Projects	-	-	13,245,015	-	13,245,015
Debt Service	-	3,451,126	-	-	3,451,126
Committed To:					
Construction	4,500,000	-	-	-	4,500,000
Future Salary Needs	2,500,000	-	-	-	2,500,000
Campus Activity Fund	-	-	-	245,447	245,447
Assigned	135,512	-	-	-	135,512
Unassigned	9,333,095	-	-	-	9,333,095
Total Fund Balance	\$ 16,841,892	\$ 3,451,126	\$ 13,245,015	\$ 1,336,545	\$ 34,874,578

E. NET POSITION ON THE STATEMENT OF NET POSITION

Net Position on the Statement of Net Position include the following:

Net Investment in Capital Assets- this component of net position represents the difference between capital assets less both the accumulated depreciation and the outstanding balances of debt, excluding any unspent bonds proceeds that are directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Federal and State Programs- this component of net position represents assets and liabilities of the child nutrition special revenue funds that consist of assets with constraints placed on their use by the state.

Restricted for Debt Service- this component of net position represents the difference between the assets and liabilities of the debt service fund that consists of assets with constraints placed on their use by creditors.

Unrestricted- the difference between assets and liabilities that is not reported in Net Investment in Capital Assets or Restricted Net Position.

F. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased. See Section III, Note A for more details.
2. Temporary investments that have a remaining maturity at the time of purchase of one year or less are valued at amortized cost because the fair value of the investments generally is not affected by the impairment of the credit standing of the issuer or by other factors. Investments are valued at fair value.
3. The District reports inventories of General Fund supplies at cost including consumable paper and fuel. Supplies are recorded as expenditures when they are consumed. Inventories of School Nutrition food commodities are recorded at market values supplied by the Texas Department of Agriculture. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Agriculture and recorded as commodity expenditures and commodity revenue when received. At year end, the inventory balance and unearned income/deferred revenue is recorded.

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4. Unearned revenue accounted for on the balance sheet of the general fund relates to excess funds received from the Texas Education Agency over earned amounts.
5. The District provides risk management obligations by carrying appropriate insurance. Property and general liability insurance is obtained from a licensed insurer. Risk of loss is not retained by the District.
6. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
7. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Material bond premiums and discounts are reported as deferred charges and amortized over the term of the related debt.

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

8. The District's policy for vacation/non-duty days does not allow for accumulation. All available days must be used or lost yearly. Individuals may accumulate and carry over local sick leave up to sixty days. Any accumulation over sixty days is paid to the individual by June 30 at the end of the year. Upon leaving the employment of the district for any reason, local sick days remaining are lost except in certain circumstances. If an employee retires or resigns in good standing and provides ample notice, they will be paid by the end of June an amount equal to half of a sub pay rate for the number of unused local sick leave days that are equal to the number of unused state days up to a maximum of sixty days. State personal days carry forward indefinitely with the district and move as available days with an employee to other districts as required by State law.

In accordance with GASB Statement No. 101, *Compensated Absences*, a liability for compensated absences is recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and it is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. The liability is measured using the pay rates in effect as of the financial statements date and includes applicable salary-related payments.

9. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

Asset Type	Years	Asset Type	Years
Buildings	30	Other Equipment	5 to 7
Improvements	5 to 30	Computer Equipment	5
Buses	10	Office Equipment	5
Other Vehicles	5 to 7	Computer Software	3

10. In the fund financial statements, governmental funds report restricted and committed fund balances

Fredericksburg Independent School District
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for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

11. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide database for policy development and funding plans.
12. *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.
13. *Other Post-Employment Benefits. (OPEB)* 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.
14. 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 position that applies to future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District's deferred outflows of resources consist of deferred charges for pension contributions made after the measurement date of August 31, 2024 and during the District's current reporting period, differences between the expected and actual economic experience in the pension plan and changes in actuarial assumptions.
15. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. In the government wide financial statements, the District reports the deferred inflows for pension for the District's proportionate share of the deferred inflow for the difference between the projected and actual investment earnings in the pension plan.
16. **GASB Statement No. 87.** As of July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The disclosures required by this standard are included in Note J.
17. **GASB Statement No. 96.** As of July 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The implementation of this standard establishes that a SBITA results in a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability. The standard requires recognition of right-to-use subscription assets and liabilities for SBITAs that previously were classified as operating expenditures based on the payment provisions of the contract. The disclosures required by this standard are included in Note K.

II. **STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Fredericksburg Independent School District
Notes to the Financial Statements
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A. BUDGETARY DATA

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

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

1. Prior to June 20 the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

<u>June 30, 2025 Fund Balance</u>	
Appropriated Budget Funds	
Food Service Special Revenue Fund	\$ 1,091,098
Nonappropriated Budget Fund	<u>245,447</u>
All Special Revenue Funds	<u>\$ 1,336,545</u>

B. VARIANCES FROM FINAL ADOPTED BUDGET

Budgets are required to be adopted for the General Fund, the School Nutrition Fund, and the Debt Service Fund. Original and Final Budgets are compared with the actual amounts at fiscal year-end. Variances with the final budget are noted.

1. The General Fund is analyzed in Exhibit G-1. Revenue variance was negative and expenditure variance was positive.
2. The School Nutrition Fund is analyzed in Exhibit J-2. Revenue variance was negative and expenditures variance was positive.
3. The Debt Service Fund is analyzed in Exhibit J-3. Revenue variance was negative and expenditures variance was positive.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal Contractual Provision Governing Deposits

Custodial Credit Risk for Deposits: This is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the

Fredericksburg Independent School District
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governmental entity and held by an agent. At year end, the District's deposits were not exposed to custodial credit risk.

At June 30, 2025, the carrying amount of the District's deposits was \$29,535,091 and the bank balance was \$30,017,440.

Investments

The District is required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (PFIA), to adopt and implement an investment policy. That policy must address the following areas: safety of principal and liquidity, portfolio diversification, allowable investments, acceptable risk levels, expected rates of return, maximum allowable stated maturity of portfolio investments, maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, investments staff quality and capabilities, and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in obligations of the U.S. Treasury, certain U.S. agencies and the State of Texas, certificates of deposit, certain municipal securities, and money market guaranteed investment contracts. The PFIA also requires the District to have independent auditors perform test procedures related to investment practices as provided by the PFIA. The District is in substantial compliance with the requirements of the PFIA and with local policies.

The investment pools used by the District are organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investments. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to:

1. Have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool.
2. Maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service, and
3. Maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

Presented below is the percentage invested for each short term investment, the fair value as of June 30, 2025 (Exhibit C-1 & E-1), the investment rating and the minimum rating required by the Act.

Description	Percentage Invested	Fair Value \$	Investment Rating	Minimum Legal Rating
LOGIC Pool	9%	2,816,244	AAA	AAA
Texas Class Pool	24%	7,691,209	AAA	AAA
Lone Star Pool	26%	8,555,082	AAA	AAA
Texas Range Pool	41%	13,240,349	AAA	AAA
Totals	100%	\$ 32,302,884		

The District's investments in investment pools, which are exempt from regulation by the SEC, provides for the objectives for safety, flexibility, and competitive yields. Most of the pools have the objective of a net asset value of \$1.00 wherein the book value of the position in the pools is the same as the number of the shares in each pool; the market value of a share should approximately equal the book value of a share. The District utilizes the pools described below.

LOGIC (Local Government Investment Cooperative) is established in conformity with the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. Logic funds allow shareholders the ability to deposit or withdraw funds daily. Interest rates are adjusted daily, and the fund seeks to maintain a constant net asset value of \$1.00, although this cannot be guaranteed. Logic is rated AAAM and must maintain a weighted average maturity not to exceed 60 days. The District considers the holdings in these funds to have a one-day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, short of a significant change in value. On June 30, 2025, the weighted average maturity was 53 days and the net asset value was 1.000043

The Texas Cooperative Liquid Assets Securities System Trust (Texas CLASS) is a Local Government Investment Pool established in conformity with the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Texas CLASS is administered by Public Trust Advisors, LLC and UMB Bank, N.A. provides custody and valuation services to Texas CLASS. Texas CLASS is rated AAA by Standard and Poor's and seeks to maintain a net asset value of \$1.00 and its dollar-weighted average maturity is 120 days or fewer. On June 30, 2025, the average weighted maturity was 37 days and the net asset value was 0.99995183.

The Lonestar Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256.

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Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with American Beacon Advisors and Mellon Investments Corporation managing the investment and reinvestment on Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and seeks to maintain a net asset value of \$1.00 and its dollar-weighted average maturity is 120 days or fewer. On June 30, 2025, the weighted average maturity was 43 days.

The TexasTERM Local Government Investment Pool, now doing business as the Texas Range Investment Program (Texas Range) is a Local Government Investment Pool established in conformity with the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Texas Range is directed by PFM Asset Management LLC and U.S. Bank, N.A. provides custody and valuation services to Texas Range. Texas Range is rated AAA by Fitch's Fund Rating and seeks to maintain a net asset value of \$1.00 and its dollar-weighted average maturity is 120 days or fewer. On June 30, 2025, the average weighted maturity was 47 days.

Fair Value Investments – Investment Trust Fund

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles (GASB Statement No. 72, Fair Value Measurement and Application). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has the following recurring fair value measurements as of June 30, 2025:

- Stock securities of \$55,035 are valued using quoted market prices (Level 1 inputs)

Policies Governing Investments

In compliance with the **Public Funds Investment Act**, the District has adopted a deposit and investment policy. That policy does address the following risks:

Custodial Credit Risk for Investments:

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. At June 30, 2025, the District was not exposed to custodial credit risk.

Concentration of Credit Risk:

The District places no limit on the amount it may invest in any one issuer; rather, investments are governed by the objectives of preservation and safety of principal, liquidity, and yield. Investment in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represents a concentration risk. At June 30, 2025, all of the District's investments are in external investment pools, and as such, the District has no risk.

Interest Rate Risk:

Generally, interest rate risk recognizes that changes in interest rates could adversely affect the value of investments. The District does not purchase any investments with maturities greater than one year from the time of purchase. The Board may specifically authorize a longer maturity for a given investment within the legal limits of five (5) years. The District uses its investments in the investment pools to mitigate interest rate risk.

Foreign Currency Risk: Not applicable.

B. DONOR RESTRICTED ENDOWMENTS

The District was gifted a donor restricted endowment by Richard and Maxie Hoerster in the name of their daughter Glenda Hoerster for higher education scholarships and recorded in the Investment Trust Fund. The endowment trust document requires two awards annually with approximately 80% of the net earnings of the endowment to be annually awarded as the Annual Glenda Hoerster Memorial Award, and approximately 20% of the net earnings of the endowment to be awarded annually as the Annual Friends of Glenda Hoerster Memorial Award. The trust documents state the preference for the scholarship awards should be for graduating senior girls. At the fiscal year end June 30, 2025 the endowment balance in the Investment Trust Fund was \$55,035.

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The endowment is in compliance with Sec. 163.005 of the Local Government Code. The endowment is a true endowment and reported as nonexpendable in net position of the Investment Trust Fund.

C. PROPERTY TAXES

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

D. DELINQUENT TAXES RECEIVABLE

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

E. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consisted of the following at June 30, 2025:

Due from State- Available School Fund	\$	495,169
Due from State- Reimbursements		12,120
Due from Federal- Reimbursements		678,815
Due from SSA Districts		26,847
Due from Appraisal District		231,981
	\$	<u>1,444,932</u>

F. INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds." The composition of interfund balances (Exhibit C-1) as of June 30, 2025 is as follows:

Fund	Due from Other Funds	Due to Other Funds
General Fund	\$ 959,537	\$ 316,509
Nonmajor Governmental Funds	13,315	656,343
TOTAL	\$ <u>972,852</u>	\$ <u>972,852</u>

All interfund balances resulted from time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occurs, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Fredericksburg Independent School District
Notes to the Financial Statements
Year Ended June 30, 2025



G. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at June 30, 2025 were as follows:

	Property Taxes	Other Governments	Other	Total Receivables
Governmental Activities:				
General Fund	\$ 2,444,482	\$ 722,838	\$ 128,274	\$ 3,295,594
Debt Service Fund	298,907	25,140	-	324,047
Capital Projects Fund	-	-	-	-
Nonmajor Governmental Funds	-	696,954	2,312	699,266
Total Governmental Activities	<u>\$ 2,743,389</u>	<u>\$ 1,444,932</u>	<u>\$ 130,586</u>	<u>\$ 4,318,907</u>
Amounts not scheduled for collection during the subsequent year	\$ 137,169	\$ -	\$ -	\$ 137,169

Payables at June 30, 2025 were as follows:

	Accounts Payable	Salaries and Benefits	Due to Other Governments	Total Payables
Governmental Activities:				
General Fund	\$ 793,585	\$ 3,369,249	\$ 19,310,848	\$ 23,473,682
Debt Service Fund	-	-	-	-
Capital Projects Fund	3,685,171	-	-	3,685,171
Nonmajor Governmental Funds	27,992	609,887	-	637,879
Total Governmental Activities	<u>\$ 4,506,748</u>	<u>\$ 3,979,136</u>	<u>\$ 19,310,848</u>	<u>\$ 27,796,732</u>
Amounts not scheduled for payment during the subsequent year	\$ -	\$ -	\$ -	\$ -

Fredericksburg Independent School District
Notes to the Financial Statements
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H. CAPITAL ASSET ACTIVITY

Capital asset activity (Exhibit A-1) for the District for the year ended June 30, 2025 was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Non-depreciable Assets:				
Land	\$ 9,326,942	\$ 1,450	\$ (270,003)	\$ 9,058,389
Construction in Progress	48,253,368	21,840,775	(320,478)	69,773,665
Depreciable Assets:				
Buildings & Improvements	75,413,784	976,212		76,389,996
Furniture & Equipment	13,461,782	1,093,801	(1,300)	14,554,283
Totals at Historic Cost	146,455,876	23,912,238	(591,781)	169,776,333
Less: Accumulated Depreciation For:				
Buildings & Improvements	(43,764,568)	(2,277,109)	100,294	(45,941,383)
Furniture & Equipment	(11,227,351)	(669,763)	1,300	(11,895,814)
Total Accumulated Depreciation	(54,991,919)	(2,946,872)	101,594	(57,837,197)
Total Capital Assets Being Depreciated, Net	\$ 91,463,957	\$ 20,965,366	\$ (490,187)	\$ 111,939,136
Right-to-Use Leased & SBITA Assets Being Amortized				
Leased Equipment	\$ 608,263	\$	\$ (135,032)	\$ 473,231
SBITA	236,077	117,634	(46,944)	306,767
Total Right-to-Use Leased & SBITA Assets	\$ 844,340	\$ 117,634	\$ (181,976)	\$ 779,998
Less accumulated amortization				
Leased Equipment	\$ (291,905)	\$ (104,733)	\$ 52,700	\$ (343,938)
SBITA	(136,315)	(101,608)	46,944	(190,979)
Total Accumulated Amortization	\$ (428,220)	\$ (206,341)	\$ 99,644	\$ (534,917)
Total Right-to-Use Leased & SBITA Asset Being Amortized, Net	\$ 416,120	\$ (88,707)	\$ (82,332)	\$ 245,081
Governmental Activities Capital Assets, Net	\$ 91,880,077	\$ 20,876,659	\$ (572,519)	\$ 112,184,217
	Buildings		Furniture & Equipment	
Asset Value	\$ 76,389,996		\$ 14,554,283	
Depreciation	(45,941,383)		(11,895,814)	
Assets, net value (Exhibit A-1)	\$ 30,448,613		\$ 2,658,469	

Depreciation expense totaling \$2,946,872 was charged to governmental functions as follows:

Function	Amount	Function	Amount
Instruction	1,532,721	Student (Pupil) Transportation	66,270
Instructional Resources	18,344	School Nutrition	146,702
Curriculum	6,853	Co-curricular/Extracurricular Activities	140,100
Instructional Leadership	80,053	General Administration	100,343
School Leadership	132,510	Plant Maintenance & Operations	356,897
Guidance, Counseling & Evaluation	157,752	Security	70,819
Social Work Services	16,324	Data Processing	57,772
Health Services	33,392	Community Services	30,020

Fredericksburg Independent School District
Notes to the Financial Statements
Year Ended June 30, 2025



Amortization expense totaling \$206,341 was charged to the District's functions as follows:

Function	Amount
Instruction	135,331
Instructional Leadership	2,800
Data Processing Services	67,591
Community Services	619

I. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Statement of Net Position (Exhibit A-1) in the government-wide financial statements. Current year payments for principal and interest expenditures are accounted for in the Debt Service Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance (Exhibit C-3) in the fund financial statements. All bonds issued for governmental activity purposes are liquidated by the debt service fund. A summary of changes in general long-term debt for the year ended June 30, 2025 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 7/1/2024	Issued	Retired	Amounts Outstanding 6/30/2025
School Tax Bonds - 2015	1.05-6.8%	\$ 7,500,000	\$ 72,222	\$ 2,840,000	\$	\$ 250,000	\$ 2,590,000
School Tax Bonds - 2016	1.81%	\$ 9,000,000	82,355	4,550,000		315,000	4,235,000
Refunding Bond- 2019	1.80%	\$ 6,135,000	25,740	1,430,000		700,000	730,000
School Tax Bonds - 2022	4.00-5.00%	\$ 77,820,000	3,282,387	73,160,000		2,985,000	70,175,000
			<u>\$ 3,462,704</u>	<u>\$ 81,980,000</u>	<u>\$ -</u>	<u>\$ 4,250,000</u>	<u>\$ 77,730,000</u>

Debt service requirements are as follows:

Year Ended June 30	Principal	Interest	Total Requirements
2026	\$ 2,530,000	\$ 3,268,690	\$ 5,798,690
2027	2,615,000	3,182,354	5,797,354
2028	2,650,000	3,095,027	5,745,027
2029	2,660,000	3,002,835	5,662,835
2030	1,890,000	2,910,066	4,800,066
2031-2035	11,660,000	13,166,126	24,826,126
2036-2040	12,390,000	10,609,500	22,999,500
2041-2045	15,010,000	7,845,450	22,855,450
2046-2050	18,735,000	3,934,850	22,669,850
2051-2052	7,590,000	439,200	8,029,200
	<u>\$ 77,730,000</u>	<u>\$ 51,454,098</u>	<u>\$ 129,184,098</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2025.

Defeasance of Debt

On June 3, 2025, the District defeased a portion of its outstanding Unlimited Tax School Building Bonds, Series 2022. The District deposited \$1,000,787.34 into an irrevocable escrow fund with BOKF, NA, as escrow agent, to provide for the future payment of \$970,000 principal amount of the Series 2022 bonds maturing on February 15, 2052. The escrowed funds were used to purchase U.S. Treasury Securities- State and Local Government Series (SLGS), which, together with interest earnings, will be sufficient to pay the principal and accrued interest on the defeased bonds through their redemption date of February 15, 2032. As a result, the defeased bonds are considered to be legally satisfied and are no longer reported as liabilities in the District's financial statements. The escrow arrangement is irrevocable and solely benefits the holders of the defeased bonds.

At June 30, 2025, \$3,390,000 of the Series 2022 bonds maturing on February 15, 2052, remain outstanding after the partial defeasance. The escrow agreement restricts investment to direct noncallable obligations of the United States or similarly rated AAA noncallable government securities, and explicitly prohibits the substitution of escrowed assets with assets that are not essentially risk-free.

The transaction resulted in a net difference between the cash flows required to service the old debt and the cash flows required to service the new escrow arrangement of \$776,000. The District reduced its total debt service payments over the next several years by this amount.

Fredericksburg Independent School District
Notes to the Financial Statements
Year Ended June 30, 2025



The economic gain (the difference between the present values of the old and new debt service payments, discounted at an effective interest rate of 3.6643203%) resulting from the transaction was \$5,275.

No risk of substitution of escrow assets exists, as the escrow agreement prohibits such substitutions except under limited, strictly controlled circumstances.

J. LEASES PAYABLE

As of July 1, 2021, the District had a 56 month lease agreement with Ricoh Company, Ltd for copiers. An initial lease liability was recorded in the amount of \$234,165. The District is required to make monthly fixed lease payment of \$4,232. The lease has an interest rate of 0.5270%. The value of the right to use asset as of June 30, 2025 was \$234,165 with accumulated amortization of \$200,712.

On May 3, 2022, the District entered into a 60 month lease agreement with Dell for a data protection appliance. An initial lease liability was recorded in the amount of \$77,693. The District is required to make annual fixed lease payment of \$16,296. The lease has an interest rate of 2.1570%. The value of the right to use asset as of June 30, 2025 was \$77,693 with accumulated amortization of \$48,171.

On May 25, 2022, the District entered into a 60 month lease agreement with Dell for the use of a server. An initial lease liability was recorded in the amount of \$109,163. The District is required to make annual fixed lease payments of \$22,828. The lease has an interest rate of 2.1570%. The value of the right to use asset as of June 30, 2025 was \$109,163 with accumulated amortization of \$67,682.

On October 18, 2022, the District entered into a 41 month lease agreement with Ricoh for use of additional copiers. An initial lease liability was recorded in the amount of \$6,060. The District is required to make monthly fixed payments of \$153. The lease has an interest rate of 0.5270%. The value of the right to use asset as of June 30, 2025 was \$6,060 with accumulated amortization of \$4,862.

On September 20, 2023, the District entered into a 24 month lease agreement with Dell for SonicWall. An initial lease liability was recorded in the amount of \$135,032. The District is required to make annual fixed payments of \$68,525. The lease has an interest rate of 3.0180%. During the fiscal year, the District recalculated the lease liability and as a result recognized a \$66,518 decrease in the lease liability. No principal payment was made in connection with this adjustment. The decrease reflects a changes in the District's obligations under the lease agreement, and the corresponding reduction in the right-to-use lease asset was recognized. The net effect of this adjustment was reported as a gain in the statement of activities. There were no early termination payments or other payments not previously included in the measurement of the lease liability.

On December 12, 2023, the District entered into a 36 month lease agreement with Ricoh for additional copiers. An initial lease liability was recorded in the amount \$26,579. The District is required monthly fixed payments of \$801. The lease has an interest rate of 3.6310%. The value of the right to use asset as of June 30, 2025 was \$26,579 with accumulated amortization of \$13,757.

On February 28, 2024, the District entered into a 36 month lease agreement with Ricoh for additional copiers. An initial lease liability was recorded in the amount of \$19,571. The District is required to make monthly fixed payments of \$580. The lease has an interest rate of 2.4260%. The value of the right to use asset as of June 30, 2025 was \$19,571 with accumulated amortization of \$8,754.

Schedule of changes in leases payable is as follows:

	Interest Rate	-	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Leases:</u>							
Governmental Activities:							
Ricoh-Copiers	0.527%	\$	84,255	\$	50,464	\$ 33,791	\$ 33,791
Dell- Data Protection Appliance	2.157%		46,853		15,286	31,567	15,615
Dell-Server	2.157%		65,631		21,412	44,219	21,874
Additional Ricoh-Copiers	0.527%		3,042		1,822	1,220	1,220
Dell- SonicWall	3.018%		66,518		66,518	-	-
Ricoh- FES, FHS, FMS, STW	3.631%		22,220		8,959	13,261	9,290
Ricoh-COOP/Athletics	2.426%		17,404		6,609	10,795	6,770
Total Governmental Activities		\$	305,923	\$ -	\$ 171,070	\$ 134,853	\$ 88,560

Fredericksburg Independent School District
Notes to the Financial Statements
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Remaining obligations associated with leases are as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2026	88,560	2,218	90,778
2027	46,293	895	47,188
	<u>\$ 134,853</u>	<u>\$ 3,113</u>	<u>\$ 137,966</u>

K. SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENTS PAYABLE

As of July 1, 2022, the District had a 50-month subscription agreement with TestHound for a test enablement software. An initial subscription liability was recorded in the amount of \$11,668. The District is required to make annual payments of \$3,000. The subscription has an interest rate of 1.710%. The value of the right to use asset as of June 30, 2025 was \$11,668 with accumulated amortization of \$8,401.

On July 28, 2022, the District entered into a 36-month subscription with Computer Solutions for the use of wireless access point equipment. An initial subscription liability was recorded in the amount of \$62,821. The District is required to make annual fixed payments of \$20,950. The subscription has an interest rate of 2.184%. The value of the right to use asset as of June 30, 2025 was \$62,821 with accumulated amortization of \$61,250.

On April 1, 2023, the District entered into a 36-month subscription for Microsoft licenses. An initial subscription liability was recorded in the amount of \$90,658. The District is required to make annual fixed payment of \$30,986. The subscription has an interest rate of 2.560%. The value of the right to use asset as of June 30, 2025 was \$90,658 with accumulated amortization of \$67,993.

On July 27, 2023, the District entered into a 36-month subscription agreement for the use of Ruckus cloud hosted software. An initial subscription liability was recorded in the amount of \$23,986. The District was required to make a one-time payment of \$23,986. The subscription has an interest rate of 2.9010%. The value of the right to use asset as of June 30, 2025 was \$23,986 with accumulated amortization of \$15,414.

On July 1, 2024, the District entered into a 48-month subscription for the use of Finalsite Software. An initial subscription liability was recorded in the amount of \$83,583. The District is required to annual fixed payments of \$20,340. The subscription has an interest rate of 3.074%. The value of the right to use asset as of June 30, 2025 was \$83,583 with accumulated amortization of \$20,896.

As of July 1, 2024, the District had a 30-month subscription agreement for use of Content Keeper software. An initial subscription liability was recorded in the amount of \$34,051. The District is required to make annual fixed payments of \$17,930. The subscription has an interest rate of 3.631%. The value of the right to use asset as of June 30, 2025 was \$34,051 with accumulated amortization of \$17,025.

Schedule of changes in subscription-based information technology arrangements payable is as follows:

	Interest Rate	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>SBITAs:</u>						
Governmental Activities:						
TestHound	1.710%	5,850		2,900	2,950	2,950
Computer Solutions	2.184%	22,511		20,941	1,570	1,570
Microsoft	2.560%	30,212		30,212	-	-
Finalsite Software	3.074%	-	83,583	20,247	63,336	19,261
Content Keeper	3.631%	-	34,051	16,749	17,302	17,302
Total Governmental Activities		<u>\$ 58,573</u>	<u>\$ 117,634</u>	<u>\$ 91,049</u>	<u>\$ 85,158</u>	<u>\$ 41,083</u>

Fredericksburg Independent School District
Notes to the Financial Statements
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Remaining obligations associated with subscription-based information technology arrangements payable is as follows:

Year Ended June 30,	Principal	Interest	Total Requirements
2026	\$ 41,083	\$ 2,625	\$ 43,708
2027	21,333	1,355	22,688
2028	22,742	699	23,441
	<u>\$ 85,158</u>	<u>\$ 4,679</u>	<u>\$ 89,837</u>

L. CHANGES IN LONG-TERM LIABILITIES

Long-term Governmental activity for bonds and other long-term liabilities for the year ended June 30, 2025, was as follows (Exhibit A-1):

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
General Obligation Bonds	\$ 81,980,000		4,250,000	\$ 77,730,000	\$ 2,530,000
Premium on Bonds	4,606,309		169,557	4,436,752	
Leases Payable	305,923		171,070	134,853	88,560
SBITA Payable	58,573	117,634	91,049	85,158	41,083
Compensated Absences Payable	778,438	60,612		839,050	839,050
Net Pension Liability	12,883,788		1,700,044	11,183,744	
Net OPEB Liability	5,698,272	1,791,577		7,489,849	
Total Long-Term Liabilities	<u>\$ 106,311,303</u>	<u>\$ 1,969,823</u>	<u>\$ 6,381,720</u>	<u>\$ 101,899,406</u>	<u>\$ 3,458,693</u>

M. CHANGE IN ACCOUNTING PRINCIPLE- ADOPTION OF GASB STATEMENT NO. 101, COMPENSATED ABSENCES

Effective July 1, 2024, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, Compensated Absences. GASB 101 establishes new standards for the recognition, measurement, and disclosure of compensated absences. The Statement requires governments to recognize 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. The Statement also refines the measurement of the liability and related salary-related payments and modifies certain disclosure requirements.

As a result of implementing GASB 101, the District restated its beginning net position to reflect the cumulative effect of applying the new accounting principle. The implementation resulted in changes to the measurement of the compensated absences liability, including the recognition of certain types of leave and related salary-related payments that were not previously included.

The following table summarizes the effect of the restatement on the beginning net position of the governmental activities:

	Governmental Activities
Beginning Net Position, as previously reported	\$ 44,094,187
Cumulative effect of adoption of GASB 101	(778,438)
Beginning Net Position, as restated	<u>\$ 43,315,749</u>

The implementation of GASB 101 affected the liabilities for compensated absences reported in the government-wide statement of net position.

N. DEFINED BENEFIT PENSION PLAN

Plan Description. Fredericksburg Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government

Fredericksburg Independent School District
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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 (ACFR) that includes financial statements and required supplementary information. That report may be obtained on the internet at <https://www.trs.texas.gov/learning-resources/publications>; by writing to TRS at attention Finance Division, PO BOX 149676, Austin, TX, 78714-0185, or by calling 1-800-223-8778.

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered 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 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 percent of the member's annual compensation and a state contribution rate of not less than 6 percent and not more than 10 percent of the aggregate annual compensation paid to members of the system during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th 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%

Fredericksburg Independent School District
Notes to the Financial Statements
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Fredericksburg ISD – Current Fiscal Year Employer Contributions	\$ 1,049,433
Fredericksburg ISD – Current Fiscal Year Member Contributions	\$ 2,143,134
Fredericksburg ISD - 2024 Measurement Year NECE On-behalf Contributions	\$ 1,457,161

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 and universities, medical schools, and other entities, including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, 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 employer contributions described below which are paid by the employers. Employers are required to pay the employer contributions 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 percent of the state contribution rate for certain instructional or administrative employees; and 100 percent of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there is a surcharge an employer is subject to.

- All public schools, charter schools, and regional educational service centers must contribute 1.9 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 valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2019	3.87%. The source for the rate is the Bonds Buyer 20 Index which represents the estimated yield of a portfolio of 20 general obligation bonds maturing 20 years based on a survey of municipal bond traders.
Last year ending August 31 in Projection Period (100 Years)	2123
Inflation	2.30%
Salary Increases	2.95% to 8.95% including inflation
Ad hoc Post Employment Benefit Changes	None

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

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

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

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

Asset Class	Target Allocation ⁽²⁾	Long-Term Expected Geometric Real Rate of Return ⁽³⁾	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
U.S.	18.00%	4.40%	1.00%
Non-U.S. Developed	13.00%	4.20%	0.80%
Emerging Markets	9.00%	5.20%	0.70%
Private Equity ⁽¹⁾	14.00%	6.70%	1.20%
Stable Value			
Government Bonds	16.00%	1.90%	0.40%
Absolute Return ⁽¹⁾	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 & Infrastructure	6.00%	5.60%	0.40%
Commodities	0.00%	2.50%	0.00%
Risk Parity			
Risk Parity	8.00%	4.00%	0.40%
Asset Allocation 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%
Total	100%		7.90%

⁽¹⁾ Absolute Return includes a Credit Sensitive Investments.

⁽²⁾ Target allocations are based on the FY2024 policy model.

⁽³⁾ Capital Market Assumptions come from 2024 SAA Study CMA 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 net pension liability of the plan using a discount rate of 7.00 percent, and what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
Fredericksburg's proportionate share of the net pension liability:	\$ 17,863,273	\$ 11,183,744	\$ 5,649,279

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2025, the Fredericksburg Independent School District reported a liability of \$11,183,744 for its proportionate share of the TRS net pension liability. This liability reflects a reduction for State pension support provided to the Fredericksburg Independent School District. The amount recognized by the Fredericksburg Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Fredericksburg Independent School District were as follows:

Fredericksburg Independent School District
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District's Proportionate share of the collective net pension liability	\$11,183,744
State's proportionate share that is associated with the District	<u>\$15,794,839</u>
Total	<u>\$26,978,583</u>

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

At August 31, 2024 the employer's proportion of the collective net pension liability was .0183087416% which is a decrease of .0004475875% from its proportion measured as of August 31, 2023.

Changes in Assumptions and Benefits Since the Prior Actuarial Valuation

The actuarial assumptions and methods are the same as used in the determination of the prior year's Net Pension Liability.

The 2023 Texas Legislature passed Senate Bill (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 224. 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 of the Net Pension Liability of TRS.

For the year ended June 30, 2025, the Fredericksburg Independent School District recognized pension expense of \$3,412,340 and revenue of \$1,887,747 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 616,433	\$ 87,317
Changes in actuarial assumptions	577,441	77,415
Difference between projected and actual investment earnings	67,982	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	771,373	209,558
Total as of August 31, 2024 measurement date	\$ 2,033,229	\$ 374,290
Contributions paid to TRS subsequent to the measurement date	884,451	-
Total as of fiscal year-end	\$ 2,917,680	\$ 374,290

The District recognized \$884,451 as deferred outflows of resources related to pension resulting from District contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the District's balances of deferred outflows and inflows or resources related to pensions will be recognized in pension expense as follows:

Fiscal year ended June 30,	Pension Expense Amount
2026	\$ 248,371
2027	1,399,965
2028	260,635
2029	(261,018)
2030	10,985
Thereafter	1

Fredericksburg Independent School District
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O. DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN

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

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

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

Benefits Provided. TRS-Care provides health insurance coverage to retirees from public school 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 not enrolled in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. There are no automatic post-employment benefit changes; including automatic COLAs.

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

TRS- Care Monthly for Retirees			
	Medicare		Non- Medicare
Retiree*	\$	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 TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and participating employers are based on active employee compensation. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25 percent of the employee's salary. Section 1575.203 establishes the active employee's rate which is .65 percent of salary. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public school district. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75 percent of each active employee's pay for fiscal year 2024. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates		
	2024	2025
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
Fredericksburg ISD- Current Fiscal Year Employer Contributions	\$226,292	
Fredericksburg ISD- Current Fiscal Year Member Contributions	\$168,854	
Fredericksburg ISD- 2024 Measurement Year NECE On-behalf Contributions	\$280,861	

Fredericksburg Independent School District
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In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (regardless of whether they participate in the TRS Care OPEB program). When hiring a TRS retiree, employers are required to pay TRS Care a monthly surcharge of \$535 per retiree.

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

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were 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 the established pattern of practice and are identical to the assumptions used in the August 31, 2023 TRS pension actuarial valuation that was rolled forward to August 31, 2024:

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

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

Additional Actuarial Methods and Assumptions:

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.87% as of August 31, 2024
Aging Factors	Based on Society of Actuaries' 2013 Study "Health Care Costs- From Birth to Death"
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims cost.
Salary Increases	2.95% to 8.95%, including inflation
Ad hoc post-employment benefit changes	None

Discount Rate. A single discount rate of 3.87 percent was used to measure the total OPEB liability. This was a decrease of 0.26 percent in the discount rate since the previous year.

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

The source of the municipal bond rate is the Bond Buyer's "20-Bond GO Index" as of August 31, 2024, using the Fixed Income Market Data/Yield Curve/Data 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 percent less than and 1 percent greater than the discount rate that was used (3.87%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.87%)	Current Single Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
Fredericksburg ISD's proportionate share of the Net OPEB Liability:	\$ 8,898,290	\$ 7,489,849	\$ 6,351,807

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

Fredericksburg Independent School District
Notes to the Financial Statements
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	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Fredericksburg ISD's proportionate share of the Net OPEB Liability:	\$ 6,099,370	\$ 7,489,849	\$ 9,301,781

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2025, the Fredericksburg Independent School District reported a liability of \$7,489,849 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the Fredericksburg Independent School 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 Fredericksburg Independent School District were as follows:

Fredericksburg ISD's Proportionate share of the collective Net OPEB Liability	\$ 7,489,849
State's proportionate share that is associated with Fredericksburg ISD	<u>\$ 9,384,679</u>
Total	<u>\$16,874,528</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 the OPEB 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 OPEB Liability was 0.0246770038%, which was a decrease 0.0010624199% from its proportion measured as of August 31, 2023.

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

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

Changes of Benefit Terms Since the Prior Measurement Date – There were no changes in benefit terms since the prior measurement date.

For the year ended June 30, 2025, the Fredericksburg Independent School District recognized OPEB expense of \$(2,286,906) and revenue of \$(1,219,835) for support provided by the State.

At June 30, 2025, the Fredericksburg Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 1,435,553	\$ 3,737,841
Changes in actuarial assumptions	958,612	2,443,851
Difference between projected and actual investment earnings	-	20,974
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	449,543	1,000,317
Total as of August 31, 2024 measurement date	\$ 2,843,708	\$ 7,202,983
Contributions paid to TRS subsequent to the measurement date	189,932	-
Total	\$ 3,033,640	\$ 7,202,983

The District recognized \$189,932 as deferred outflows of resources related to OPEB resulting from District contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fredericksburg Independent School District
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Fiscal year ended June 30,	OPEB Expense Amount
2026	\$ (1,225,393)
2027	(886,168)
2028	(977,657)
2029	(750,065)
2030	(392,890)
Thereafter	(127,102)

P. 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 drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Payments made on behalf of Fredericksburg Independent School District for fiscal years 2023, 2024 and 2025 were, \$128,571, \$137,175, and \$188,820 respectively.

Q. LITIGATION

The District is occasionally involved in various legal actions. Attorneys for the District indicate there is none as of June 30, 2025.

R. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

The District entered into the following contracts for the 2022 Bond Project- Fredericksburg ISD New Middle School:

- In July of 2022, the District entered into a contract with Huckabee & Associates, Inc. The total contract is for \$4,044,749. The balance as of June 30, 2025 was \$187,497.
- In March of 2023, the District entered into a contract with Statterfield & Pontikes Construction, Inc. The total contract is for \$66,307,367. The balance as of June 30, 2025 was \$3,952,938.
- In February of 2022 the District entered into an agreement with Lockwood, Andrews & Newman, Inc. for project management services. The total agreement was for \$2,218,000 plus \$50,000 in reimbursable expenses. The balance as of June 30, 2025 was \$7,188.
- In June of 2023 the District entered into an agreement with EMA Engineering & Consulting, Inc. The total agreement was for \$93,000 and balance as of June 30, 2025 was \$23,250.
- In April of 2025, the District entered into a contract with Jack Laurence Corp for an HVAC replacement project. The total agreement was for \$1,697,698. The balance as of June 30, 2025 was \$1,296,513.

S. GENERAL FUND FEDERAL SOURCE REVENUES

Federally financed programs are generally accounted for in the Special Revenue Funds of the District, except for SHARS, JROTC salary reimbursements, E-Rate allocations and indirect costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA. The District recognized in the General Fund such revenues for the year ended June 30, 2025, from various federal sources as follows:

Fredericksburg Independent School District
Notes to the Financial Statements
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Program or Source	Amount
SHARS	\$ 204,187
Navy-JROTC Program	43,316
E-Rate	91,964
Indirect Costs:	
ESEA Title I, Part A	21,563
ESEA Title II, Part A	2,714
ESSA Title III, Part A, ELA	2,037
IDEA - Part B, Formula	32,000
IDEA - Part B, Preschool	598
Title IV, Part A, Subpart I	1,795
Food Service Fund	172,500
Perkins V: Strengthening CTE for 21st Century	1,509
ARP Homeless II	542
Total	<u>574,725</u>

Indirect cost revenues were determined by applying approved indirect costs rates to allowable applicable expenditures of federally funded grant programs.

T. UNEARNED/UNAVAILABLE REVENUE

Unearned and unavailable revenue (Exhibits C-1 and H-1) at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Unavailable-Property Taxes	\$ 2,322,258		\$ 283,962	\$ 2,606,220
Unearned-School Nutrition		38,260		38,260
Restricted Contributions	331,500	350		331,850
Total	\$ 2,653,758	\$ 38,610	\$ 283,962	\$ 2,976,330

U. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources (Exhibit C-3 and H-2) consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Funds	Total
Property Taxes	\$ 48,417,974		\$ 7,708,748		\$ 56,126,722
Penalties & Interest	505,507		73,107		578,614
Donations/Gifts	782,931	7,597			790,528
Special Education Coop	21,000	2,054,122			2,075,122
Investment Income	1,308,864	49,414	101,759	1,313,493	2,773,530
Facility Rental	98,197				98,197
Insurance Recovery	17,306				17,306
Tuition and Fees	124,361				124,361
Food Sales		769,603			769,603
Campus Activity Fund		159,412			159,412
Co-curricular Activities	163,306				163,306
Other	107,813	3,411			111,224
Total	\$ 51,547,259	\$ 3,043,559	\$ 7,883,614	\$ 1,313,493	\$ 63,787,925

V. JOINT VENTURE – SHARED SERVICE ARRANGEMENT

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides for the efficient delivery of legally required special education and related services to eligible students with disabilities from the member districts. In addition to the District, other member districts include Comfort ISD, Harper ISD, and Doss CCSD. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent.

Fredericksburg Independent School District
Notes to the Financial Statements
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According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund 437 (Exhibit H-2), Shared Services Arrangements – Special Education and is accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Fredericksburg Independent School District	\$	1,455,179
Comfort Independent School District		398,569
Harper Independent School District		182,046
Doss CCSD		18,329
	\$	<u>2,054,123</u>

W. INSURANCE COVERAGE

During the fiscal year, Fredericksburg ISD participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability	Auto Physical Damage
Cyber Liability & Security	School Liability
Property	

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the current fiscal year, the fund anticipates Fredericksburg ISD has no additional liability beyond the contractual obligations for payment of contributions.

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

X. RECAPTURE PAYMENTS TO THE STATE

In the 2004-2005 fiscal year, the District was designated a property wealthy district by the State. To that end, the District must share its local property tax revenue with the State or other districts. The District passed the necessary election to authorize payment of tax revenues to another district or to the State. Following are the recapture payments and percentage of local property tax revenue made for the past ten years:

2015-2016	5,258,645	22.82%
2016-2017	7,119,606	25.47%
2017-2018	9,738,005	30.84%
2018-2019	12,915,801	33.94%
2019-2020	13,355,333	33.33%
2020-2021	16,004,619	38.70%
2021-2022	17,882,878	34.46%
2022-2023	23,707,820	40.53%
2023-2024	15,953,348	30.52%
2024-2025	19,315,755	34.41%
Total to Date	\$ 141,251,810	

The financial calculation for sharing local property tax revenue is strictly based on wealth per average daily attendance. The amount that the district spends is not relevant, only the tax revenues collected and the number of weighted students attending FISD schools. The appraisals cannot be lowered so that the tax revenues are lower because the local appraisal district is charged to appraise properties based on market value. The Texas State Comptroller's office verifies the market values annually. If the local appraisal district does not value within a certain range of the state's calculations, the state will presume their values are accurate and will use their values instead of the local appraisal values. Recapture payments would still be due to the State based on those calculations and the District would receive less tax revenue and have less to spend on the education of the local students.

Fredericksburg Independent School District
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Y. EMPLOYEE BENEFITS

The District provides opportunities for employees to participate in elective employee paid benefits such as dental, disability, life, accident, emergency transport, cancer insurances. Additionally, the district provides these benefits:

Social Security

The District participates in a Section 218 Agreement with the IRS for non- professional employees. This voluntary agreement between the District and the Social Security Administration was established to provide Social Security and Medicare Hospital Insurance (HI) or Medicare coverage only for non-professional employees of the District. All employees are covered for the Medicare. This agreement is authorized under Section 218 of the Social Security Act. Employees covered under a Section 218 Agreement have the same coverage and benefit rights as employees in the private sector. The District contributed to the Social Security insurance plan as follows:

Year Ended 6/30/21	\$ 787,107
Year Ended 6/30/22	\$ 753,349
Year Ended 6/30/23	\$ 745,977
Year Ended 6/30/24	\$ 852,091
Year Ended 6/30/25	\$ 822,874

Employee Health Care Coverage

The District utilizes TRS-ActiveCare, the statewide health coverage program for public education employees established by the 77th Texas Legislature in 2002. Of the more than one thousand school districts/entities eligible to participate in TRS-ActiveCare, over 90 percent do so. The District employees are eligible to participate in one of three PPO plan options administered by BlueCross BlueShield and WellSystems and Caremark.

TRS-ActiveCare is a self-funded program, not an insured plan. Rates and benefits are not determined by the vendors administering the program, but are established by the TRS Trustees based on the claims experience of the plan.

During the year the District contributed \$315.00 per month toward the plan premiums for each enrolled employee.

Contributions to health care coverage for employees are as follows:

Year Ended 6/30/21	\$ 806,507
Year Ended 6/30/22	\$ 829,448
Year Ended 6/30/23	\$ 962,748
Year Ended 6/30/24	\$ 1,038,628
Year Ended 6/30/25	\$ 1,271,678

Workers' Compensation Pool

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

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2024, the Fund carried a discounted reserve of \$50,247,590 for future development on reported claims and claims that have been incurred but not yet reported. For the current fiscal year, the Fund anticipated no additional liability to members beyond their contractual obligations for payment of contributions.

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

Unemployment Compensation Pool

During the fiscal year, Fredericksburg ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by

Fredericksburg Independent School District
Notes to the Financial Statements
Year Ended June 30, 2025



Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool. For the current fiscal year, the Fund anticipates that the District has no additional liability beyond their contractual obligation for payment of contribution.

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

Z. LEASE RECEIVABLE

In August of 2017, the district entered into an interlocal office lease agreement with Gillespie Central Appraisal District. As of July 1, 2021, the district had a 253 month lease agreement with the appraisal district. An initial lease receivable was recorded in the amount of \$1,295,750. As of June 30, 2025, the value of the lease receivable was \$1,079,926. The lessee is required to make monthly fixed payments of \$6,000. The lease has an interest rate of 1.5510%. The value of the deferred inflow of resources related to the lease as of June 30, 2025 was \$1,049,918 and the district recognized lease revenue of \$61,458 during the fiscal year. The lessee has two extension options, each for 60 months.

AA. NEGATIVE UNRESTRICTED NET POSITION

The unrestricted net position for the governmental activities reflects a large negative balance in the amount of (\$2,786,740). This is due to the implementation of GASB Statements No. 68 regarding *Net Pension Liability* and No. 75 regarding *Other Post-Employment Benefits*. The District was required to recognize their proportionate share of the TRS Pension Plan liability, deferred outflows and inflows of resources, as well as the TRS Care Plan liability, deferred outflows and deferred inflows of resources.

BB. NEGATIVE OPERATING GRANTS AND CONTRIBUTIONS- STATEMENT OF ACTIVITIES

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

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

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

Fredericksburg Independent School District
Notes to the Financial Statements
Year Ended June 30, 2025



	Exhibit B-1 Operating Grants and Contributions	Negative On- Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11-Instruction	\$ 885,621	\$ (692,614)	\$ 1,578,235
12-Instruction Resources and Media Services	55,448	(7,440)	62,888
13-Curriculum Development and Instruction Staff Dev	41,213	-	41,213
21-Instructional Leadership	(21,317)	(45,230)	23,913
23-School Leadership	(60,042)	(82,608)	22,566
31-Guidance, Counseling and Evaluation Services	616,422	(57,768)	674,190
32-Social Work Services	78,461	(5,193)	83,654
33-Health Services	27,767	(17,876)	45,643
34-Student (Pupil) Transportation	(34,339)	(35,066)	727
35-Food Services	1,237,105	(37,600)	1,274,705
36-Extracurricular Activities	(41,028)	(41,898)	870
41-General Administration	(46,900)	(47,894)	994
51-Facilities Maintenance and Operations	(119,521)	(122,053)	2,532
52-Security and Monitoring Services	308,428	(1,664)	310,092
53-Data Processing Services	(12,753)	(13,023)	270
61-Community Services	30,582	(11,908)	42,490
93-Payments Related to Shared Service Arrangements	110,000		110,000
	<u>\$ 3,055,147</u>	<u>\$ (1,219,835)</u>	<u>\$ 4,274,982</u>

CC. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures in the General Fund exceeded the budget appropriations in four functions but not in total.

DD. ARBITRAGE REBATE AND UNSPENT BOND PROCEEDS

As of June 30, 2025, the District has \$70,175,000 outstanding in Unlimited Tax School Building Bonds, Series 2022. In accordance with Section 148 of the Internal Revenue Code and related Treasury regulations, the District is required to calculate and, if necessary, pay arbitrage rebate and yield restriction rebate amounts to the U.S. Treasury.

As of the most recent interim computation period ending September 30, 2025, the District calculated a potential arbitrage rebate liability of \$1,611,949 and a yield reduction rebate of \$5,365. No payment is due as of June 30, 2025, as the first required payment is due within 60 days after the end of the first five-year computation period (ending on February 1, 2027). The District will continue to monitor and update these calculations annually. The liability has not been recognized in the financial statements but is disclosed as a contingency, and the District estimates the possible loss as noted above.

In addition, as of August 11, 2025, the District had unspent bond proceeds of \$16,503,361. These proceeds are subject to yield restriction requirements under federal tax law, which limit the investment yield that may be earned on these funds. The District is in compliance with all applicable yield restrictions and arbitrage rebate requirements as of the reporting date. The unspent bond proceeds are reported as restricted assets in the financial statements, and the related debt is reported as a reduction of the restricted net position.

The District will continue to monitor compliance with all arbitrage and yield restriction requirements and will make any required payments to the U.S. Treasury as they become due.

EE. SUBSEQUENT EVENTS

The District has evaluated subsequent events January 8, 2026 the date which the financial statements were available to be issued. The District is not aware of any subsequent events that materially impact the financial statements.

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APPENDIX D

Form of Opinion of Bond Counsel

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August 18, 2026



Norton Rose Fulbright US LLP
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United States

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FINAL

IN REGARD to the authorization and issuance of the “Fredericksburg Independent School District Unlimited Tax School Building Bonds, Series 2026” (the *Bonds*), dated August 1, 2026, in the aggregate original principal amount of \$27,000,000 we have reviewed the legality and validity of the issuance thereof by the Fredericksburg Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 15 in each of the years 2027 through 2046, February 15, 2051, and February 15, 2054, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

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

Legal Opinion of Norton Rose Fulbright US LLP, Austin, Texas, in connection with the authorization and issuance of “FREDERICKSBURG INDEPENDENT SCHOOL DISTRICT UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026”

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from the proceeds of an ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property within the Issuer.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Order and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

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

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

Norton Rose Fulbright US LLP

APPENDIX E

The Permanent School Fund Guarantee Program

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THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

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

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

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

History and Purpose

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

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

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

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

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

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

Management and Administration of the Fund

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

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

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

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

By law, the Education Commissioner is appointed by the Governor, with Senate confirmation, and assists the SBOE, but the Education Commissioner can neither be hired nor dismissed by the SBOE. The PSF Corporation has internal and external legal counsel to advise it as to its duties with respect to the Fund, including specific actions regarding the investment of the PSF to ensure compliance with fiduciary standards, and to provide transactional advice in connection

with the investment of Fund assets in non-traditional investments. TEA's General Counsel provides legal advice to the SBOE but will not provide legal advice directly to the PSF Corporation.

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

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

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

The Total Return Constitutional Amendment

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

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

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

ASF pursuant to this constitutional provision is excluded from the 6% Distribution Rate limitation applicable to SBOE transfers.

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

Annual Distributions to the Available School Fund¹

<u>Fiscal Year Ending</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>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	Range ¹
Cash Equivalent	3.0%	n/a
Core Bonds	9.0%	+/- 5.0%
Non-Core Bonds (High Yield)	3.0%	+/- 5.0%
Non-Core Bonds (Bank Loans)	3.0%	+/- 5.0%
Large Cap U.S. Equity	15.0%	+/- 5.0%
Small/Mid-Cap U.S. Equity	3.0%	+/- 5.0%
Non-U.S. Developed Equity	8.0%	+/- 5.0%
Absolute Return	6.0%	+/- 5.0%
Private Debt (Liquid Substitute)	9.5%	+/- 5.0%
Private Equity (Liquid Substitute)	20.0%	+/- 10.0%
Real Estate	10.5%	+/- 5.0%
Natural Resources	4.0%	+/- 5.0%
Infrastructure	6.0%	+/- 5.0%

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

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

Comparative Investment Schedule – PSF(CORP)

Fair Value (in millions) August 31, 2025 and 2024				
ASSET CLASS	August 31, 2025	August 31, 2024	Amount of Increase (Decrease)	Percent Change
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	1,335.0	2,583.2	(1,248.2)	-48.3%
TOTAL PSF(CORP) INVESTMENTS	\$60,091.3	\$56,937.2	\$ 3,154.1	5.5%

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

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

Investment Schedule - PSF(SLB)¹

Fair Value (in millions) August 31, 2025

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

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

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

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

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

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

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

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

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

The CDBG 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 CDBG 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 "CDBG 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 CDBG Capacity include Fund investment performance, future increases in the Guarantee Program multiplier, changes in State law that govern the calculation of the CDBG 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 CDBGP Capacity was calculated as the Capacity Limit less the amount of outstanding bond guarantees under the Guarantee Program multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population. SB 1480 amended the CDBGP Capacity calculation so that the Capacity Limit is multiplied by the percentage of charter district scholastic population relative to the total public school scholastic population prior to the subtraction of the outstanding bond guarantees, thereby increasing the CDBGP Capacity.

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

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

Since the initial authorization of the Charter District Bond Guarantee Program, the Act has established a bond guarantee reserve fund in the State treasury (the "Charter District Reserve Fund"). Formerly, the Act provided that each charter district that has a bond guaranteed must annually remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 10% of the savings to the charter district that is a result of the lower interest rate on its bonds due to the guarantee by the PSF. SB 1480 modified the Act insofar as it pertains to the Charter District Reserve Fund. Effective September 1, 2017, the Act provides that a charter district that has a bond guaranteed must remit to the Education Commissioner, for deposit in the Charter District Reserve Fund, an amount equal to 20% of the savings to the charter district that is a result of the lower interest rate on the bond due to the guarantee by the PSF. The amount due shall be paid on receipt by the charter district of the bond proceeds. However, the deposit requirement will not apply if the balance of the Charter District Reserve Fund is at least equal to 3.00% of the total amount of outstanding guaranteed bonds issued by charter districts. At December 31, 2025, the Charter District Reserve Fund contained \$153,914,605, which represented approximately 2.61% of the guaranteed charter district bonds. The Reserve Fund is held and invested as a non-commingled fund under the administration of the PSF Corporation staff.

Charter District Risk Factors

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

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

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

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

Ratings of Bonds Guaranteed Under the Guarantee Program

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

Valuation of the PSF and Guaranteed Bonds

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
2021	38,699,895,545	55,582,252,097
2022	42,511,350,050	56,754,515,757
2023	43,915,792,841	59,020,536,667
2024	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	
<u>At 8/31</u>	<u>Principal Amount⁽¹⁾</u>
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⁾

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

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

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

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

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

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

Effective February 1, 2024, Texas PSF transitioned into a new strategic asset allocation. The new allocation of the PSF Corporation updated the strategic asset allocation among public equities, fixed income, and alternative assets, as

discussed herein. Alternative assets now include private credit¹, absolute return, private equity, real estate, natural resources, and infrastructure. For a description of the accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2025 Annual Report which is included by reference herein.

PSF Returns Fiscal Year Ended 8-31-2025¹

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

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

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

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

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

Other Events and Disclosures

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

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

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 und 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.

Financial Advisory Services
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