OFFICIAL STATEMENT
DATED AUGUST 11, 2026

NEW ISSUE - Book-Entry-Only

Enhanced/Unenhanced Rating:
Moody's: "AAA" / "Aa2"
PSF GUARANTEED
(See "OTHER INFORMATION – Rating" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein)

In the opinion of Norton Rose Fulbright US LLP, Austin, Texas, as 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.

$96,205,000
MCALLEN INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas located in Hidalgo County)
Unlimited Tax School Building Bonds, Series 2026

Dated: August 1, 2026 (Interest accrues from the Delivery Date, defined below) **Due: February 15, as shown on inside cover**

PAYMENT TERMS . . . The $96,205,000 McAllen Independent School District Unlimited Tax School Building Bonds, Series 2026 (the "Bonds") will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date (defined below) and will be payable on February 15, 2027 and each August 15 and February 15 thereafter until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. DTC will act as securities depository. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof**. Principal of, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. See "THE BONDS - Paying Agent/Registrar".

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held within the McAllen Independent School District (the "District") on May 2, 2026 (the "Election"), and an order (the "Bond Order") adopted on June 23, 2026 by the Board of Trustees (the "Board") of the District authorizing the issuance of the Bonds. As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain authorized officials of the District (each, a "Pricing Officer") to execute an approval certificate (the "Approval Certificate" and, together with the Bond Order, the "Order"), which includes the final sales terms for the Bonds. A Pricing Officer executed the Approval Certificate on August 11, 2026.

The Bonds are direct obligations of the District payable from an ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District as provided in the Order. See "THE BONDS – Authority for Issuance". **The District has received conditional approval from the Texas Education Agency for the Bonds to be guaranteed by the Permanent School Fund Guarantee of the State of Texas which guarantee will automatically become effective upon approval of the Bonds by the Texas Attorney General. See "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".**

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, modernizing, expanding, upgrading, updating, acquiring, and equipping school facilities, the purchase of buses and vehicles, and the retrofitting of buses and vehicles, and (ii) paying the costs of issuing the Bonds. See "PLAN OF FINANCE - Purpose".

See inside cover for Maturity Schedule, Interest Rates, Initial Yields, and CUSIP Numbers

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof named below (collectively, the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the legal opinion of Norton Rose Fulbright US LLP, Austin, Texas, ("Bond Counsel"). See APPENDIX C - Forms of Bond Counsel's Opinions". Certain legal matters will be passed upon for the Underwriters by their Counsel, McCall, Parkhurst & Horton LLP, Austin, Texas.

DELIVERY . . . It is expected that the Bonds will be available for initial delivery through the services of DTC, on or about September 8, 2026 (the "Delivery Date").

SAMCO CAPITAL

BOK FINANCIAL SECURITIES, INC. **FROST BANK**

PNC CAPITAL MARKETS LLC **RBC CAPITAL MARKETS**

MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS*

$96,205,000
McAllen Independent School District
Unlimited Tax School Building Bonds, Series 2026

CUSIP[(1)] Prefix: 579100

$71,475,000 Serial Bonds

Stated Maturity (February 15)	Principal Amount	Interest Rate	Initial Price or Yield	CUSIP Suffix [(1)]	Stated Maturity (February 15)	Principal Amount	Interest Rate	Initial Price or Yield	CUSIP Suffix [(1)]
2027	$ 9,750,000	5.000%	2.610%	UX4	2040	$ 2,490,000	5.000%	3.950% [(2)]	VL9
2028	1,385,000	5.000%	2.670%	UY2	2041	2,615,000	5.000%	4.010% [(2)]	VM7
2029	1,455,000	5.000%	2.760%	UZ9	2042	2,745,000	5.000%	4.050% [(2)]	VN5
2030	1,530,000	5.000%	2.860%	VA3	2043	2,885,000	5.000%	4.110% [(2)]	VP0
2031	1,605,000	5.000%	2.950%	VB1	2044	3,030,000	5.000%	4.190% [(2)]	VQ8
2032	1,685,000	5.000%	2.980%	VC9	2045	3,180,000	5.000%	4.270% [(2)]	VR6
2033	1,770,000	5.000%	3.140%	VD7	2046	3,340,000	5.000%	4.360% [(2)]	VS4
2034	1,860,000	5.000%	3.240%	VE5	2047	3,505,000	5.000%	4.450% [(2)]	VT2
2035	1,950,000	5.000%	3.360%	VF2	2048	3,680,000	5.000%	4.500% [(2)]	VU9
2036	2,050,000	5.000%	3.450%	VG0	2049	3,865,000	5.000%	4.560% [(2)]	VV7
2037	2,150,000	5.000%	3.600% [(2)]	VH8	2050	4,060,000	5.000%	4.580% [(2)]	VW5
2038	2,260,000	5.000%	3.710% [(2)]	VJ4	2051	4,260,000	5.000%	4.600% [(2)]	VX3
2039	2,370,000	5.000%	3.810% [(2)]	VK1					

$24,730,000 Term Bonds

$ 24,730,000 5.000% Term Bond Due February 15, 2056 Priced to Yield 4.730% [(2)] CUSIP [(1)] Suffix: VY1

(Interest accrues from the Delivery Date.)

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2037, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See “THE BONDS– Optional Redemption of the Bonds”. In addition, the Bonds maturing on February 15, 2056 (the “Term Bonds”) are also subject to mandatory sinking fund redemption. See "THE BONDS - Mandatory Redemption of the Bonds."

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

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This Official Statement, which includes the cover page, and the Appendices thereto does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representation must not be relied upon.

The information set forth herein has been obtained from the District and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The Underwriters have provided the following sentence for inclusion in the Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with 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 information and expressions of opinion contained 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 affairs of the District or other matters described herein since the date hereof. See "APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM – PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE OF INFORMATION" for a description of the undertakings of the Texas Education Agency ("TEA") and the District, respectively, to provide certain information on a continuing basis.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE SEC 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 THEREOF.

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

Neither the District, the Underwriters, nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its Book-Entry-Only System or the affairs of the Texas Education Agency described under "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM".

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 or constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

NEITHER THE SEC NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THE BONDS OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENSE.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT .... The McAllen Independent School District (the "District") is a political subdivision located in Hidalgo County, Texas. 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 administrator of the District. Support services are supplied by consultants and advisors. For more information regarding the District, see "Appendix A – General Information Regarding the District" and "Appendix B – McAllen Independent School District Annual Financial and Compliance Report."

THE BONDS .... The District is issuing its $96,205,000 Unlimited Tax School Building Bonds, Series 2026 (the "Bonds"). The Bonds mature on February 15 in each of the years identified in the table appearing on page ii hereof.

PAYMENT OF INTEREST......... Interest on the Bonds accrues from the Delivery Date, and is payable on February 15, 2027 and each August 15 and February 15 of each year thereafter, until stated maturity or upon prior redemption (see "THE BONDS – Description of the Bonds"). Interest on the Bonds will be calculated on the basis of a 360-day year consisting of twelve 30-day months

AUTHORITY FOR ISSUANCE .. The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), the election held in the District on May 2, 2026, and an order (the "Bond Order") adopted by the Board of Trustees of the District (the "Board") on June 23, 2026 authorizing the issuance of the Bonds. As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain authorized officials of the District (each, a "Pricing Officer") to execute an approval certificate (the "Approval Certificate" and, together with the Bond Order, the "Order"), which includes the final sales terms for the Bonds (see "THE BONDS – Authority for Issuance"). A Pricing Officer executed the Approval Certificate on August 11, 2026.

SECURITY FOR THE BONDS ... The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. Additionally, conditional approval has been received for the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas which guarantee will automatically become effective when the Attorney General of Texas approves the Bonds (see "APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

PURPOSE............................... Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, modernizing, expanding, upgrading, updating, acquiring, and equipping school facilities, the purchase of buses and vehicles, and the retrofitting of buses and vehicles, and (ii) paying the costs of issuing the Bonds. (see "PLAN OF FINANCE – Use of Bond Proceeds").

PERMANENT SCHOOL FUND GUARANTEE .... The District has received conditional approval for the Bonds to be guaranteed by the Permanent School Fund Guarantee Program of the State of Texas (see APPENDIX C – "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").

REDEMPTION .... The District reserves the right to redeem the Bonds maturing on and after February 15, 2037 in whole or in part, in principal amounts 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 as further described herein (see "THE BONDS – Optional Redemption" herein).

The Bonds Maturing on February 15, 2056 (the "Term Bonds") are subject to mandatory sinking fund redemption in part prior to maturity on the dates and in the amounts described herein under (see "THE BONDS – Mandatory Redemption of the Bonds").

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

RATINGS .... The Bonds have been rated "Aa2" by Moody's Investors Services, Inc ("Moody's") without regard to credit enhancement and "AAA" by Moody's by virtue of the guarantee of the corpus of the Permanent School Fund of the State of Texas (see "OTHER INFORMATION - Ratings" and "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM")

BOOK – ENTRY – ONLY SYSTEM .... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD .... The District has never defaulted in payment of its tax supported debt.

LEGAL OPINION .... Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Norton Rose Fulbright US LLP, Austin, Texas, as Bond Counsel to the District.

DELIVERY .... When issued, anticipated on or about September 8, 2026.

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SELECTED FINANCIAL INFORMATION [(1)]

Fiscal Year Ended 6-30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year [(3)]	Ratio Unlimited Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2022	148,750	$ 8,268,025,251	55,583	$ 45,220,000	0.55%	304
2023	149,718	8,945,044,301	59,746	40,045,000	0.45%	267
2024	150,638	8,935,909,800	59,320	34,705,000	0.39%	230
2025	151,534	8,718,117,016	57,532	50,526,000	0.58%	333
2026	151,534 [(2)]	8,943,878,588	59,022	18,656,000 [(4)]	0.21%	123

[(1)] Source: Texas Comptroller's Office – Property Tax Reports, District's ACFR, Hidalgo County Appraisal District, and the Texas Municipal Advisory Council.
[(2)] Kept consistent at 2025 levels.
[(3)] Includes maintenance & operations limited tax debt and interest & sinking fund unlimited tax debt.
[(4)] FYE 2026 McAllen ISD did not have I&S debt outstanding. The 2026 Bonds do not close until September 8, 2026, and are therefore not reflected in this number.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY [(1)]

	Fiscal Year Ended June 30,				
	2025	2024	2023	2022	2021
Beginning Balance	$ 145,853,587	$ 134,836,211	$ 149,933,573	$ 107,594,997	$ 97,700,231
Total Revenues	260,340,357	258,927,211	249,075,179	248,057,939	245,454,815
Total Expenditures	256,018,020	249,019,119	254,927,738	204,599,057	240,909,414
Other Sources (Uses)	2,029,443	721,679	(9,244,803)	(1,120,306)	5,349,365
Changes in Fund Balances	6,351,780	10,629,771	(15,097,362)	42,338,576	9,894,766
Prior Year Adjustment	(11,930)	387,605	-	-	-
Ending Balance	$ 152,193,437	$ 145,853,587	$ 134,836,211	$ 149,933,573	$ 107,594,997

Source: District's audited financial statements.
[(1)] The District anticipates its General Fund balance for its fiscal year ending June 30, 2026 to be approximately $118,877,203 (unaudited). The anticipated $33.3 million decrease in the General Fund balance from fiscal year ending 2025 to 2026 is in line with the budget that the District adopted for its fiscal year ending June 30, 2026. The budgeted reduction included: the final $15 million payment of the "McAllen Independent School District Qualified School Construction Notes, Taxable Series 2011" on February 15, 2026; a planned, one-time expenditure of approximately $10 million for facility improvements, employee stipends, equipment, technology purchases, and transportation expenses; approximately $4 million for school programs; and approximately $3 million for miscellaneous purchase orders. Of the approximately $118 million (unaudited) ending General Fund balance for fiscal year 2026, the unassigned balance is approximately $95 million (unaudited), which reflects approximately 137 days of operations.

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DISTRICT ADMINISTRATION

ELECTED OFFICIALS

Board of Trustees	Term Expires	Length of Service	Occupation
Lucia Regalado President	2027	3 Years	Attorney
Robert J. Carreon Vice President	2029	1 Year	Vice-President of Public Affairs
Roberto A. Haddad Secretary	2029	1 Year	Vice President & Counsel for Government Affairs and Policy
Erica de la Garza-Lopez Member	2027	7 Years	Real Estate Broker and Property Tax Consultant
Dr. Elizabeth Kittleman Member	2027	3 Years	Educator
Sofia M. Peña Member	2029	5 Years	Program Manager
Aaron D. Rivera Member	2027	3 Years	Attorney

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service With the District
Dr. Rene Gutierrez	Superintendent of Schools	3 Years
Lorena Garcia	Deputy Superintendent for Business and Operations	24 Years
Joel Garcia, CPM	Chief Financial Officer	2 Years

CONSULTANTS AND ADVISORS

Auditors .... Burton McCumber & Longoria, LLP
.... McAllen, Texas

Financial Advisor .... Estrada Hinojosa
.... Edinburg, Texas

Bond Counsel .... Norton Rose Fulbright US LLP
.... Austin, Texas

For additional information regarding the District, please contact:

McAllen ISD		Estrada Hinojosa
Dr. Rene Gutierrez Superintendent of Schools	or	Dr. Miguel de los Santos Financial Advisor
Joel Garcia, CPM Chief Financial Officer		Dr. Angel Magallanes Financial Advisor
2000 N. 23rd St. McAllen, Texas 78501 (956) 618-6016		1508 S. Lone Star Way, Suite 1 Edinburg, Texas 78539 (956) 393-7606

OFFICIAL STATEMENT

RELATING TO

$96,205,000
MCALLEN INDEPENDENT SCHOOL DISTRICT
(A Political Subdivision of the State of Texas Located in Hidalgo County)
Unlimited Tax School Building Bonds,
Series 2026

INTRODUCTION

This Official Statement and the Appendices hereto, provide certain information regarding the issuance of the $96,205,000 McAllen Independent School District Unlimited Tax School Building Bonds, Series 2026 (the "Bonds"). Capitalized terms used in this Official Statement not otherwise defined herein have the same meanings assigned to such terms in the order (the "Bond Order") adopted on June 23, 2026 by the Board of Trustees (the "Board") of the McAllen Independent School District (the "District" or the "Issuer").

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

There follows in this Official Statement descriptions of the Bonds and certain information regarding the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the District's Financial Advisor, Estrada Hinojosa, Edinburg, Texas, upon payment of reasonable copying, handling and delivery 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 will be deposited with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access ("EMMA") system. See "OTHER INFORMATION - Continuing Disclosure of Information" for a description of the District's undertaking to provide certain information on a continuing basis.

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

The District is approximately 34 square miles in area in Hidalgo County, Texas and encompasses the City of McAllen. See Appendix A – "General Information Regarding the District".

PLAN OF FINANCE

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purposes of (i) designing, constructing, renovating, improving, modernizing, expanding, upgrading, updating, acquiring, and equipping school facilities, the purchase of buses and vehicles, and the retrofitting of buses and vehicles, and (ii) paying the costs of issuing the Bonds.

THE BONDS

DESCRIPTION OF THE BONDS. . . The Bonds will be issued in denominations of $5,000 or any integral multiple thereof. Interest on the Bonds will accrue from the Delivery Date and will be payable on February 15 and August 15 of each year commencing February 15, 2027, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months.

The definitive Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York, ("DTC"), pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof**. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

If the date for any payment due on any Bond is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city in which the designated corporate trust office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not such a day. The payment on such date has the same force and effect as if made on the original date payment was due.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, including particularly Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended ("Chapter 1371"), an election held within the McAllen Independent School District (the "District") on May 2, 2026 (the "Election"), and the Bond Order. As permitted by Chapter 1371, the Board, in the Bond Order, delegated the authority to certain authorized officials of the District (each, a

"Pricing Officer") to execute an approval certificate (the "Approval Certificate" and, together with the Bond Order, the "Order"), which includes the final sales terms for the Bonds. A Pricing Officer executed the Approval Certificate on August 11, 2026.

SECURITY AND SOURCE OF PAYMENT . . . All taxable property within the District is subject to a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, sufficient to provide for the payment of principal of and interest on all Bonds. **Additionally, the District has made an application for the payment of the principal of and interest on the Bonds to be guaranteed by the Permanent School Fund of Texas which guarantee will automatically become effective upon approval of the Bonds by the Texas Attorney General.**

PERMANENT SCHOOL FUND GUARANTEE. . . In connection with the sale of the Bonds, the District has received conditional approval for the bonds to be guaranteed by the Permanent School Fund Guarantee of the State of Texas. Subject to meeting certain conditions discussed under the heading "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein, the Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund upon approval of the Bonds by the Attorney General. In the event of default, registered owners will receive all payments due from the corpus of the Permanent School Fund.

PERFECTION OF SECURITY INTEREST. . .Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the ad valorem tax pledge thereto and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at anytime while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of ad valorem taxes are to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the District agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

TAX RATE LIMITATION . . . There is no legal limitation on the tax rate to pay the Bonds; provided, however, with respect to "new debt", the District must demonstrate to the Attorney General of Texas that it has the ability to pay all "new debt" with a debt service tax not to exceed $0.50 per $100 assessed valuation. The Bonds are "new debt" and are subject to this limitation. See "TAX INFORMATION – Tax Rate Limitations" herein.

OPTIONAL REDEMPTION OF THE BONDS . . . The District reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2037, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2036, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Bonds of any maturity are to be redeemed, the District shall determine the amounts of each maturity or maturities to be redeemed and shall direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select by lot the Bonds, or portions thereof, within such maturity or maturities to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY REDEMPTION OF THE BONDS . . . The Bonds maturing on February 15, 2056 (the "Term Bonds") are subject to mandatory sinking fund redemption in the principal amounts, and at the price of par plus accrued interest to the redemption date, on February 15 of each year shown below:

$24,730,000
Term Bonds
Stated to Mature
on February 15, 2056

Year		Principal Amount
2052		$ 4,475,000
2053		4,700,000
2054		4,935,000
2055		5,180,000
2056	(maturity)	5,440,000

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by the lot the numbers of the Term Bonds to be redeemed on the next following February 15 from moneys set aside for that purpose in the Interest and Sinking fund (as defined in the Order). Any Term Bonds not selected for prior redemption shall be paid on the date of their stated maturity.

The principal amount of Term Bonds required to be redeemed on any mandatory redemption date 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 Bonds which, at least fifty (50) days prior to a mandatory redemption date (1) shall have been acquired by the District and delivered to the Paying Agent/registrar for cancellation (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with money in the Bond Fund, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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, the Financial Advisor, and Underwriters 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.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered certificate will be issued for each stated maturity of the Bonds, in the aggregate principal amount of such respective issue, 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating from S&P Global Ratings 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 system for the Bonds is discontinued.

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

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

Redemption, principal, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is 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 Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, security certificates for each maturity of the Bonds are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates for each maturity of the Bonds will be printed and delivered and the Bonds will be subject the transfer, exchange and registration provisions as set forth in the Order and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

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, payment or notices that are to be given to registered owners under the Order will be given only to DTC.

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

In the event the Book-Entry-Only System should be discontinued, interest on the Bonds will be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest will be paid (i) by check sent United States mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal and Maturity Amount of the Bonds will be paid to the registered owner at the stated maturity or, with respect to the Bonds, upon prior redemption, upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of principal and Maturity Amount of the Bonds and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System," above.

SUCCESSOR PAYING AGENT/REGISTRAR . . . The District reserves 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 shall be a bank, a 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.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the District nor the Paying Agent/Registrar will be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer will not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

MUTILATED, DESTROYED, LOST, OR STOLEN BONDS. . . The District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds to the Paying Agent, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and Paying Agent of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

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

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for purposes of applying any limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that, the District's right to redeem Bonds defeased to stated maturity is not extinguished if the District has reserved 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 stated 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 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 affected thereby, amend, add to, or rescind any of the provisions of the Order; except that, without the consent of the registered owners of all of the Bonds affected, 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 thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

BONDHOLDERS' REMEDIES . . . The Order does not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due or the State fails to honor the Permanent School Fund Guarantee as hereinafter discussed, or the District defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Order, the registered owners may seek a writ of mandamus to compel the District or District officials to carry out the 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, as well as to enforce the rights of payment under the Permanent School Fund Guarantee. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia* 197 S.W. 3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Chapter 1371, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing the issuance of the Bonds. Notwithstanding its reliance upon the provisions of Chapter 1371 in connection with the issuance of the Bonds (as further described under the caption "THE BONDS – Authority for Issuance"), the District has not waived the defense of sovereign immunity with respect thereto. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages outside of Chapter 1371, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond holders 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permits the exercise of judicial discretion.

USE OF BOND PROCEEDS . . . Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources:	
Par Amount	$ 96,205,000.00
Premium	4,733,445.60
Total Sources of Funds	$100,938,445.60
Uses:	
Deposit to Construction Fund	$100,000,000.00
Costs of Issuance	442,698.85
Underwriters' Discount	495,746.75
Total Uses of Funds	$100,938,445.60

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The District has submitted an application to the Texas Education Agency, in connection with the sale of the Bonds, for the payment of the Bonds to be guaranteed under the Permanent School Fund Guarantee Program pursuant to Chapter 45, Subchapter C of the Texas Education Code. Subject to satisfying certain conditions, the payment of the Bonds will be guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default, registered owners will receive all payments due on the Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment.

See "APPENDIX C – THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix C is incorporated herein and made a part hereof for all purposes.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

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

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

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

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

Overview… The following language constitutes only a summary of the public school finance system as it is currently structured. The information contained under the captions "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" and "TAX RATE LIMITATIONS" is subject to change, and reflects only 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 for school districts is derived from collections of ad valorem taxes levied on property located within each school district's boundaries. School districts are authorized to levy two types of property taxes: (i) a maintenance and operations ("M&O") tax to pay current expenses and (ii) an interest and sinking fund ("I&S") tax to pay debt service on bonds. School districts are prohibited from levying an M&O tax rate for the purpose of creating a surplus in M&O tax revenues to pay the district's debt service. School districts are required to demonstrate their ability to pay debt service on outstanding bonded indebtedness through the levy of an I&S tax at a rate not to exceed $0.50 per $100 of taxable value at the time bonds are issued. Once bonds are issued, however, school districts generally may levy an I&S tax sufficient to pay debt service on such bonds unlimited as to rate or amount. See "TAX RATE LIMITATIONS - I&S Tax Rate Limitations" herein. Because property values vary widely among school districts, the amount of local funding generated by school districts with the same I&S tax rate and M&O tax rate is subject to wide variation; however, the public school finance funding formulas are designed to generally equalize local funding generated by a school district's M&O tax rate.

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

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

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

State Compression Percentage. The State Compression Percentage (the "SCP") is a statutorily defined percentage of the rate of $1.00 per $100 that is used to determine a school district's Maximum Compressed Tax Rate (described below). The SCP is the lesser of three alternative calculations: (1) 93% or a 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 SCP is set at 63.22%.

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

One Tax Rates of school districts as property values increase. For the 2025-2026 school year, the Legislature reduced the maximum MCR, establishing $0.6322 as the maximum rate and $0.5689 as the floor.

In calculating and making available school districts' MCRs for the 2025-2026 school year, the TEA shall calculate and make available the rates as if the increase in the residence homestead exemption under Section 1-b(c), Article VIII, Texas Constitution, as proposed by the 89th Legislature, Regular Session, 2025, took effect. Such calculation for the 2025-2026 school year expires September 1, 2026. At a Statewide election held on November 4, 2025, voters approved increases in the residential homestead exemptions as follows: (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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 MCALLEN INDEPENDENT SCHOOL DISTRICT

For the 2026-2027 fiscal year, the District was not designated as an "excess local revenue" district by the TEA. Accordingly, the District has not been required to exercise one of the wealth equalization options permitted under applicable State law. As a district with local revenue less than the maximum permitted level, the District may benefit in the future by agreeing to accept taxable property or funding assistance from, or agreeing to consolidate with, a property-rich district to enable such district to reduce its wealth per student to the permitted level.

A district's "excess local 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 properly to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

AD VALOREM PROPERTY TAXATION

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

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property. Unless extended by the State Legislature through December 31, 2026, an appraisal district is prohibited from increasing the appraised value of real property during the 2026 tax year on certain non-homestead properties (the "Subjected Property") whose appraised values are not more than $5.32 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the Subjected Property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the Subjected Property for the preceding tax year; (b) the appraised value of the Subjected Property for the preceding tax year; and (c) the market value of all new improvements to the Subjected Property. The maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value.

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

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

STATE MANDATED HOMESTEAD EXEMPTIONS . . . State law grants, with respect to each school district in the State, (1) a $140,000 exemption of the appraised value of all homesteads, (2) a $60,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions" for a description of additional legislation concerning the required homestead exemption including an amendment to the Texas Constitution to increase the aforementioned general residential homestead exemption for school districts from $100,000 to $140,000 and the increase in the State mandated homestead exemption of persons sixty-five (65) years of age or older and the disabled from $10,000 to $60,000.

See "AD VALOREM PROPERTY TAXATION – Table 1" for the reduction in taxable valuation, if any, attributable to State mandated homestead exemptions.

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

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption that was granted in tax year 2022 through December 31, 2027.

See "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – 2025 Legislative Sessions" for a description of SB 4 and the November 4, 2025 statewide election at which voters approved an amendment to the Texas Constitution to increase the general residential homestead exemption for school districts from $100,000 to $140,000.

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

PERSONAL PROPERTY . . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property. At a Statewide election held on November 4, 2025, voters approved a constitutional amendment that will provide a person to an exemption from taxation by a taxing unit of $125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of $125,000, regardless of where the property is located in the taxing unit.

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

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

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

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

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

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

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

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

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

For a discussion of how the various exemptions described above are applied by the District, see "AD VALOREM TAX PROCEDURES - The Tax Code as Applied to the District" herein.

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

Owners of certain property (being (i) commercial real and personal property, (ii) real and personal property of utilities, (iii) industrial and manufacturing real and personal property, and (iv) multifamily residential real property) with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. For the 2026 tax year, the minimum eligibility amount was set at $62,883,169 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%) of the delinquent tax, penalty and interest collected, 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 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. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM PROPERTY TAXATION - Temporary Exemption for Qualified Property Damaged by a Disaster" for further information related to a discussion of the applicability of this section of the Property Tax Code.

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

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

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

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

TAX RATE LIMITATIONS

M&O Tax Rate Limitations . . . The District is authorized to levy an M&O tax rate pursuant to the approval of the voters of the District at an election held on May 23, 1961 in accordance with the provisions of Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended.

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

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

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

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

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

A school district is required to adopt its annual tax rate before the later of September 30 or the sixtieth (60th) day after the date the certified appraisal roll is received by the taxing unit, and a failure to adopt a tax rate by such required date will result in the tax rate for the taxing unit being the lower of the "effective tax rate" calculated for that tax year or the tax rate adopted by the taxing unit for the preceding tax year. "Effective tax rate" means the rate that will produce the prior year's total tax levy from the current year's total taxable values, adjusted such that lost values are not included in the calculation of the prior year's taxable values and new values are not included in the current year's taxable values.

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

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

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

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

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

THE PROPERTY TAX CODE AS APPLIED TO THE DISTRICT . . . In addition to the State mandated $140,000 general residence homestead exemption (increased from $100,000 to $140,000 effective for tax years 2025 and thereafter), the District grants an exemption to the appraised value of the residence homesteads of disabled or persons 65 years of age or older of $60,000 (increased from $10,000 to $60,000 effective for tax years 2025 and thereafter). A person qualifying for both of these exemptions may only claim one.

The District grants a state mandated property tax exemption for disabled veterans.

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

The District does not tax non-business personal property.

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

The District grants a freeport exemption.

The District has taken action to tax Goods-in-Transit.

The District does not participate in a TIRZ.

The District does not offer tax limitations under Chapter 313, Texas Tax Code, as amended.

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TABLE 1- VALUATIONS, EXEMPTIONS AND TAX SUPPORTED DEBT

Tax Year 2026 Market Valuation Established by Hidalgo County Appraisal District		$ 14,699,516,055
Less Exemptions/Reductions at 100% Market Value:		
Residential Homestead	$ 2,829,006,903	
Over 65/Disabled	335,794,101	
Disabled/Deceased Veterans	70,197,868	
Freeport Exemption	99,101,102	
10% Per Year Cap on Homestead	411,820,327	
Charitable	9,195,222	
Exempt Property	1,211,084,426	
Productivity Loss	159,735,020	
Other	284,596,847	5,410,531,816
Tax Year 2026 Taxable Assessed Valuation		$ 9,288,984,239
Deduct: Loss of Value for Over 65 Frozen Accounts		$ 428,948,417
2026 Taxable Assessed Valuation (after freeze)		$ 8,860,035,822
Debt Payable from Ad Valorem Taxes As of September 8, 2026		
Unlimited Tax Debt:		
Unlimited Tax Building Bonds, Series 2026 (the "Bonds")	$ 96,205,000	$ 96,205,000
Maintenance Tax Notes:		
Maintenance Tax Qualified Sch Construction Notes, Taxable Series 2012	$ 66,000	
Maintenance Tax Notes, Series 2020	18,590,000	$ 18,656,000
Net Debt Payable from Ad Valorem Taxes		$ 114,861,000
Interest and Sinking Fund As of June 30, 2026		$ 4,418,217 [1]
Ratio Tax Supported Debt to Taxable Assessed Valuation		1.30%

2026 Estimated Population		151,534 [2]
Per Capita Taxable Assessed Valuation	$	58,469
Per Capital Debt Payable from Ad Valorem Taxes	$	758

[1] Unaudited.
[2] Kept consistent at 2025 levels.

TABLE 2 – OTHER OBLIGATIONS[1]

Capital Leases

Fiscal Year Ending 30-Jun	Lease Payable Principal	Lease Payable Interest	Total Requirements
2026	$ 1,359,713	$ 285,276	$ 1,644,989
2027	1,089,449	134,906	1,224,355
Total	$ 2,449,162	$ 420,182	$ 2,869,344

Subscription Based Information Technology Arrangement (SBITA)

Fiscal Year Ending 30-Jun	SBITA Payable Principal	SBITA Payable Interest	Total Requirements
2026	$ 717,949	$ 36,944	$ 754,893
2027	119,510	19,020	138,530
2028	104,248	11,783	116,031
2029	109,982	6,049	116,031
Total	$ 1,051,689	$ 73,796	$ 1,125,485

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(1) Source: District's Audited Financial Statements

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TABLE 3 - TAXABLE ASSESSED VALUATIONS BY CATEGORY [1]

	Taxable Appraised Value For Fiscal Year Ended June 30,					
	2027		2026		2025	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 7,434,673,743	49.58%	$ 7,141,546,538	49.57%	$ 6,585,306,361	49.61%
Real, Residential, Multi-Family	766,292,934	5.21%	796,421,889	5.53%	682,496,543	5.14%
Real, Vacant Lots/Tracts	315,159,860	2.14%	255,727,260	1.78%	239,380,043	1.80%
Real, Acreage (Land Only)	160,675,672	1.09%	162,139,629	1.13%	168,944,764	1.27%
Real, Farm and Ranch Improvements	45,958,236	0.31%	45,151,948	0.40%	51,589,879	0.39%
Real, Commercial & Industrial	3,379,165,003	22.99%	3,477,883,902	24.14%	3,103,088,190	23.38%
Real, Minerals and Oil	1,480,450	0.01%	1,621,440	0.01%	1,741,672	0.01%
Real, Tangible Personal, Utilities	124,960,512	0.85%	119,693,568	0.83%	115,185,623	0.87%
Tangible Personal, Commercial	1,169,375,480	7.96%	1,129,842,549	7.84%	1,094,273,793	8.24%
Tangible Personal, Other	1,231,162,299	8.38%	1,196,680,039	8.31%	1,159,206,280	8.73%
Real Inventory	5,288,174	0.04%	7,860,497	0.05%	4,930,922	0.04%
Special Inventory	65,323,692	0.44%	71,068,282	0.49%	67,972,269	0.51%
Total Appraised Value Before Exemptions	$ 14,699,516,055	100.00%	$ 14,405,637,541	100.00%	$ 13,274,116,339	100.00%
Less: Total Exemptions/Reductions	(5,839,480,233)		(5,461,758,953)		(4,555,999,323)	
Taxable Assessed Valuation	$ 8,860,035,822		$ 8,943,878,588		$ 8,718,117,016	

	Taxable Appraised Value For Fiscal Year Ended June 30,			
	2024		2023	
Category	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	$ 6,286,102,032	53.52%	$ 5,679,387,936	52.75%
Real, Residential, Multi-Family	676,732,458	5.76%	601,608,843	5.59%
Real, Vacant Lots/Tracts	236,246,401	2.01%	205,505,553	1.91%
Real, Acreage (Land Only)	173,006,895	1.47%	180,884,376	1.68%
Non-Qualified Land	49,672,469	0.42%	47,655,319	0.44%
Real, Farm and Ranch Improvements	3,055,278,145	26.01%	2,918,650,789	27.11%
Real, Commercial & Industrial	2,283,794	0.02%	1,394,097	0.01%
Real and Tangible Personal, Utilities	107,706,652	0.92%	100,116,332	0.93%
Commercial, Personal	1,061,220,661	9.03%	942,199,418	8.75%
Industrial, Personal	20,722,269	0.18%	18,591,440	0.17%
Special Inventory	5,959,089	0.05%	8,335,600	0.08%
Residential; Inventory	71,155,314	0.61%	62,694,440	0.58%
Total Appraised Value Before Exemptions	$ 11,746,086,179	100.00%	$ 10,767,024,143	100.00%
Less: Total Exemptions/Reductions	(2,810,176,379)		(1,821,979,842)	
Taxable Assessed Valuation	$ 8,935,909,800		$ 8,945,044,301	

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[1] Source: Hidalgo County Appraisal District

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TABLE 4 - VALUATION AND TAX SUPPORTED DEBT HISTORY[(1)]

Fiscal Year Ended 6-30	Estimated Population		Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Supported Debt Outstanding at End of Year [(3)]		Ratio Unlimited Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2018	145,425		$ 7,093,821,980	48,780	$ 66,320,000		0.93%	456
2019	149,161		7,227,023,614	48,451	60,180,000		0.83%	403
2020	150,884		7,573,901,565	50,197	55,860,000		0.74%	370
2021	149,447		7,893,279,479	52,817	50,155,000		0.64%	336
2022	148,750		8,268,025,251	55,583	45,220,000		0.55%	304
2023	149,718		8,945,044,301	59,746	40,045,000		0.45%	267
2024	150,638		8,935,909,800	59,320	34,705,000		0.39%	230
2025	151,534		8,718,117,016	57,532	50,526,000		0.58%	333
2026	151,534	(2)	8,943,878,588	59,022	18,656,000	(4)	0.21%	123
2027	151,534	(2)	8,860,035,822	58,469	103,975,000		1.17%	686

(1) Source: Texas Comptroller's Office – Property Tax Reports, District's ACFR, Hidalgo County Appraisal District, and the Texas Municipal Advisory Council.
(2) Kept consistent at 2025 levels.
(3) Includes maintenance & operations limited tax debt and interest & sinking fund unlimited tax debt.
(4) FYE 2026 McAllen ISD did not have I&S debt outstanding. The 2026 Bonds do not close until September 8, 2026, and are therefore not reflected in this number.

TABLE 5 - TAX RATE, LEVY AND COLLECTION HISTORY[(1)]

Fiscal Year End 6-30	Tax Year 6-30	Tax Rate	Local Maintenance		I&S Fund [(2)]	Total Tax Levy		% Current Collections	% Total Collections
2018	2017	$ 1.1550	$ 1.1550	(3)	$ -	$ 80,751,497		96.93%	99.81%
2019	2018	1.1550	1.1550	(4)	-	82,720,218		97.51%	99.77%
2020	2019	1.1528	1.0586	(5)	0.0942	86,853,742		96.93%	99.64%
2021	2020	1.1386	1.0450		0.0936	88,401,242		97.25%	99.63%
2022	2021	1.1370	1.0486		0.0884	92,531,724		97.73%	99.49%
2023	2022	1.0964	1.0206		0.0758	96,488,102		97.43%	99.19%
2024	2023	1.0011	0.8448	(4)	0.1563	85,917,058		97.30%	98.66%
2025	2024	0.9966	0.8350		0.1616	89,162,822		96.69%	98.41%
2026	2025	0.9322	0.8022		0.1300	81,006,064	(6)	In process of collections	
2027	2026	0.9322	0.7954		0.1368	80,246,688	(6)	In process of collections	

(1) Source: The District's Audited Financial Statements
(2) The District did not assess an interest and sinking fund tax for Fiscal Years 2016/17, 2017/18, and 2018/19; however, the District used unassigned fund balance available as of the end of Fiscal Years 2015/16, 2016/2017, and 2017/18, and other lawfully available funds to pay debt service on its unlimited tax debt that was due in Fiscal Years 2016/2017, 2017/18, and 2018/19.
(3) As permitted under Section 26.08(a) of the Texas Tax Code, the District its local maintenance tax rate of $1.155 for FY 2016/17 through FY 2018/19 without conducting a rollback election. Section 26.08(a)provides an exception to the rollback election requirement for certain natural disasters. This exception applies only for the year following the year in which a natural disaster occurs.
(4) The District conducted a successful tax ratification election September 8, 2018 and November 7, 2023.
(5) The reduction in the District's maintenance and operations rate is a function of House Bill 3, adopted by the Texas Legislature in June 2019.
(6) Estimate.

TABLE 6 - TEN LARGEST TAXPAYERS (1)

Taxpayer	Nature of Business	2026 Taxable Assessed Valuation	% of Taxable Assessed Valuation
Simon Property Group-McAllen No 2	Shopping Center/Mall	$160,092,113	1.81%
AEP Texas Inc-27H	Electric Utility Power Plant	86,137,240	0.97%
Rio Grande Regional Hospital	Hospital	75,381,522	0.85%
Universal Health Services	Hospital	65,001,076	0.73%
La Plaza Mall LLC	Shopping Center/Mall	57,242,301	0.65%
Tomoka 26 Palms LLC & CTO Realty	Shopping Center/Mall	55,723,186	0.63%
GE Engine Services LLC	Aerospace	35,551,014	0.38%
S P Plaza LC	Commercial Building	33,214,932	0.37%
Metro Fibernet LLC	Telecommunication Provider	31,972,128	0.36%
KRCX WRI Holdings LLC	Commercial Building	31,748,000	0.36%
		$ 632,063,512	6.80%

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(1) Source: Hidalgo County Appraisal District

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TABLE 7 – TAX SUPPORTED DEBT SERVICE REQUIREMENTS [(1)]

Fiscal Year Ended	Outstanding Unlimited Tax Debt [(2)]			The Bonds			Total General Obligation Debt Service Requirment			% of Principal
6/30	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Retired
2027	$ -	$ -	$ -	$ 9,750,000	$ 2,097,803	$ 11,847,803	$ 9,750,000	$ 2,097,803	$ 11,847,803	
2028	-	-	-	1,385,000	4,322,750	5,707,750	1,385,000	4,322,750	5,707,750	
2029	-	-	-	1,455,000	4,253,500	5,708,500	1,455,000	4,253,500	5,708,500	
2030	-	-	-	1,530,000	4,180,750	5,710,750	1,530,000	4,180,750	5,710,750	
2031	-	-	-	1,605,000	4,104,250	5,709,250	1,605,000	4,104,250	5,709,250	16.35%
2032	-	-	-	1,685,000	4,024,000	5,709,000	1,685,000	4,024,000	5,709,000	
2033	-	-	-	1,770,000	3,939,750	5,709,750	1,770,000	3,939,750	5,709,750	
2034	-	-	-	1,860,000	3,851,250	5,711,250	1,860,000	3,851,250	5,711,250	
2035	-	-	-	1,950,000	3,758,250	5,708,250	1,950,000	3,758,250	5,708,250	
2036	-	-	-	2,050,000	3,660,750	5,710,750	2,050,000	3,660,750	5,710,750	26.03%
2037	-	-	-	2,150,000	3,558,250	5,708,250	2,150,000	3,558,250	5,708,250	
2038	-	-	-	2,260,000	3,450,750	5,710,750	2,260,000	3,450,750	5,710,750	
2039	-	-	-	2,370,000	3,337,750	5,707,750	2,370,000	3,337,750	5,707,750	
2040	-	-	-	2,490,000	3,219,250	5,709,250	2,490,000	3,219,250	5,709,250	
2041	-	-	-	2,615,000	3,094,750	5,709,750	2,615,000	3,094,750	5,709,750	38.38%
2042	-	-	-	2,745,000	2,964,000	5,709,000	2,745,000	2,964,000	5,709,000	
2043	-	-	-	2,885,000	2,826,750	5,711,750	2,885,000	2,826,750	5,711,750	
2044	-	-	-	3,030,000	2,682,500	5,712,500	3,030,000	2,682,500	5,712,500	
2045	-	-	-	3,180,000	2,531,000	5,711,000	3,180,000	2,531,000	5,711,000	
2046	-	-	-	3,340,000	2,372,000	5,712,000	3,340,000	2,372,000	5,712,000	54.16%
2047	-	-	-	3,505,000	2,205,000	5,710,000	3,505,000	2,205,000	5,710,000	
2048	-	-	-	3,680,000	2,029,750	5,709,750	3,680,000	2,029,750	5,709,750	
2049	-	-	-	3,865,000	1,845,750	5,710,750	3,865,000	1,845,750	5,710,750	
2050	-	-	-	4,060,000	1,652,500	5,712,500	4,060,000	1,652,500	5,712,500	
2051	-	-	-	4,260,000	1,449,500	5,709,500	4,260,000	1,449,500	5,709,500	74.29%
2052	-	-	-	4,475,000	1,236,500	5,711,500	4,475,000	1,236,500	5,711,500	
2053	-	-	-	4,700,000	1,012,750	5,712,750	4,700,000	1,012,750	5,712,750	
2054	-	-	-	4,935,000	777,750	5,712,750	4,935,000	777,750	5,712,750	
2055	-	-	-	5,180,000	531,000	5,711,000	5,180,000	531,000	5,711,000	
2056	-	-	-	5,440,000	272,000	5,712,000	5,440,000	272,000	5,712,000	100.00%
	$ -	$ -	$ -	$ 96,205,000	$ 81,242,553	$ 177,447,553	$ 96,205,000	$ 81,242,553	$ 177,447,553	

[(1)] Source: The Municipal Advisory Council of Texas
[(2)] 2026 Cash Defeasance (closed May 13, 2026) defeased remaining maturities of Series 2020A Refunding Bonds and Taxable Series 2020B Refunding Bonds.

TABLE 8 – ESTIMATED TAX ADEQUACY

Estimated Tax Supported Debt Service Requirements, Fiscal Year Ending June 30, 2027		$	11,847,803
Interest and Sinking Fund Balance as of June 30, 2026	$ 4,418,217		
Other Lawful Sources	-		
Estimated Delinquent Tax Collections	325,205		
Anticipated Levy of Debt I&S rate $.1368 Tax at 96% collection rate	11,635,708	$	16,379,130
Estimated Interest and Sinking Fund Balance, at June 30, 2027		$	4,531,326

(1) Source: Districts ACFR & The Municipal Advisory Council of Texas

TABLE 9 - AUTHORIZED BUT UNISSUED DEBT

On May 2, 2026, the District's voters authorized the District to issue $335,000,000 in unlimited ad valorem tax bonds (the "Election"). The District will apply proceeds of the Bonds (principal and certain allocated premium) in the aggregate amount of $100,000,000 toward voter authorized projects, leaving $235,000,000 in authorized but unissued bonds.

ANTICIPATED ISSUANCE OF UNLIMITED TAX DEBT . . . The District does not anticipate issuing additional ad valorem tax bonds within the remainder of calendar year 2026.

TABLE 10 - MAINTENANCE TAX SUPPORTED DEBT SERVICE REQUIREMENTS (1)

Fiscal Year Ended 6/30	Total Outstanding Principal	Total Outstanding Interest	Total Outstanding Total	Less; Subsidy (2)	Total Outstanding Limited Tax Debt Service Requirements
2027	$ 1,136,000	$ 817,699	$ 1,953,699	$ (1,319)	$ 1,952,380
2028	1,120,000	762,800	1,882,800	-	1,882,800
2029	1,180,000	706,800	1,886,800	-	1,886,800
2030	1,235,000	647,800	1,882,800	-	1,882,800
2031	1,300,000	586,050	1,886,050	-	1,886,050
2032	1,365,000	521,050	1,886,050	-	1,886,050
2033	1,435,000	452,800	1,887,800	-	1,887,800
2034	1,490,000	395,400	1,885,400	-	1,885,400
2035	1,550,000	335,800	1,885,800	-	1,885,800
2036	1,610,000	273,800	1,883,800	-	1,883,800
2037	1,675,000	209,400	1,884,400	-	1,884,400
2038	1,745,000	142,400	1,887,400	-	1,887,400
2039	1,815,000	72,600	1,887,600	-	1,887,600
	$ 18,656,000	$ 5,924,399	$ 24,580,399	$ (1,319)	$ 24,579,080

(1) Source: The Municipal Advisory Council of Texas.
(2) The District issued and currently receives Federal subsidy payments with respect to its $901,000 Maintenance Tax Qualified School Construction Notes, Taxable Series 2012 (Direct Pay to Issuer) (the "2012 Notes"). Certain automatic Federal spending reductions (the "Sequester") were put into effect on March 1, 2013. The Sequester includes a reduction in the amount of the Federal subsidy to be paid to issuers in connection with any qualified school construction bonds, including the District's 2011 Notes and 2012 Notes. The reduction is currently 5.7% (being the most recently announced rate of Sequester and effective as of October 1, 2020).

TABLE 11 – ESTIMATED OVERLAPPING DEBT STATEMENT OF THE DISTRICT [(1)]

Taxing Jurisdiction	Tax Year 26 Taxable Assessed Valuation	Total Tax Rate	Total Tax Debt As of 7/31/2026	Estimated % Applicable	District's Overlapping Tax Debt As of 7/31/2026	Authorized But Unissued Tax Debt as of 7/31/2026
McAllen ISD	$ 8,860,035,822	$ 0.9322	$ 18,656,000	100.00%	$ 18,656,000	$ 335,000,000
Edinburg, City of	7,581,844,162	0.6300	110,975,000	0.51%	565,973	-
Hidalgo Co	59,034,942,420	0.5750	410,610,000	14.40%	59,127,840	-
Hidalgo Co DD #1	65,471,854,458	0.1123	266,347,000	14.71%	39,179,644	189,690,000
McAllen, City of	14,224,645,632	0.4490	75,435,000	74.46%	56,168,901	-
Pharr, City of	4,932,022,182	0.4490	180,318,000	0.01%	18,032	-
South Texas College	59,393,635,972	0.1620	75,430,000	13.45%	10,145,335	-
Total Direct and Overlapping Tax Debt					$ 183,861,724	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation					2.08%	
Per Capita Overlapping Tax Debt					$ 1,213	

(1) Source: Hidalgo County Appraisal District & The Texas Municipal Advisory Council.

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FINANCIAL INFORMATION

TABLE 12 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended June 30,				
	2025	2024	2023	2022	2021
Revenues:					
Local and Intermediate Sources	$ 83,331,125	$ 83,053,814	$ 97,243,584	$ 96,881,249	$ 83,646,750
State Sources	152,930,261	148,181,964	121,760,994	123,949,691	138,989,204
Federal Sources	24,078,971	27,691,433	30,070,601	27,226,999	22,818,861
Total Revenues	$ 260,340,357	$ 258,927,211	$ 249,075,179	$ 248,057,939	$ 245,454,815
Expenditures:					
Instruction	$ 127,699,135	$ 125,008,549	$ 117,967,239	$ 83,119,893	$ 126,158,156
Instructional Resources and Media Services	3,322,702	3,476,410	3,512,435	3,400,534	3,562,915
Curriculum and Instructional Staff Dev.	4,152,845	4,003,877	4,664,116	4,156,623	4,376,282
Instructional and School Leadership	16,396,102	16,638,449	17,243,654	16,253,157	16,522,246
Guidance and Counseling	11,089,450	10,224,781	10,386,112	9,760,639	9,688,811
Social Work Services	1,881,194	2,040,365	2,212,414	1,982,513	1,871,743
Health Services	2,837,044	2,821,087	3,031,030	2,801,661	3,136,469
Student Transportation	6,393,584	5,126,657	5,938,201	5,493,541	3,590,057
Food Services	20,871,909	20,799,894	21,147,416	17,454,157	20,213,684
Extra-Curricular Activities	10,944,141	10,649,062	10,620,964	9,495,173	7,596,952
General Administration	7,793,335	7,603,041	8,644,234	7,769,056	7,899,451
Facilities Maintenance and Operations	22,305,909	21,357,473	21,462,099	20,768,591	20,372,590
Security and Monitoring Services	6,260,600	2,300,217	5,855,052	4,763,130	4,240,176
Data Processing Services	5,195,398	5,414,048	6,076,065	5,421,396	5,206,620
Ancillary Services	124,376	1,229,375	135,001	93,813	56,048
Debt Service:					
Principal on Long Term Debt	3,404,006	2,205,004	$ 1,655,020	$ 3,641,897	$ 3,056,039
Interest on Long Term Debt	2,281,312	1,857,659	1,811,081	1,909,421	1,934,319
Bond Issuance Cost and Fees	7,750	7,025	6,235	7,660	6,025
Capital Outlay					
Facilites Acquisition and Construction	$ 1,907,066	$ 5,332,746	$ 11,590,998	$ 5,331,933	$ 514,657
Intergovernmental:					
Payments to Juvenile Justice Alternative Ed. Prg.	40,000	20,000	40,000	40,000	-
Other Intergovernmental charges	1,110,162	903,400	928,372	934,269	906,174
Total Expenditures	$ 256,018,020	$ 249,019,119	$ 254,927,738	$ 204,599,057	$ 240,909,414
Excess (Deficiency) of Revenues Over (Under) Expenditures:	$ 4,322,337	$ 9,908,092	$ (5,852,559)	$ 43,458,882	$ 4,545,401
OTHER FINANCING SOURCES (USES):					
Sale of Real or Personal Property	2,164,477	667,604	208,733	242,383	2,343,239
Capital Leases	3,550,151	1,155,664	1,846,111	205,301	4,175,623
Transfers In	152,717	44,429	71,451	9,409	20,654
Transfers Out	(3,837,902)	(1,146,018)	(11,371,098)	(1,577,399)	(1,190,151)
Total Other Financing Sources (Uses)	$ 2,029,443	$ 721,679	$ (9,244,803)	$ (1,120,306)	$ 5,349,365
Net Change in Fund Balances	6,351,780	10,629,771	(15,097,362)	42,338,576	9,894,766
Beginning Fund Balance (July 1)	145,853,587	134,836,211	149,933,573	107,594,997	97,700,231
Prior Year Adjustment	(11,930)	387,605	-	-	-
Ending Fund Balance (June 30)	$ 152,193,437	$ 145,853,587	$ 134,836,211	$ 149,933,573	$ 107,594,997

Source: District's audited financial statements.

(1) The District anticipates its General Fund balance for its fiscal year ending June 30, 2026 to be approximately $118,877,203 (unaudited). The anticipated $33.3 million decrease in the General Fund balance from fiscal year ending 2025 to 2026 is in line with the budget that the District adopted for its fiscal year ending June 30, 2026. The budgeted reduction included: the final $15 million payment of the "McAllen Independent School District Qualified School Construction Notes, Taxable Series 2011" on February 15, 2026; a planned, one-time expenditure of approximately $10 million for facility improvements, employee stipends, equipment, technology purchases, and transportation expenses; approximately $4 million for school programs; and approximately $3 million for miscellaneous purchase orders. Of the approximately $118 million (unaudited) ending General Fund balance for fiscal year 2026, the unassigned balance is approximately $95 million (unaudited), which reflects approximately 137 days of operations.

TABLE 13 – CURRENT INVESTMENTS [(1)]

At June 30, 2026, the District's investments reported at fair value summarized below:

Description		Amount	Maturity (Average Days)
Texpool Government Investment Fund	$	12,616,654	49
TexPool Prime Investment Fund		12,768,751	51
Lone Star Corporate Investment Fund		36,749,737	49
Lone Star Government Investment Fund		9,132,215	45
First American Money Market Funds		4,522,788	45
Commercial Paper		18,306,689	140
Treasury		14,893,984	519
FFCB		5,509,275	250
Municipal Bonds		-	
	$	114,500,093	

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(1) Source: The District, Unaudited.

FINANCIAL POLICIES

Basis of Accounting . . . The accounting policies of the District substantially comply with the rules prescribed in the Financial Accountability Systems Resource Guide, by the Texas Board of Education. These accounting policies conform to generally accepted accounting principles applicable to governments (see Appendix B - "McAllen Independent School District Annual Financial and Compliance Report for the Fiscal Year Ended June 30, 2025").

General Fund Balance . . . The District's current consensus is to build up surplus and unencumbered funds equal to approximately 2.5 months of operating expenditures in the General Fund. As of July 1, 2026, the unaudited General Fund balance is equal to 137 days of operations.

Budgetary Procedures . . . The District policy is to begin budget preparations on the individual school level in March of each year. The principals work with the teachers to formulate a working budget, which then moves to the office of the Superintendent. After refinements at this level, the budget goes to the Board where it is further refined and goes through public hearings prior to final adoption in late June. Priorities are based on long-term and annual goals.

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

LEGAL INVESTMENTS. . .Under State law and subject to certain limitations, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; (15) aggregate repurchase agreement transactions entered into by an investing entity in conformity with the provisions of subsections (a-1), (f), and (g) of Section 2256.011 of the Public Funds Investment Act; and (16) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

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

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

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

INVESTMENT POLICIES . . .Under State law, the District is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The District is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield. State law requires the District's investments be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." The District is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

TAX EXEMPTION… The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, Austin, Texas, as Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) is 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. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's legal opinions appears in Appendix C hereto.

In rendering the foregoing opinions, Norton Rose Fulbright US LLP, will rely upon representations and certifications of the District made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Department of the Treasury (the "Treasury") of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the 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, Norton Rose Fulbright US LLP, 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. Norton Rose Fulbright US LLP'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 Norton Rose Fulbright US LLP'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 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. It is uncertain whether this legislation will be enacted and, if so, whether it will be enacted in its current form. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

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

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

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

However, such accrued interest may be 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, 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 and disposing of 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 amount payable 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 10 and 12 through 13 and in Appendix B. The District will update and provide this information within six months after the end of each fiscal year, beginning with the fiscal year ending in and after 2026. The District will provide the updated information to the Municipal Securities Rulemaking Board (the "MSRB") through the "EMMA" information system in accordance with recent amendments to Rule 15c2-12 (the "Rule") promulgated by the United States Securities and Exchange Commission (the "SEC").

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted the Rule. The updated information will include audited financial statements, if the District commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial information of the type described in the preceding paragraph by the required time and will provide 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 B 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 December in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Notice of Occurrence of Certain Events, Whether or Not Material…The District will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and 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 of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional 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. Neither the Bonds nor the Order make any provision for debt service reserves, credit enhancement (except with respect to the Permanent School Fund guarantee), or liquidity enhancement. In the Order, the District has 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.

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the District in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District, and (b) the District intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

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

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

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

Compliance with Prior Undertakings …Within the past five years the District has complied in all material respects with prior undertakings.

Cybersecurity Risks …The District relies on its information systems to provide security for processing, transmission and storage of confidential personal, health-related, credit and other information. It is possible that the District’s security measures will not prevent improper or unauthorized access or disclosure of personally identifiable information resulting from cyber-attacks. Security breaches, including electronic break-ins, computer viruses, attacks by hackers and similar breaches can create disruptions or shutdowns of the District and the services it provides, or the unauthorized disclosure of confidential personal, health-related, credit and other information. If personal or otherwise protected information is improperly accessed, tampered with or distributed, the District may incur significant costs to remediate possible injury to the affected persons, and the District may be subject to sanctions and civil penalties if it is found to be in violation of federal or state laws or regulations. Any failure to maintain proper functionality and security of information systems could interrupt the District's operations, delay receipt of revenues, damage its reputation, subject it to liability claims or regulatory penalties and could have a material adverse effect on its operations, financial condition and results of operations.

WEATHER EVENTS …The District is located in south Texas. Land located in this area is susceptible to high winds, flooding, hurricanes, and arid conditions. If a future weather event significantly damages 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 revenue and/or necessitate an increase in the District's tax rate. Under certain conditions, State law allows school districts to increase property tax rates without voter approval upon the occurrence of certain disasters such as a tornado, flooding or extreme drought and upon 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 carry flood or the appropriate, applicable 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 repay any damaged improvements within the District or be sufficient for such purposes. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

OTHER INFORMATION

RATING… The Bonds have been rated "Aa2" by Moody's Investors Services, Inc ("Moody's") without regard to credit enhancement and "AAA" by Moody's by virtue of the guarantee of the corpus of the Permanent School Fund of the State of Texas. An explanation of the significance of such a rating may be obtained from Moody's. The rating reflects only the views 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.

LITIGATION… On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for payment or security or in any manner question the validity of the Bonds.

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE…The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2) thereof; and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS… Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code), provides that the Bonds constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and, and for the sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies 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 (Chapter 2256, Texas Government Code), 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 INFORMATION - Rating" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to sure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS… The District will furnish the Underwriter with 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 payable from the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property in the District, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin, Texas, 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 legal opinion of Norton Rose Fulbright US LLP, to the effect that 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 has been retained by and only represents the District. A form of Bond Counsel's opinion appears in Appendix C attached hereto.

Bond Counsel was engaged by, and only represents, the District. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "PLAN OF FINANCE", "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only-System", “Bondholder Remedies”, and "Use of Bond Proceeds", as to which no opinion is expressed), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS", "CURRENT PUBLIC SCHOOL FINANCE SYSTEM", TAX RATE LIMITATIONS – M&O Tax Rate Limitation (first paragraph only), "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except the subsection entitled "Compliance with Prior Undertakings", as to which no opinion is expressed), the subcaptions under the heading “OTHER INFORMATION”, “Registration and Qualification of Bonds for Sale”, "Legal Investments and Eligibility to Secure Public Fund in Texas", and "Legal Matters" (excluding the last sentence of the second paragraph thereof), and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Order. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P. Austin, Texas, whose legal fees are contingent on the sale and delivery of the Bonds. McCall, Parkhurst & Horton L.L.P. also advises the TEA in connection with its disclosure obligations under federal securities laws, but such firm has not passed upon any TEA disclosures contained in this Official Statement.

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

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

Financial Advisor… On August 3, 2023, Estrada Hinojosa entered into a definitive agreement with Texas State Bankshares, Inc. (“TSBI”). Pursuant to the definitive agreement, TSBI has agreed to acquire the Financial Advisor in a merger transaction. The merger closed on August 2, 2024. Immediately following the merger, Estrada Hinojosa merged with and into TRB Capital Markets, LLC, a wholly owned subsidiary of Texas Regional Bank, which is a wholly owned subsidiary of TSBI. TRB Capital Markets, LLC will operate under the assumed name of “Estrada Hinojosa.

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

The Financial Advisor 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 their responsibilities 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 an underwriting discount of $495,746.75. The Underwriters’ obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such 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, 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 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.

SAMCO Capital Markets Inc., an Underwriter of the Unlimited Tax School Building Bonds, Series 2026, has entered into a retail distribution agreement with Fidelity Capital Markets, a division of National Financial Services LLC (together with its affiliates, "Fidelity"). Under this distribution agreement, SAMCO Capital Markets Inc. may distribute municipal securities to retail investors at the original issue price through Fidelity. As part of this arrangement, SAMCO Capital Markets Inc. will compensate Fidelity for its selling efforts.

PNC Capital Markets LLC and PNC Bank, National Association are both wholly-owned subsidiaries of the PNC Financial Services Group, Inc. PNC Capital Markets LLC is not a bank, and is a distinct legal entity from PNC Bank, National Association. PNC Bank, National Association has/may have other banking and financial relationships with the District.

PNC Capital Markets LLC may offer to sell to its affiliate, PNC Wealth Management LLC ("PNCWM"), securities in PNCCM's inventory for resale to PNCWM's customers, including securities such as those to be offered by the District. PNCCM may share with PNCWM a portion of the fee or commission paid to PNCCM if any Bonds are sold to customers of PNCWM.

One of the Underwriters is BOK Financial Securities, Inc., which is not a bank, and the Bonds are not deposits of any bank and are not insured by the Federal Deposit Insurance Corporation.

RBC Capital Markets, LLC ("RBCCM"), has provided the following information for inclusion in this Official Statement: RBCCM and its respective affiliates are full-service financial institutions engaged in various activities, that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, RBCCM and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). RBCCM and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. RBCCM and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District. RBCCM and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future.

RBC Capital Markets, LLC an underwriter of the Bonds, has entered into a distribution arrangement with its affiliate RBC Securities, Inc. ("RBC Securities") (formerly known as City National Securities, Inc.). As part of this arrangement, RBCCM may distribute municipal securities to investors through the financial advisor network of RBC Securities. As part of this arrangement, RBCCM may compensate RBC Securities for its selling efforts with respect to the Bonds.

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

MISCELLANEOUS… The Order authorizing the issuance of the Bonds 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. The Official Statement has been approved by the Board of Trustees of the District for distribution in accordance with provisions of the Securities and Exchange Commission's rule codified at 17C.F.R. Section 240.15c2-12.

McAllen Independent School District

/s/ Lucia Regalado
President, Board of Trustees
McAllen Independent School District

ATTEST:

/s/ Robert J. Carreon
Secretary, Board of Trustees
McAllen Independent School District

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APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

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GENERAL INFORMATION REGARDING THE DISTRICT AND ITS ECONOMY

McAllen Independent School District is located in the City of McAllen, Texas. The District operates as an independent school district under the laws of the State of Texas and is governed by a seven member Board of Trustees (the "Board"). The Board of Trustees serve four-year staggered terms with at large elections being held every other year. Board policy and decisions are decided by a majority vote of the Board. The Board selects the Superintendent of Schools; other District officials are employed as a result of action by the Superintendent and the Board. The total area of the District is 34 square miles.

The District consists of eighteen elementary schools (grades K through 5), six middle schools (grades 6 through 8), three high schools (grades 9 through 12), and four other programs (grades 6 through 12).

Elementary Schools		18
Middle Schools		6
High Schools		3
Other Schools/Programs		4
	Total	**31**

School facilities include libraries and media centers staffed by trained personnel; remedial reading and English labs in secondary schools: cafeteria services in all schools, offering nutritious hot meals at a low cost; complete competitive athletic programs for both boys and girls in grades 9 through 12; and completely equipped science laboratories. Homebound teachers are assigned to help students temporarily out of school. Comprehensive special education provides programs and services in all areas for exceptional students, ages three through twenty-one. Identifications and class instructions are provided for auditory and speech handicapped, visually impaired, mentally handicapped, physically handicapped, emotionally handicapped and other health impaired students.

EDUCATION PROGRAM

While the District is recognized as a leader in teaching the fundamentals of reading, writing and mathematics, a comprehensive educational program including fine arts, career technical education, special education, and gifted and advanced level programs are available to meet the individual needs of students. Student performance exceeds state, regional and national norms on all evaluative tests.

HISTORICAL ENROLLMENT

Historical enrollment for the District is as follows:

School Year	Enrollment	
2020 - 2021	21,602	
2021 - 2022	20,410	
2022 - 2023	20,399	
2023 - 2024	20,095	
2024 - 2025	19,890	
2025 - 2026	19,435	
2026 - 2027	19,203	(1)

Source: McAllen ISD
(1) Projected

AVERAGE DAILY ATTENDANCE

Historical average daily attendance for the District is as follows:

School Year	ADA	
2020 - 2021	20,252	
2021 - 2022	18,697	
2022 - 2023	18,255	
2023 - 2024	18,039	
2024 - 2025	17,855	
2025 - 2026	17,709	
2026 - 2027	17,522	(1)

Source: McAllen ISD
(1) Projected

EMPLOYMENT OF THE DISTRICT

Teachers	1,494
Administrators	499
Teacher Aides & Secretaries	467
Auxiliary Employees	243
Other	634
Total Number of Employees	**3,337**

The District employs a staff of approximately 3,337. Beginning with the 2026-2027 school year, entry-level teachers without advanced degrees earn $56,000 annually. Teachers with advanced degrees and longevity can earn up to $72,390 annually. All teachers receive life and health insurance benefits worth approximately $523.21 monthly.

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HIDALGO COUNTY, TEXAS
ECONOMIC AND DEMOGRAPHIC INFORMATION

THE COUNTY

Hidalgo County is not obligated in any way on the Bonds. Information concerning Hidalgo County is included for general informational purposes only.

Hidalgo County was created in 1852 from Cameron County. It was organized in the same year and at that time had an area of 2,356 square miles. When first organized the County extended almost as far north as Nueces County; however, later reductions to form counties to its north and east have reduced Hidalgo County to its present area of 1,583 square miles.

Hidalgo County is bounded on the east by Kenedy, Willacy, and Cameron Counties. Brooks County is to its north. Starr County lies on its western boundary. On its southern boundary, the Rio Grande River separates Hidalgo County from the Republic of Mexico.

ECONOMY

The area economy is diversified by the tourist industry, agribusiness and international trade with Mexico. The Texas Almanac designates cotton, grain, vegetable, citrus, and sugar cane as principal sources of agricultural income. The County is a leading producer of cotton and sorghum.

Minerals produced in Hidalgo County include gas, sand, and gravel.

The County is a popular tourist center located in the Lower Rio Grande Valley with access to Old Mexico and facilities catering to thousands of summer and winter visitors.

TRANSPORTATION

McAllen acts as a regional air transportation center serving the fourth-fastest growing metropolitan area in the United States. Frequent daily flights to major air transportation hubs in Austin, Dallas, and Houston are provided by the airport. The airport is served by American Airlines, United Airlines, Delta Airlines, Allegiant Air, and Aerus, which through connections in Austin, Dallas, and Houston, can provide service to more than 200 markets.

EMPLOYMENT STATISTICS

	Hidalgo County			Texas		
	April 2026	April 2025	April 2024	April 2026	April 2025	April 2024
Civilian Labor Force	405,592	405,425	395,601	15,894,837	15,845,628	15,547,567
Total Employment	382,579	382,824	374,707	15,212,287	15,198,513	14,916,012
Total Unemployment	23,013	22,601	20,894	682,550	647,115	631,555
Percentage Unemployment	5.7%	5.6%	5.3%	4.3%	4.1%	4.1%

Source: Texas Workforce Commission

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APPENDIX B

MCALLEN INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT

For the Fiscal Year Ended June 30, 2025

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

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
McAllen Independent School District

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

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

Emphasis of Matter

Change in Accounting Principle

As described in Note 2X to the financial statements, in 2025, the District adopted new accounting guidance, GASB Statement No. 101, *Compensated Absences.* Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 24 through 35 and budgetary comparison information, pension information and other postemployment benefits information on pages 104–113 be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying combining and individual nonmajor fund financial statements, other supplementary information, as listed in the table of contents, 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, other supplementary information, unless marked unaudited, and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2025, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Burton, McCumber & Longoria, L.L.P.

McAllen, Texas
December 16, 2025

McALLEN
INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of McAllen Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2025. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total net position as of June 30, 2025, was $178,827,326, down from last year's net position of $183,326,954. The change of net position increased by $20,114,402 while prior period adjustments decreased net position by $24,614,030 (refer to Exhibit B-1, Table A-2, and Note 25). The decrease in net position is due to the restatement of beginning balances required by the implementation of GASB 101 and corrections related to subscription-based information technology arrangements and capital assets.

- During the year, the District's expenses were $20,114,402 less than the revenues generated in taxes and other revenues for governmental and business-type activities. The prior year expenses were $34,250,736 less than the revenues.

- The costs of the District's programs had a decrease of 9.70% or $30,678,141 from the prior year, and the District's average daily attendance decreased by 1.02%.

- The general fund reported a fund balance this year of $152,193,437 with $105,745,927 of this amount unassigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

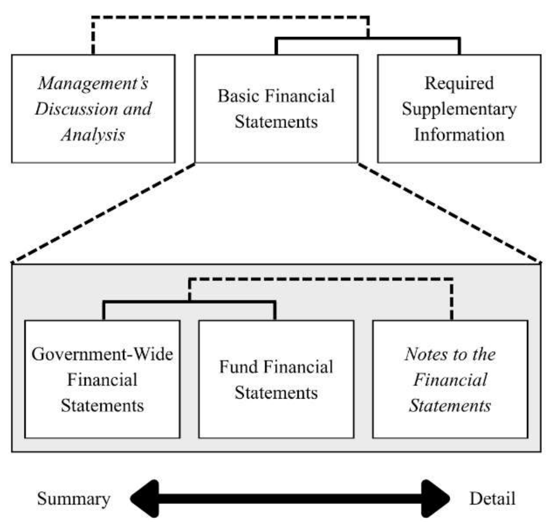
This annual report consists of four parts—*management's discussion and analysis* (this section), the *basic financial statements*, *required supplementary information*, and another schedules section that presents various Texas Education Agency required schedules.

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.

- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.

Figure A-1, Required Components of the District's Annual Financial Report



- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.

- *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates *like businesses*, such as Project Safe and Secure after school program, and Tuition-Based Pre-K Program.

- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

		Fund Statements		
Type of Statements	**Government-wide**	**Governmental Funds**	**Proprietary Funds**	**Fiduciary Funds**
Scope	Entire District's government (except fiduciary funds) and the District's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	◆ Statement of net position ◆ Statement of activities	◆ Balance sheet ◆ Statement of revenues, expenditures & changes in fund balances	◆ Statement of net position ◆ Statement of revenues, expenses and changes in fund net position ◆ Statement of cash flows	◆ Statement of fiduciary net position ◆ Statement of changes in fiduciary net position
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Government-wide Statements

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 changes in the *net position.*
Net position - the difference between the District's assets, liabilities, and deferred inflows/outflows of resources - is one way to measure the District's financial health or position.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.

- To assess the overall health of the District, you need to consider additional non-financial factors such as changes to the District's tax base.

The government-wide financial statements of the District are divided into two categories:

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

- *Business-type activities*—The District charges fees to customers to help cover the costs of certain services it provides. The District's Project Safe and Secure Program and Tuition-Based Pre-K Program are included here.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.

- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

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

- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. In fact, the District's *enterprise funds* (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District has Project Safe and Secure after school program and Tuition-Based Pre-K Program. The District uses *internal service funds* (also a type of proprietary fund) to report activities that provide supplies and services for the District's other programs and activities—such as the District's Self Insurance Funds.

- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—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. The District excludes these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations. The District has student activity accounts.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position. The District's *net position* increased by $20,114,402 between fiscal years 2024 and 2025 to $178,827,326 at June 30, 2025 (Refer to Table A-1).

Table A-1
District's Net Position

	Governmental Activities		Business-type Activities		Total		Total % Change
	2025	2024 (Restated)	2025	2024 (Restated)	2025	2024 (Restated)	2025-24
Current and Other Assets	$ 169,227,089	$ 164,894,792	$ 928,838	$ 968,669	$ 170,155,927	$ 165,863,461	2.59%
Capital Assets	238,346,691	241,426,000	-	-	238,346,691	241,426,000	-1.28%
Other Non-Current Assets	40,996,681	41,502,564	-	-	40,996,681	41,502,564	-1.22%
Total Assets	448,570,461	447,823,356	928,838	968,669	449,499,299	448,792,025	0.16%
Total Deferred Outflows of Resources	70,146,489	85,849,075	-	-	70,146,489	85,849,075	-18.29%
Current Liabilities	34,111,300	35,106,577	2,939	17,702	34,114,239	35,124,279	-2.88%
Long-Term Liabilities	215,661,404	228,657,403	-	-	215,661,404	228,657,403	-5.68%
Total Liabilities	249,772,704	263,763,980	2,939	17,702	249,775,643	263,781,682	-5.31%
Total Deferred Inflows of Resources	91,042,819	112,146,494	-	-	91,042,819	112,146,494	-18.82%
Net Position:							
Net Investment in Capital Assets	181,281,620	175,151,843	-	-	181,281,620	175,151,843	3.50%
Restricted	44,600,145	38,758,395	-	-	44,600,145	38,758,395	15.07%
Unrestricted	(47,980,338)	(56,148,281)	925,899	950,967	(47,054,439)	(55,197,314)	14.75%
Total Net Position	$ 177,901,427	$ 157,761,957	$ 925,899	$ 950,967	$ 178,827,326	$ 158,712,924	12.67%

Net position of the District's governmental activities decreased 2.45% to $177,901,427. Most of the total net position is either invested in capital assets or is restricted. Unrestricted net position totaled $(47,980,338) at the end of this year. The unrestricted balance increased by 9.15% from the prior year.

The net position of the District's business-type activities decreased by 2.64% to $925,899 these resources cannot be used in governmental activities. The District generally can only use these funds to finance the continuing operations of its business activities such as Project Safe and Secure.

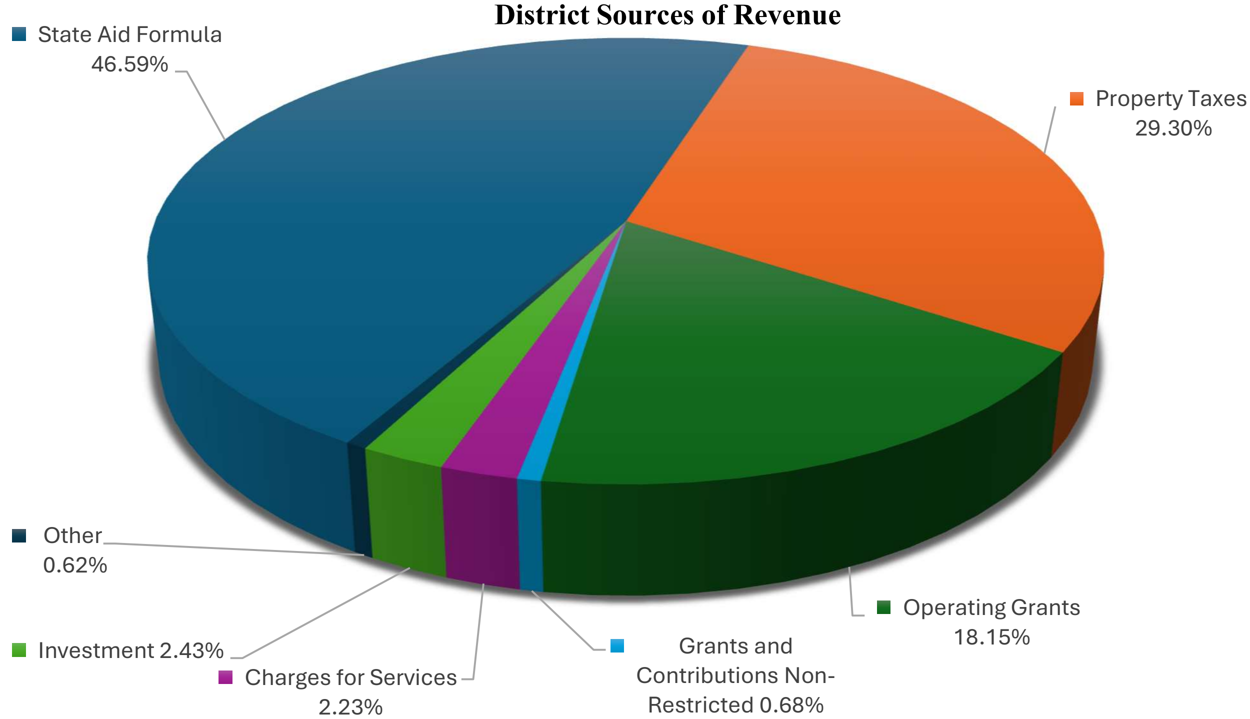
Changes in net position

The District's total revenues decreased by 7.03% to $305,567,675 (Refer to Table A-2).

Operating Grants represent 18.15% of total revenue. State Aid-Formula revenues represent 46.59% of total revenue. Property Taxes make up 29.30% of total revenue. Charges for Services represent 2.23% of total revenue while 0.68% comes from Grants and Contributions Not Restricted (Refer to Figure A-3).

The total cost of all programs and services was $285,453,273; 81.72% of these costs are for instructional and student services.

Figure A-3
District Sources of Revenue



Governmental Activities

The total property tax rate was $0.9966 in 2024-2025 and will decrease to $0.9322 per $100 assessed property valuation for the 2025-2026 fiscal year. The Maintenance and Operation (M&O) tax rate was $0.8350 in 2024-2025 and will decrease to $0.8022 in 2025-2026 as a result of House Bill 3 (HB3) Tier I M&O Tax Compression. The Debt Service tax rate was $0.1616 in 2024-2025 and will decrease to $0.13 for 2025-2026. The tax rate change is due to House Bill 3 (HB3) Tier I M&O Tax Compression.

Table A-2 represents the changes in the District's Net Position.

Table A-2

Changes in the District's Net Position

	Governmental Activities		Business-type Activities		Total		Total % Change
	2025	2024 (Restated)	2025	2024 (Restated)	2025	2024 (Restated)	2025-24
Revenues:							
Program Revenues:							
Charges for Services	$ 6,275,305	$ 5,139,604	$ 536,020	$ 604,941	$ 6,811,325	$ 5,744,545	18.57%
Operating Grants & Contributions	55,428,682	82,130,947	32,412	30,889	55,461,094	82,161,836	-32.50%
General Revenues:							
Property Taxes	89,545,713	87,482,262	-	-	89,545,713	87,482,262	2.36%
State Aid-Formula	142,359,056	138,185,441	-	-	142,359,056	138,185,441	3.02%
Grants & Contributions Not Restricted	2,080,636	2,956,919	-	-	2,080,636	2,956,919	-29.64%
Investment Earnings (Losses)	7,421,235	7,938,753	6,724	-	7,427,959	7,938,753	-6.43%
Miscellaneous	1,881,813	4,212,732	79	-	1,881,892	4,212,732	-55.33%
Total Revenues	304,992,440	328,046,658	575,235	635,830	305,567,675	328,682,488	-7.03%
Expenses:							
Instruction	147,891,069	171,112,097	1,884	108,207	147,892,953	171,220,304	-13.62%
Instructional Resources and Media Services	3,388,507	3,634,137	-	-	3,388,507	3,634,137	-6.76%
Curriculum and Staff Development	6,041,335	8,389,280	-	-	6,041,335	8,389,280	-27.99%
Instructional Leadership	3,640,926	4,161,237	-	-	3,640,926	4,161,237	-12.50%
School Leadership	13,990,939	13,833,332	-	3,697	13,990,939	13,837,029	1.11%
Guidance, Counseling and Evaluation Service	12,315,697	12,951,591	-	-	12,315,697	12,951,591	-4.91%
Social Work Services	2,030,374	2,583,404	-	-	2,030,374	2,583,404	-21.41%
Health Services	2,912,851	2,977,979	-	-	2,912,851	2,977,979	-2.19%
Student (Pupil) Transportation	5,865,257	5,608,781	-	-	5,865,257	5,608,781	4.57%
Food Services	22,353,172	21,888,552	-	-	22,353,172	21,888,552	2.12%
Extracurricular Activities	12,854,603	13,148,426	-	-	12,854,603	13,148,426	-2.23%
General Administration	8,062,352	8,159,577	-	-	8,062,352	8,159,577	-1.19%
Facilities Maintenance & Oper.	26,896,414	29,701,663	-	-	26,896,414	29,701,663	-9.44%
Security and Monitoring Services	5,503,301	5,700,991	-	-	5,503,301	5,700,991	-3.47%
Data Processing Services	5,431,199	5,384,991	-	-	5,431,199	5,384,991	0.86%
Community Services	1,839,462	2,839,281	445,702	360,863	2,285,164	3,200,144	-28.59%
Debt Service - Interest on Long-Term Debt	2,763,392	2,635,980	-	-	2,763,392	2,635,980	4.83%
Debt Service - Bond Issuance Cost and Fees	10,900	21,263	-	-	10,900	21,263	-48.74%
Capital Outlay	63,775	2,685	-	-	63,775	2,685	2275.23%
Payments to Juvenile Alternative Education Program	40,000	20,000	-	-	40,000	20,000	100.00%
Appraisal of Property	1,110,162	903,400	-	-	1,110,162	903,400	22.89%
Total Expenses	285,005,687	315,658,647	447,586	472,767	285,453,273	316,131,414	-9.70%
Increase in Net Position	19,986,753	12,388,011	127,649	163,063	20,114,402	12,551,074	60.26%
Transfers	152,717	44,429	(152,717)	(44,429)	-	-	0.00%
Total Increase/(Decrease) in Net Position	20,139,470	12,432,440	(25,068)	118,634	20,114,402	12,551,074	60.26%
Net Position Beginning	157,761,957	148,243,885	950,967	832,333	158,712,924	149,076,218	6.46%
Restatements	-	(2,914,368)	-	-	-	(2,914,368)	100.00%
Net Position Ending	$ 177,901,427	$ 157,761,957	$ 925,899	$ 950,967	$ 178,827,326	$ 158,712,924	12.67%

- The cost of all *governmental* activities this year was $285,005,687.
- Some costs were paid by those who directly benefited from the programs through Charges for Services in the amount of $6,275,305.
- Other costs were paid by Operating Grants and Contributions of $55,428,682.

- The amount our taxpayers paid for these activities through Property Taxes was $89,545,713.

- The decrease in Investment Earnings was due to decreases in interest rates as a result of current market conditions which decreased the District's yearly average weighted yield from 4.66% in 2023-2024 to 4.25% in 2024-2025.

Business-Type Activities

Revenues of the District's business-type activities decreased 9.53% to $575,235 and expenses decreased 5.33% to $447,586 (Refer to Table A-2). The factor contributing to the decrease in revenues was primarily due to the discontinuation of the Tuition-Based Pre-Kindergarten Program, as the District began offering a free Pre-Kindergarten Program in 2024-2025. The decrease in expenses reflects lower staffing and operating costs associated with this change.

Table A-3 represents 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 charges for services and operating grants and contributions). The net cost reflects the financial burden that was placed on the District's taxpayers for each of these functions.

Table A-3
Net Cost of District's Governmental Activities

	Cost			Net Cost		
	2025	2024 (Restated)	% Change	2025	2024 (Restated)	% Change
Instruction	$ 147,891,069	$ 171,112,097	-13.57%	$ 121,658,660	$ 129,447,491	-6.02%
School Leadership	13,990,939	13,833,332	1.14%	12,903,174	3,821,388	237.66%
Guidance, Counseling and Evaluation	12,315,697	12,951,591	-4.91%	10,292,179	9,343,514	10.15%
Food Services	22,353,172	21,888,552	2.12%	1,389,162	60,495	2196.33%
Extracurricular Activities	12,854,603	13,148,426	-2.23%	12,061,496	11,671,813	3.34%
Facilities Maintenance & Operations	26,896,414	29,701,663	-9.44%	24,694,595	27,968,638	-11.71%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

The focus of the District's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

For the fiscal year ended June 30, 2025, the District's governmental funds reported ending fund balances of $165,319,944. Of the current ending fund balances, the following categories are recorded and primary uses noted in accordance with GASB No. 54.

- $1,205,843 is recorded as Nonspendable for Inventories, of which $842,437 is in Food Service and $363,406 is in General Fund.

- $3,767,128 is recorded as Nonspendable for Prepaids, of which $27,302 is in Food Service; $27,188 is in Career Technical Education; $2,932 is in Gift and Talented; $22,357 is in Special Education and $3,687,349 is in General Fund.

- $46,363,853 is recorded as Restricted, of which $2,264,178 is in Food Service; $18,307,033 is in Federal and State Programs; $6,462,729 is in Debt Service; and $16,900,102 is in Retirement of Maintenance Tax Notes; and $2,429,811 is in Maintenance Tax Notes 2020.

- $4,423,812 is recorded as Committed, of which $1,382,981 is for Campus Activity Funds; and $3,040,831 is for Other which includes ESSER II - Local.

- $3,813,381 is recorded as Assigned, of which $537,732 is for Construction; $2,214,365 is for Equipment; and $1,061,284 is for Other which includes Encumbrances, Instructional, Advertising, Fine Arts, and Technology.

- $105,745,927 is recorded as Unassigned and is available for spending at the District's discretion.

General Fund

The general fund is the chief operating fund of the District. At the end of the fiscal year, the fund balance of the general fund was $152,193,437. This represents an increase of $6,339,850 or 4.35%. Factors listed below contributed to the overall increase in fund balance to the General Fund.

- Fund 199 – General Fund: Increased by $4,302,627, primarily due to the transfer of uncommitted ESSER III – Local funds into the General Fund and district cost-savings initiatives.

- ESSER II – Local (Committed Fund Balance): Remains committed for capital projects; year-end activity reduced the balance by $1,234,886 due to completed committed projects. No ESSER II transfer contributed to the Fund 199 increase.

- Restricted Fund Balance: Increased by approximately $1.3 million (Compensatory Education), $664,000 (CTE), $354,000 (Early Education), and $280,000 (CCMR).

General Fund Budgetary Highlights

At year-end, actual Revenues/Other Resources available were $6 million more than the final budget amount.

- Actual Current Year Levy Taxes was more than the budget in the amount of $200 thousand

- Actual Prior Years Taxes was less than the budget in the amount of $1 million

- Actual State Foundation Entitlement revenue was more than the budget in the amount of $11 million

- Actual Teacher Retirement/TRS Care revenue was less than the budget in the amount of $1.5 million

- Actual Federal Breakfast Program revenue was less than the budget in the amount of $1.5 million

- Actual National School Lunch Program revenue was less than the budget in the amount of $700 thousand

At year end, actual Expenditures/Other Uses were $24 million less than the final budgeted amount. This budget balance represents non-materialized expenditures of 8.5% due to projects carried forward to 2025-2026 and district cost savings initiatives.

Over the course of the year, the District revised, and the Board of Trustees approved the budget on a monthly basis.

The District made the following major amendments to revenues:

- Increase in Interest Income
- Increase to Right of Use Assets
- Increase in Food Service Revenues
- Increase in Teacher Incentive Allotment
- Increase in Sale of Real/Personal Property
- Increase in Indirect Cost
- Increase in Insurance Recovery
- Increase in TRS On-behalf
- Increase in Other Revenue for Rebates
- Decrease in Tax Collections
- Decrease in State Funding

The District made the following major amendments to appropriations:

- Increase to Right of Use Assets
- Increase to Food for Food Service
- Increase to Teacher Incentive Allotment
- Increase for Health Insurance Fund
- Increase to Salaries for Special Education
- Increase to In-Kind Services as a result of Sale of Real/Personal Property
- Increase to Supplies for Career and Technical Education
- Increase to TRS On-Behalf

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2024-2025, the District's governmental activities had invested $238,346,691 in capital assets, including land, building and improvements, construction in progress, vehicles, furniture and equipment, lease assets and subscription-based information technology arrangements (SBITA). (Refer to Table A-4). In accordance with GASB 34, the District has recorded depreciation expense associated with all of its capital assets.

Table A-4
District's Capital Assets

	Governmental Activities 2025	Governmental Activities 2024 (Restated)	Business-type Activities 2025	Business-type Activities 2024 (Restated)	Total 2025	Total 2024 (Restated)	Total % Change 2025-24
Land	$ 12,123,872	$ 12,166,772	$ -	$ -	$ 12,123,872	$ 12,166,772	-0.35%
Construction in Progress	1,996,986	1,478,183	-	-	1,996,986	1,478,183	35.10%
Furniture and Equipment in Progress	2,005,580	179,638	-	-	2,005,580	179,638	1016.46%
Buildings and Improvements	347,405,564	370,157,050	-	-	347,405,564	370,157,050	-6.15%
Furniture and Equipment	60,769,719	59,280,945	50,909	50,909	60,820,628	59,331,854	2.51%
Vehicles	13,333,721	12,031,212	-	-	13,333,721	12,031,212	10.83%
Lease Assets	16,593,676	2,022,750	-	-	16,593,676	2,022,750	720.35%
SBITA	2,774,955	2,000,955	-	-	2,774,955	2,000,955	0.00%
Total at Historical Cost	457,004,073	459,317,505	50,909	50,909	457,054,982	459,368,414	-0.50%
Total Accumulated Depreciation	218,657,382	205,468,696	50,909	50,909	218,708,291	205,519,605	6.42%
Net Capital Assets	$ 238,346,691	$ 253,848,809	$ -	$ -	$ 238,346,691	$ 253,848,809	-6.11%

Construction in Progress consists of Security Surveillance project at McAllen High School; Intercom System at Roosevelt Elementary School; Surveillance Camera installations at Nikki Rowe High School; Network Operations Center (NOC) Generators; Safety Security Film projects at all campuses (Phases I–III); Light Post Replacements at Fossum Middle School, Fields Elementary, and Hendricks Elementary; Storage Flasharray project; and Surveillance Cameras and Intercom System improvements.

Long Term Debt

Table A-5
District's Long-Term Debt

	Governmental Activities 2025	Governmental Activities 2024 (Restated)	% Change 2025-24
Leases	$ 2,449,162	$ 1,049,232	133.42%
SBITA	1,051,689	925,123	13.68%
Compensated Absences	12,729,716	13,425,420	-5.18%
Claims Payable	4,003,427	3,991,247	0.31%
Bonds and Notes Payable:			
General Obligation Debt	16,380,825	30,394,318	-46.11%
Maintenance Tax Notes	36,226,000	37,261,000	-2.78%
Premium on Tax Notes	4,092,880	4,293,156	-4.67%
Total Bonds and Notes Payable	56,699,705	71,948,474	-21.19%
Total Long Term Debt Payable	$ 76,933,699	$ 91,339,496	-15.77%

At year-end, the District had $76,933,699 in long-term debt outstanding. This represents a decrease of 15.77% over last year as a result of leases, subscription-based information technology arrangements (SBITA), compensated absences, claims payable, general obligation debt and maintenance tax notes. More detailed information about the District's debt is presented in Note 12 in the Financial Statements.

Bond Ratings

The District's bonds carry a Standard & Poor's rating "AA-" Moody's assigned "Aa2"

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Budget

- The Preliminary Certified Adjusted Freeze Taxable value used for the 2025-2026 budget decreased by $339,641,004 or 3.90% from $8,718,117,016 to $8,378,476,012.
- The District's 2025-2026 budget was planned on 17,685.650 refined average daily attendance, down 167.765 from the near final 2024-2025 actual, a 0.94% decrease.
- General operating fund budgeted revenue per student increased from $14,249 in 2024-2025 to $14,982 in 2025-2026.

These indicators were taken into account when adopting the general fund budget for 2025-2026.

The 2025-2026 budget for the General Fund was approved by the Board of Trustees on June 24, 2025. The 2025-2026 budget was balanced as follows: Revenues of $264,971,047 equals Expenditures of $265,565,375 minus Fund Balance of $594,328.

Revenues in the general fund budget for 2025-2026 increased by 2.12% to $264,971,047 as compared to the final 2024-2025 final budget of $259,478,827.

Expenditures in the general fund budget for 2025-2026 decreased by 5.93% to $265,565,375 as compared to the 2024-2025 final budget of $282,321,127.

The changes to funding formula elements include: An increased basic allotment (from $6,160 in 2023-2024 to $6,160 in 2024-2025 and $6,215 in 2025-2026 per student), a decreased Per Capita Rate (from $423.747 in 2023-2024 to $619.868 in 2024-2025 to $400.00 in 2025-2026), and a Guaranteed Yield weight that remains the same (from $126.21 in 2023-2024 to $129.52 in 2024-2025 and $129.52 in 2025-2026).

For 2025-2026, the Board of Trustees approved a salary increase for teachers, librarians, non-teaching professionals, paraprofessionals and auxiliary staff. These changes underscore the District's ongoing dedication to supporting its employees and are fully aligned with the statutory requirements of House Bill 2, signed into law by Governor Greg Abbott on June 4, 2025.

In accordance with this legislation, the District has enacted all mandated compensation adjustments designed to enhance educator recruitment and retention efforts throughout Texas. The approved salary structure is as follows:

Teacher Pay Increases:
- $2,500 for teachers with three to four years of experience
- $5,000 for teachers with five or more years of experience
- $1,560 for teachers with one to two years of experience

Non-Teaching Professional Staff:
- 2.5 percent increase from the salary schedule midpoint

Paraprofessional and Auxiliary Staff:
- $0.75 per hour wage increase

The Board of Trustees also approved an additional $55 per month per employee toward the employer's share of health insurance premiums.

The Health Fund, Workers Compensation Fund and Unemployment Fund are self-funded funds. The employer health contribution rate will be $6,494.52 for 2025-2026. The employer contribution of Workers Compensation for 2025-2026 will be $0.000386 with the exception for Food Service, Maintenance, Police and Transportation which will be $0.003382. The District has elected to fund the employer contribution of unemployment compensation for 2025-2026 at a rate of $0.50 per employee per month.

Taxes

The tax rate for 2025-2026 is $0.8022 for Maintenance & Operations and $0.13 for Interest & Sinking for a total tax rate of $0.9322. The Hidalgo County Appraisal District estimated a 0.77% increase in 2025 Net Taxable Property Values. The Hidalgo County Appraisal District reviews and assesses property values based on the local real estate market within the District's geographical taxing jurisdiction.

Facilities

The Facilities Maintenance & Operations Department identified projects as "in progress" as of June 30, 2025, and subsequently allocated funding to assigned fund balance in 2025-2026.

Projects for the Facilities Maintenance & Operations Department include:

- Replacement of intercom systems at Memorial High School, Instruction & Guidance Center, Travis Middle School, and Roosevelt Elementary School.

- Replacement of marquees at Morris Middle School, Alvarez Elementary School, Seguin Elementary School, Roosevelt Elementary School, Sanchez Elementary School, Perez Elementary School, and Thigpen-Zavala Elementary School.

- Replacement of security cameras at Travis Middle School, McAllen High School, Memorial High School, Instruction & Guidance Center, Lamar Academy, and Rowe High School.

- Districtwide implementation of the silent panic alert technology system, designed to enhance campus safety and emergency response readiness.

Additionally, due to the issuance of the Maintenance Tax Note Series 2020, projects were identified and have been allocated to the restricted fund balance. These projects consist of construction, renovations and improvements districtwide.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The 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 Office of the Chief Financial Officer, McAllen I.S.D., 2000 North 23rd Street, McAllen, Texas 78501.

BASIC FINANCIAL STATEMENTS

McALLEN
INDEPENDENT SCHOOL DISTRICT

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

Data Control Codes		1 Primary Government Governmental Activities	2 Business-Type Activities	3 Total
	ASSETS			
1110	Cash and cash equivalents	$ 6,611,755	$ 70,531	$ 6,682,286
1120	Current investments	89,170,702	806,724	89,977,426
1225	Property taxes receivable, net	5,500,506	-	5,500,506
1240	Receivables from other governments	60,106,172	-	60,106,172
1250	Accrued interest	317,773	-	317,773
1260	Internal balances	(51,583)	51,583	-
1290	Other receivables	2,349,158	-	2,349,158
1300	Inventories	1,205,843	-	1,205,843
1410	Prepaid items	4,016,763	-	4,016,763
1890	Other restricted assets	17,541,162	-	17,541,162
1910	Long-term investments	23,455,519	-	23,455,519
	Capital assets not subject to depreciation:			
1510	Land	12,123,872	-	12,123,872
1580	Construction in progress	4,002,566	-	4,002,566
	Capital assets net of depreciation:			
1520	Buildings, net	188,792,470	-	188,792,470
1530	Furniture and equipment, net	17,141,844	-	17,141,844
1550	Right-to-use lease asset, net	14,965,482	-	14,965,482
1553	SBITA assets, net	1,320,457	-	1,320,457
1000	Total Assets	448,570,461	928,838	449,499,299
	DEFERRED OUTFLOWS OF RESOURCES			
1701	Deferred charge for refunding	705,673	-	705,673
1705	Deferred outflow related to pension activities	26,413,815	-	26,413,815
1706	Deferred outflow related to other post-employment benefit activities	43,027,001	-	43,027,001
1700	Total Deferred Outflows of Resources	70,146,489	-	70,146,489
	LIABILITIES			
2110	Accounts payable	4,062,507	190	4,062,697
2140	Interest payable	1,076,841	-	1,076,841
2150	Payroll deductions and withholdings payable	2,017,153	-	2,017,153
2160	Accrued wages payable	26,364,578	2,749	26,367,327
2180	Due to other governments	426,177	-	426,177
2190	Due to student groups	1,302	-	1,302
2300	Unearned revenue	162,742	-	162,742
	Noncurrent liabilities:			
2501	Due within one year	30,009,109	-	30,009,109
2502	Due in more than one year	46,924,590	-	46,924,590
2540	Net pension liability (District's Share)	81,523,669	-	81,523,669
2545	Net other post-retirement benefit liability (District's Share)	57,204,036	-	57,204,036
2000	Total Liabilities	249,772,704	2,939	249,775,643
	DEFERRED INFLOWS OF RESOURCES			
2605	Deferred inflow related to pension activities	16,481,636	-	16,481,636
2606	Deferred inflow related to other post-employment benefit activities	74,561,183	-	74,561,183
2600	Total Deferred Inflows of Resources	91,042,819	-	91,042,819
	NET POSITION			
3200	Net investment in capital assets	181,281,620	-	181,281,620
3820	Restricted for federal and state programs	20,571,211	-	20,571,211
3850	Restricted for debt service	7,128,832	-	7,128,832
3890	Restricted - Retirement of Maintenance Tax Note	16,900,102	-	16,900,102
3900	Unrestricted	(47,980,338)	925,899	(47,054,439)
3000	Total Net Position	$ 177,901,427	$ 925,899	$ 178,827,326

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

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

Data Control Codes		1 Expenses	Program Revenues 3 Charges for Services	Program Revenues 4 Operating Grants and Contributions
Primary Government				
	GOVERNMENTAL ACTIVITIES:			
11	Instruction	$ 147,891,069	$ 3,080,171	$ 23,383,167
12	Instructional resources and media services	3,388,507	10,298	176,498
13	Curriculum and instructional staff development	6,041,335	138,266	2,025,748
21	Instructional leadership	3,640,926	221,067	668,696
23	School leadership	13,990,939	37,353	1,050,412
31	Guidance, counseling & evaluation services	12,315,697	130,850	2,008,781
32	Social work services	2,030,374	568	304,212
33	Health services	2,912,851	15,996	234,392
34	Student (pupil) transportation	5,865,257	36,231	129,098
35	Food services	22,353,172	319,938	20,644,072
36	Extracurricular activities	12,854,603	617,275	175,832
41	General administration	8,062,352	178,488	147,709
51	Facilities maintenance and operations	26,896,414	1,398,498	803,321
52	Security and monitoring services	5,503,301	19,234	520,355
53	Data processing services	5,431,199	53,354	241,724
61	Community services	1,839,462	8,533	2,914,665
72	Debt service	2,774,292	-	-
81	Facilities acquisition and construction	63,775	-	-
95	Payments to juvenile justice alternative ed. prg.	40,000	9,185	-
99	Other intergovernmental charges	1,110,162	-	-
[TG]	Total Governmental Activities:	285,005,687	6,275,305	55,428,682
	BUSINESS-TYPE ACTIVITIES:			
01	Project safe and secure	445,702	536,020	31,280
02	Tuition based pre-k program	1,884	-	1,132
[TB]	Total Business-Type Activities:	447,586	536,020	32,412
[TP]	TOTAL PRIMARY GOVERNMENT:	$ 285,453,273	$ 6,811,325	$ 55,461,094

Data Control Codes	
	General Revenues and transfers:
	Taxes:
MT	Property taxes, levied for general purposes
DT	Property taxes, levied for debt service
SF	State aid - formula grants
GC	Grants and contributions not restricted
IE	Investment earnings (losses)
MI	Miscellaneous local and intermediate revenue
FR	Transfers in (out)
TR	Total General Revenues and Transfers
CN	Change in Net Position
NB	Net Position - Beginning
PA	Restatements
NE	Net Position - Ending

Net (Expenses) Revenues and Changes in Position		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
$ (121,427,731)	$ -	$ (121,427,731)
(3,201,711)	-	(3,201,711)
(3,877,321)	-	(3,877,321)
(2,751,163)	-	(2,751,163)
(12,903,174)	-	(12,903,174)
(10,176,066)	-	(10,176,066)
(1,725,594)	-	(1,725,594)
(2,662,463)	-	(2,662,463)
(5,699,928)	-	(5,699,928)
(1,389,162)	-	(1,389,162)
(12,061,496)	-	(12,061,496)
(7,736,155)	-	(7,736,155)
(24,694,595)	-	(24,694,595)
(4,963,712)	-	(4,963,712)
(5,136,121)	-	(5,136,121)
1,083,736	-	1,083,736
(2,774,292)	-	(2,774,292)
(63,775)	-	(63,775)
(30,815)	-	(30,815)
(1,110,162)	-	(1,110,162)
(223,301,700)	-	(223,301,700)
-	121,598	121,598
-	(752)	(752)
-	120,846	120,846
$ (223,301,700)	$ 120,846	$ (223,180,854)
75,062,712	-	75,062,712
14,483,001	-	14,483,001
142,359,056	-	142,359,056
2,080,636	-	2,080,636
7,421,235	6,724	7,427,959
1,881,813	79	1,881,892
152,717	(152,717)	-
243,441,170	(145,914)	243,295,256
20,139,470	(25,068)	20,114,402
182,375,987	950,967	183,326,954
(24,614,030)	-	(24,614,030)
$ 177,901,427	$ 925,899	$ 178,827,326

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

EXHIBIT C-1

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

Data Control Codes		10 General Fund	Other Funds	Total Governmental Funds
	ASSETS			
1110	Cash and cash equivalents	$ 1,104,085	$ 4,027,736	$ 5,131,821
1120	Investments	78,852,465	8,881,230	87,733,695
1225	Property taxes receivable, net	4,740,932	759,574	5,500,506
1240	Receivables from other governments	55,798,604	4,003,221	59,801,825
1250	Accrued interest	317,773	-	317,773
1260	Due from other funds	453,563	1,211,445	1,665,008
1290	Other receivables	98,099	5,547	103,646
1300	Inventories	1,205,843	-	1,205,843
1410	Prepaid items	3,767,128	84,737	3,851,865
1800	Restricted assets	17,541,162	-	17,541,162
1910	Long-term investments	23,455,519	-	23,455,519
1000	Total Assets	$ 187,335,173	$ 18,973,490	$ 206,308,663
	LIABILITIES			
2110	Accounts payable	$ 2,744,770	$ 740,208	$ 3,484,978
2150	Payroll deductions and withholdings payable	2,017,153	-	2,017,153
2160	Accrued wages payable	23,762,863	2,601,715	26,364,578
2170	Due to other funds	1,935,777	1,652,101	3,587,878
2180	Due to other governments	410,389	550	410,939
2190	Due to student groups	1,302	-	1,302
2300	Unearned revenue	43,409	119,333	162,742
2000	Total Liabilities	30,915,663	5,113,907	36,029,570
	DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable revenues	4,226,073	666,103	4,892,176
2602	Deferred inflow of resources - other	-	66,973	66,973
2600	Total Deferred Inflows of Resources	4,226,073	733,076	4,959,149
	FUND BALANCES			
	Nonspendable fund balance:			
3410	Inventories	1,205,843	-	1,205,843
3430	Prepaid items	3,767,128	-	3,767,128
	Restricted fund balance:			
3450	Federal or state funds grant restrictions	18,050,338	2,520,873	20,571,211
3480	Retirement of long-term debt	-	6,462,729	6,462,729
3490	Other restricted fund balance	16,900,102	2,429,811	19,329,913
	Committed fund balance:			
3545	Other committed fund balance	3,040,831	1,382,981	4,423,812
	Assigned Fund Balance:			
3550	Assigned for construction	207,619	330,113	537,732
3570	Capital expenditures for equipment	2,214,365	-	2,214,365
3590	Other assigned fund balance	1,061,284	-	1,061,284
3600	Unassigned fund balance	105,745,927	-	105,745,927
3000	Total Fund Balances	152,193,437	13,126,507	165,319,944
4000	Total Liabilities, Deferred Inflows & Fund Balances	$ 187,335,173	$ 18,973,490	$ 206,308,663

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

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

	Total Fund Balances - Governmental Funds	$ 165,319,944
1	The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate function in the other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect is an increase to net position.	2,633,174
2	Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds. Capital assets at historical cost, net of depreciation, increases net position.	238,346,691
3	Long-term liabilities including bonds, loans, leases, SBITAs, and compensated absences are not due and payable in the current period and are not reported as liabilities in the funds.	(72,930,273)
4	Federal subsidies are recorded in the governmental funds when received. In the governmental activities, revenue is accrued for the period for which the subsidy was for.	273,616
5	Accrued interest payable does not require current financial resources so it is not reported as a liability in the funds.	(1,076,841)
6	Property taxes, MAC and SHARS receivables are not available soon enough to pay for current periods' expenditures and, therefore, are unavailable in the funds.	4,959,151
7	Gains/losses on defeasance of debt are recognized as deferred credits or charges and amortized over the remaining life of the debt.	705,673
8	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 resources outflow in the amount of $26,413,815 a deferred resources inflow in the amount of ($16,481,636), and a net pension liability in the amount of ($81,523,669). This resulted in a decrease in net position.	(71,591,490)
9	Included in the items related to debt is the recognition of the District's proportionate share of the net OPEB liability required by GASB 75. The net position related to TRS included a deferred resources outflow in the amount of $43,027,001 a deferred resources inflow in the amount of ($74,561,183), and a net OPEB liability in the amount of ($57,204,036). This resulted in a decrease in net position.	(88,738,218)
10	**Net Position of Governmental Activities**	$ 177,901,427

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

EXHIBIT C-3

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

Data Control Codes		10 General Fund	Other Funds	Total Governmental Funds
	REVENUES:			
5700	Total local and intermediate sources	$ 83,331,125	$ 20,237,337	$ 103,568,462
5800	State program revenues	152,930,261	5,414,460	158,344,721
5900	Federal program revenues	24,078,971	25,818,732	49,897,703
5020	Total Revenues	260,340,357	51,470,529	311,810,886
	EXPENDITURES:			
	Current:			
11	Instruction	127,699,135	23,194,769	150,893,904
12	Instructional resources and media services	3,322,702	120,557	3,443,259
13	Curriculum and instructional staff development	4,152,845	2,148,314	6,301,159
21	Instructional leadership	2,888,954	923,986	3,812,940
23	School leadership	13,507,148	1,179,602	14,686,750
31	Guidance, counseling and evaluation services	11,089,450	1,915,941	13,005,391
32	Social work services	1,881,194	271,606	2,152,800
33	Health services	2,837,044	219,747	3,056,791
34	Student (pupil) transportation	6,393,584	-	6,393,584
35	Food service	20,871,909	2,000	20,873,909
36	Extracurricular activities	10,944,141	1,019,043	11,963,184
41	General administration	7,793,335	-	7,793,335
51	Facilities maintenance and operations	22,305,909	1,730,753	24,036,662
52	Security and monitoring services	6,260,600	1,007,528	7,268,128
53	Data processing services	5,195,398	299,181	5,494,579
61	Community services	124,376	1,815,417	1,939,793
	Debt Service:			
71	Principal on long term-debt	3,404,006	5,306,674	8,710,680
72	Interest on long-term debt	2,281,312	995,204	3,276,516
73	Bond issuance cost and fees	7,750	7,367,017	7,374,767
	Capital Outlay:			
81	Facilities acquisition and construction	1,907,066	3,161,185	5,068,251
	Intergovernmental:			
95	Payment to juvenile justice alternative education	40,000	-	40,000
99	Other intergovernmental charges	1,110,162	-	1,110,162
6030	Total Expenditures	256,018,020	52,678,524	308,696,544
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	4,322,337	(1,207,995)	3,114,342
	OTHER FINANCING SOURCES (USES):			
7912	Sale of real and personal property	2,164,477	50,349	2,214,826
7913	Issuance of leases	3,550,151	16,674	3,566,825
7915	Transfers in	152,717	-	152,717
8911	Transfers out	(3,837,902)	-	(3,837,902)
7080	Total Other Financing Sources (Uses)	2,029,443	67,023	2,096,466
1200	Net Change in Fund Balances	6,351,780	(1,140,972)	5,210,808
0100	Fund Balance - (Beginning)	145,853,587	14,267,479	160,121,066
1300	Restatements	(11,930)	-	(11,930)
3000	Fund Balance - (Ending)	$ 152,193,437	$ 13,126,507	$ 165,319,944

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

EXHIBIT C-4

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

	Total Net Change in Fund Balances - Governmental Funds	$ 5,210,808
1	The District uses an internal service fund to charge the costs of the health self-insurance plan to appropriate functions in other funds. The net loss of the internal service fund is reported with governmental activities.	(5,435)
2	Capital outlays are reported in the governmental funds as expenditures. In the statement of activities the cost of capital assets and donated capital assets totaling $13,505,829 and $25,000, respectively, is allocated over their useful lives as depreciation expense. Depreciation expense totaled ($15,932,321) for the year. Assets retired during the period net of depreciation had a net effect on net position totaling ($677,844).	(3,079,336)
3	Because some property taxes, MAC and SHARS receivables will not be collected for several months after the District's year end, they are not considered "available" revenues in the governmental funds. This is the change in unavailable revenue.	(376,491)
4	Payment of principal on long-term debt is an expenditure in the funds but is not an expense in the statement of activities. Repayment of principal totaled $8,710,679 and payment to escrow for an in-substance defeasance using only existing resources totaled $7,363,867 and resulted in a gain of $454,612. Bond proceeds, premiums on bond issuance and leases are reported as other financing sources in the funds. Liability associated with new leases totaled ($3,566,825).	12,962,333
5	Some expenses such as the effect of the change in compensated absences reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	695,704
6	Governmental funds report premiums, discounts, gains/losses on debt transactions when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. Interest is recorded in the governmental funds when paid but in the statement of activities it is accrued. This is the net impact of amortization of premiums, deferred losses, accretion of interest on capital appreciation bonds and the change in accrued interest.	495,551
7	GASB 68 requires that certain plan expenditures be de-expended and recorded as deferred resources outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by $6,042,802. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability. This caused a decrease in the change in net position totaling $(6,443,527). 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 $(3,959,546). The net result is a decrease in the change in net position.	(4,360,271)
8	GASB 75 requires that certain plan expenditures be de-expended and recorded as deferred resources outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by $1,351,772. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in the net OPEB liability. This caused a decrease in the change in net position totaling $(1,460,268). 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 $8,705,103. The net result is an increase in the change in net position.	8,596,607
9	**Change in Net Position of Governmental Activities**	$ 20,139,470

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

EXHIBIT D-1

MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2025

	Business-Type Activities	Governmental Activities
	Total Enterprise Funds	Total Internal Service Funds
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 70,531	$ 1,479,934
Investments - demand deposit	806,724	1,437,007
Receivables from other governments	-	30,729
Due from other funds	53,852	4,071,389
Other receivables	-	2,245,511
Prepaid items	-	164,898
Total Current Assets	931,107	9,429,468
Noncurrent Assets:		
Furniture and equipment	50,909	-
Accumulated depreciation on furniture and equipment	(50,909)	-
Total Noncurrent Assets	-	-
Total Assets	931,107	9,429,468
LIABILITIES		
Current Liabilities:		
Accounts payable	190	577,525
Accrued wages payable	2,749	-
Due to other funds	2,269	2,200,102
Due to other governments	-	15,238
Current portion of other long-term debt	-	1,797,451
Total Current Liabilities	5,208	4,590,316
Noncurrent Liabilities:		
Other long-term debt	-	2,205,976
Total Noncurrent Liabilities	-	2,205,976
Total Liabilities	5,208	6,796,292
NET POSITION		
Unrestricted net position	925,899	2,633,176
Total Net Position	$ 925,899	$ 2,633,176

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

MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	Business-Type Activities Total Enterprise Funds	Governmental Activities Total Internal Service Funds
OPERATING REVENUES:		
Local and intermediate sources	$ 536,020	$ 24,484,667
State program revenues	32,412	-
Total Operating Revenue	568,432	24,484,667
OPERATING EXPENSES:		
Payroll costs	430,911	-
Insurance claims and expenses	-	28,542,908
Professional and contracted services	5	-
Other operating costs	15,696	-
Supplies and materials	974	-
Total Operating Expenses	447,586	28,542,908
Operating Income (Loss)	120,846	(4,058,241)
NONOPERATING REVENUES (EXPENSES):		
Earnings from temporary deposits and investments	6,724	214,904
Sales of real and personal property	79	
Transfers in	-	3,837,902
Transfers out	(152,717)	-
Total Nonoperating Revenues (Expenses)	(145,914)	4,052,806
Change in Net Position	(25,068)	(5,435)
Total Net Position - Beginning	950,967	2,638,611
Total Net Position - Ending	$ 925,899	$ 2,633,176

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

EXHIBIT D-3

MCALLEN INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2025

	Business-Type Activities Total Enterprise Funds	Governmental Activities Total Internal Service Funds
Cash Flows from Operating Activities:		
Cash received from customers	$ 536,020	$ -
Interfund services provided and used	-	23,437,714
Cash payments to employees for services	(414,405)	-
Cash payments for claims	-	(28,943,925)
Cash payments for suppliers for goods and services	(14,339)	-
Net Cash Provided by (Used for) Operating Activities	107,276	(5,506,211)
Cash Flows from Non-Capital Financing Activities:		
Transfers in	-	2,554,395
Transfers out	(205,239)	-
Net Cash Used for Non-Capital Financing Activities	(205,239)	2,554,395
Cash Flows from Investing Activities:		
Proceeds from sale and maturities of securities	-	3,151,588
Purchase of investments	(306,724)	-
Interest and dividends on investments	6,724	213,160
Net Cash Provided by Investing Activities	(300,000)	3,364,748
Net increase (decrease) in cash and cash equivalents	(397,963)	412,932
Cash and Cash Equivalents at Beginning of Year	468,494	1,067,002
Cash and Cash Equivalents at End of Year	$ 70,531	$ 1,479,934
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:		
Operating income (loss):	$ 120,846	$ (4,058,241)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:		
Effects of Increases and Decreases in Assets and Liabilities:		
Decrease (increase) in receivables	(2)	(979,965)
Decrease (increase) in interfund receivables	-	(2,202,189)
Decrease (increase) in prepaid items	-	(64,898)
Increase (decrease) in accounts payable	80	(413,536)
Increase (decrease) in current portion of long-term liabilities	(14,841)	182,318
Increase (decrease) in interfund payables	1,193	2,200,099
Increase (decrease) in due to other governments	-	339
Increase (decrease) in other long-term liabilities	-	(170,138)
Net Cash Provided by (Used For) Operating Activities	$ 107,276	$ (5,506,211)

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

EXHIBIT E-1

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

	Private-Purpose Trust Funds	Custodial Funds
	Scholarship Fund	Student Activity Funds
ASSETS		
Cash and cash equivalents	$ 98,175	$ 787,036
Other receivables	-	1,302
Prepaid items	-	7,422
Total Assets	$ 98,175	$ 795,760
LIABILITIES		
Accounts payable	$ 98,175	21,681
Accrued wages payable	-	1,755
Total Liabilities	98,175	23,436
NET POSITION		
Restricted for student activities	-	772,324
Total Net Position	$ -	$ 772,324

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

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

	Private-Purpose Trust Funds	Custodial Funds
	Scholarship Fund	Student Activity Funds
Additions:		
Student activity revenues	$ -	$ 616,185
Total Operating Revenue	-	616,185
Deductions:		
Student activities	-	572,468
Total Operating Expenses	-	572,468
Change in Net Position	-	43,717
Total Net Position - Beginning	-	728,607
Total Net Position - Ending	$ -	$ 772,324

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

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NOTE 1 – REPORTING ENTITY

Membership of Board - The Board of Trustees includes seven eligible members elected at large by the qualified voters of the McAllen Independent School District. The governing Board derives its powers from the statutes of the State of Texas and the rules and regulations of the Texas State Department of Education. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement 14, *The Financial Reporting Entity.* The District has no component units.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

McAllen Independent School District's (the "District") basic financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

A. Basis of Presentation

Government-Wide Statements:

The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Substantially, all of the effects of interfund activities have been removed from these statements. All interfund transactions between governmental funds and internal service funds are eliminated on the government-wide statements. Governmental activities generally are supported through taxes, intergovernmental revenues, and other non-exchange transactions and are reported separately from business–type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities.

Program revenues include:

(a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and

(b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program.

Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

A. Basis of Presentation (Continued)

Fund Financial Statements:

The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column.

All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds, "Other Funds" and "Nonmajor Enterprise Funds."

The District reports the following major governmental fund:

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

Additionally, the District reports the following fund types:

Enterprise Funds. These funds account for the operations of the safe and secure program and the tuition-based pre-kindergarten program. The expenses for these funds are financed through user charges.

Internal Service Funds. These unbudgeted funds account for the operations of a self-funded health and worker's compensation insurance and unemployment claims. These funds account for services to other District funds, as well as, related operating expenses.

Private Purpose Trust Funds. These are reported in the fund financial statements. Since the resources in the Private Purpose Trust funds are held in a trustee or agent capacity and are, therefore, not available to support District programs, these funds are not included in the government-wide statements. The District maintains the assets for the scholarship fund.

Custodial Funds. These are reported in the fund financial statements. These funds are held in a custodial capacity by a school district, and they consist of funds that are the property of students and are, therefore, not available to support District programs, these funds are not included in the government-wide statements.

B. Basis of Accounting/Measurement Focus

Government-wide, Proprietary and Fiduciary Fund Financial Statements.

The government-wide, proprietary fund and fiduciary fund financial statements are reported using the economic resources measurement focus. These financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

B. Basis of Accounting/Measurement Focus (Continued)

Government-wide, Proprietary and Fiduciary Fund Financial Statements ***(Continued)***

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

The principal operating revenues of the District's enterprise funds and of the District's internal services funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting**.** These funds include the District's custodial activities, which report resources held by the District in a purely custodial capacity for individuals, student groups, organizations, other governments or private purpose funds (scholarships). Under this basis, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Because fiduciary resources are not available to support the District's own programs, they are excluded from the government-wide statements. Custodial funds report only assets, liabilities, and changes in net position, including the recognition of additions and deductions (rather than revenues and expenditures).

Governmental Fund Financial Statements:

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within 60 days after the District's fiscal year. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. All other revenue items are considered to be measurable and available only when cash is received by the government.

Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuances of general long-term debt and acquisitions under leases are reported as other financing sources.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

Unavailable revenue is reported in the governmental funds when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for unearned revenue is removed and revenue is recognized.

C. Revenues

Substantially all governmental fund revenues are accrued. Property taxes are billed and collected within the same period in which the taxes are levied. Subsidies and grants to proprietary funds, which finance either capital or current operations, are reported as nonoperating revenue based on GASB Statement No. 33.

In applying GASB Statement No. 33 to grant revenues, the provider recognizes liabilities and expenses and the recipient recognizes receivables and revenue when the applicable eligibility requirements, including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and unearned revenue by the recipient.

D. Expenditures

Expenditures are recognized when the related fund liability is incurred. Inventory costs are reported in the period when inventory items are used, rather than in the period purchased.

E. Cash and Cash Equivalents

For the purposes of the statement of cash flows, investments are considered to be cash equivalents if they are highly liquid with maturity within three months or less.

F. Investments

Investments are made in compliance with the Texas Public Funds Investments Act and board approved policy. Money market investments which are short-term, highly liquid debt instruments including commercial paper, banker's acceptances and U.S. Treasury and agency obligations that have a remaining maturity at time of purchase of one year or less are reported at amortized cost. Investments in entities (such as investment pools) that calculate Net Asset Value per Share and follow the requirements of GASB Statement No. 79 are also reported at amortized cost. Nonparticipating interest-earning investment contracts are reported using a cost-based measure.

The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. All other investments are reported at fair value.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

G. Receivables and Payables

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are presented as a single "Transfers in (out)" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

All trade and property tax receivables are shown net of an allowance for uncollectible. 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 in the District in conformity with Subtitle E, Texas Property Tax Code.

Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed.

Delinquent taxes are prorated between the general and debt service funds based on rates adopted for the year of the levy. Allowance for uncollectible tax receivables are based on the historical experience in collecting property taxes.

Accrued liabilities primarily consist of amounts accrued for salaries and self-insurance claims.

H. Inventory

Inventory is valued at average cost. The District accounts for school supplies and food inventories by using the consumption method whereby expenditures are recognized only when inventory items are used. Reported inventories are equally offset by a fund balance nonspendable category in the fund level statements which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Commodity inventory is offset by unearned revenue.

I. Prepaid Items

Prepaid items are payments made that will benefit periods beyond June 30, 2025. This amount includes prepaid expenses for unexpired insurance policy premiums paid by June 30, 2025 which extend beyond that date and prepaid administrative charges for appraisal district functions. Prepaid items are recorded as expenditures when consumed rather than when purchased. In the fund financial statements for the General Fund, the reported amounts are equally offset by a fund balance nonspendable category, which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Prepayments from Special Revenue Funds will not be offset by a fund balance nonspendable category since the resources for these funds are restricted.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

J. Capital Assets

Capital assets, which include property, equipment, and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements.

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their acquisition value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of $5,000 is used.

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

Asset Class	Estimated Useful Lives
Infrastructure	15
Buildings & Improvements	10-75
Vehicles/Buses	2-12
Furniture and Equipment	2-15

K. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

L. Deferred Outflows of Resources and Deferred Inflows of Resources

Certain defined transactions that do not qualify for treatment as either assets or liabilities are required to be accounted for and reported as either deferred outflows of resources (a separate subheading following assets but before liabilities) or deferred inflows of resources (a separate subheading following liabilities but before equity).

Deferred outflows of resources—a consumption of net assets by the government that is applicable to a future reporting period and so will not be recognized as an outflow of resources (expenditure/expenses) until then. It has a positive effect on net position, similar to assets.

Deferred inflows of resources—an acquisition of net assets by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

L. Deferred Outflows of Resources and Deferred Inflows of Resources (Continued)

Deferred Outflows of Resources

In the government-wide financial statements, deferred amounts from a refunding of debt (debits) are reported as deferred outflows of resources and are amortized over the lesser life of the refunded bonds or refunding debt.

Deferred outflows of resources for pension and OPEB are reported in the government-wide financial statement of net position. Deferred outflows result from pension and OPEB plan contributions made after the measurement date of the net pension and net OPEB liabilities. Deferred outflows also include the District's proportionate share of the deferred outflows of resources of the TRS plan. These deferred outflows include the differences between expected and actual economic experience and changes in actuarial assumptions. The deferred outflows of resources related to the District's contributions which are subsequent to the measurement date will be recognized as a reduction of the net pension and net OPEB liabilities in the next fiscal year.

Deferred Inflows of Resources

Deferred amounts from refunding debt (credits) are reported as deferred inflows of resources and are amortized over the lesser life of the refunded bonds or refunding debt.

Deferred inflows of resources for pension and OPEB are reported in the government-wide financial statement of net position. These deferred inflows result primarily from differences between projected and actual earnings on pension and OPEB plan investments.

Deferred Outflows and Deferred Inflows of Resources by Source for the Pension Plan as a Whole

The recognition period for amortizing the deferred outflows and deferred inflows of resources is set forth by GASB Statement No. 68, paragraph 71. Depending on the specific deferral, the period is defined as either a fixed, 5-year period or equal to the Average Expected Remaining Service Life of all members in the plan, measured as of the beginning of the measurement period which was 5.6451 years.

Deferred Outflows and Deferred Inflows of Resources by Source for the OPEB Plan as a Whole

The recognition period for amortizing the deferred outflows and deferred inflows of resources is set forth by GASB Statement No. 75, paragraph 86. Depending on the specific deferral, the period is defined as either a fixed, 5-year period or equal to the Average Expected Remaining Service Life of all members in the plan, measured as of the beginning of the measurement period which was 9.4212 years.

M. Unearned Revenue

Grant amounts and donations received in advance of meeting requirements are reported as unearned revenue.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

N. Fair Value Measurements

GASB Statement No. 72 requires the District to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. GASB Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 inputs are other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security.

There are three general valuation techniques that may be used to measure fair value. The market approach uses prices generated by market transactions involving identical or comparable assets or liabilities. The cost approach uses the amount that currently would be required to replace the service capacity of an asset (replacement cost). The income approach uses valuation techniques to convert future amounts to present amounts based on current market expectations.

O. Compensated Absences

Leave that has not been used and leave that has been used but not yet paid in cash or settled through noncash means. A liability is recognized for leave that has not been used if the leave is attributable to services already rendered, the leave accumulates, and the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave.

P. Long-term Obligations

In the government-wide financial statements and proprietary funds type in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are recorded and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond and tax notes issuance costs incurred, are expensed in the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Q. Pension

The District is a member employer of the Teacher Retirement System of Texas (TRS) and, therefore, records its proportionate share of the pension liability and related accounts in these financial statements.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

Q. Pension

The fiduciary net position of the TRS 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 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.

R. 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 OPEB, 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.

S. Internal Service Fund Activity

Because the principal users of the internal service activities are the District's governmental activities, the financial statement of the internal service fund is consolidated into the governmental activities column when presented in the government-wide financial statements. Only the net profit or loss before investment income is allocated to the operating programs benefited. The investment income is combined with other unrestricted income as general revenue in the statement of activities.

T. Government-wide Net Position

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

Net Investment in Capital Assets - The investment in capital assets consists of capital assets, net of accumulated depreciation/amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted for State and Federal Programs - The component of net position that reports the difference between assets and liabilities of the Federal and State special revenue programs that consists of assets with constraints placed on their use by the Department of Education, Agriculture, the Texas Education Agency and other federal state entities.

Restricted for Debt Service - The component of net position that reports the difference between assets and liabilities of the Debt Service Funds net of accrued interest at June 30, that consists of assets with constraints placed on their use by the bond covenants.

Restricted-Retirement of Maintenance Tax Note - The component of net position that consists of installments made to a sinking fund until Maintenance Tax Qualified School Construction Notes Series 2011 matures in 2026.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

T. Government-wide Net Position (Continued)

Unrestricted - The net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not reported in net position invested in capital assets, net position restricted for debt service, net position restricted for state and federal programs or in net position restricted for retirement of maintenance tax note.

U. Fund Balance

Fund Balance Flow Assumptions

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance and unassigned fund balance is applied last.

Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes.

There are two major categories of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The District has inventories and prepaid items that are considered nonspendable. The District does not have any nonspendable funds related to endowments.

In addition to the nonspendable fund balance, there is a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted fund balances are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed fund balances can be used only for the specific purposes imposed by formal action through the adoption of a resolution by the Board of Trustees, which is the highest level of decision-making authority in the District. Those committed amounts cannot be used for any other purpose unless the Board removes or changes the specified use by taking the same type of action (i.e. resolution) it employed to previously commit those amounts. In contrast to fund balance that is restricted by enabling legislation, the committed fund balance classification may be redeployed for other purposes with appropriate due process.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

U. Fund Balance

Constraints imposed on the use of committed amounts are imposed by the Board, separate from the authorization to raise the underlying revenue; therefore, compliance with these constraints is not considered legally enforceable. Committed fund balance also incorporates contract obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.

- Assigned fund balances contain self-imposed constraints of the District to be used for a particular purpose. The Board has, by Local Policy CE, authorized the Superintendent, or designee, to assign fund balance. The Board, Superintendent or designee may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. An additional action does not have to be taken for the removal of an assignment.
- Unassigned fund balance of the general fund is not constrained for any particular purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

V. Accounting System

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by Texas Education Agency (TEA) in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

W. Data Control Codes

Data control codes appear in the rows and above the columns of certain financial statements. TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

X. Current Year Implementations

As of July 1, 2024, the District adopted GASB Statement No. 101, Compensated Absences. GASB Statement No. 101 requires that liabilities for compensated absences be recognized for leave that has not been used and for leave that has been used but not yet paid in cash or settled through noncash means. This Statement also requires that a liability for certain types of compensated absences, including parental leave, military leave, and jury duty leave, not be recognized until the leave commences. This Statement amends the existing requirements to disclose the gross increases and decreases in a liability for compensated absences to allow governments to disclose only the net change in the liability as long as it's identified as a net change. This requirement is effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

X. Current Year Implementations (Continued)

GASB Statement No. 102 requires a government to assess whether a concentration or constraint makes the primary government reporting unit or other reporting units that report a liability for revenue debt vulnerable to the risk of a substantial impact. Additionally, this Statement requires a government to assess whether an event or events associated with a concentration or constraint that could cause the substantial impact have occurred, have begun to occur, or are more likely than not to begin to occur within 12 months of the date the financial statements are issued. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024, and all reporting periods thereafter. GASB 102 didn't have a material effect on the Districts financial statements.

Y. New Accounting Standards

Future accounting standards possibly applicable to the District that have been issued by the Governmental Accounting Standards Board are:

- Statement No. 103*, Financial Reporting Model Improvements*
- Statement No. 104*, Disclosure of Certain Capital Assets*

The objective of Statement No. 103 is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues.

The requirements for MD&A will improve the quality of the analysis of changes from the prior year, which will enhance the relevance of that information. They also will provide clarity regarding what information should be presented in MD&A. The requirements for the separate presentation of unusual or infrequent items will provide clarity regarding which items should be reported separately from other inflows and outflows of resources. The definitions of operating revenues and expenses and of nonoperating revenues and expenses will replace accounting policies that vary from government to government, thereby improving comparability. The addition of a subtotal for operating income (loss) and noncapital subsidies will improve the relevance of information provided in the proprietary fund statement of revenues, expenses, and changes in fund net position. The requirement for presentation of major component unit information will improve comparability. The requirement that budgetary comparison information be presented as RSI will improve comparability, and the inclusion of the specified variances and the explanations of significant variances will provide more useful information for making decisions and assessing accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter.

The objective of Statement No. 104 is to provide users of government financial statements with essential information about certain types of capital assets. This Statement requires certain types of capital assets to be disclosed separately in the capital assets note disclosures required by Statement 34.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (*Continued)*

Y. New Accounting Standards (Continued)

Lease assets recognized in accordance with Statement No. 87, Leases, and intangible right-to-use assets recognized in accordance with Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements, should be disclosed separately by major class of underlying asset in the capital assets note disclosures. Subscription assets recognized in accordance with Statement No. 96, Subscription-Based Information Technology Arrangements, also should be separately disclosed. In addition, this Statement requires intangible assets other than those three types to be disclosed separately by major class. This Statement also requires that capital assets held for sale be evaluated each reporting period. Governments should disclose (1) the ending balance of capital assets held for sale, with separate disclosure for historical cost and accumulated depreciation by major class of asset, and (2) the carrying amount of debt for which the capital assets held for sale are pledged as collateral for each major class of asset. This requirement is effective for fiscal years beginning after June 15, 2025.

The impact of these statements on the District's financial statements, has not been determined yet. The District will evaluate these new pronouncements and will implement them as applicable by their effective dates.

B. COMPLIANCE AND ACCOUNTABILITY

NOTE 3 – FINANCE–RELATED LEGAL AND CONTRACTUAL PROVISIONS

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations, if applicable.

Expenditures Exceeding Appropriations

For the year ended June 30, 2025, overall the District did not have expenditures exceeding appropriated amounts.

C. DETAILED NOTES ON ALL FUNDS

NOTE 4 – PROPERTY TAXES

Property taxes are levied by October 1 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 February 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

Property tax revenues are considered available when they are collected within the current period or within 60 days after the District's fiscal year.

D. DETAILED NOTES ON ALL FUNDS

NOTE 4 – PROPERTY TAXES *(Continued)*

The District's 2024 tax rate was $0.8350 for maintenance and operation and $0.1616 for debt service, for a total rate of $0.9966 per $100 assessed valuation. Allowances for uncollectible within the General and Debt Service Funds are based upon historical experience in collecting property taxes. The assessed valuation of $9,545,716,392 used to determine the tax rates represents 100% of the fair market value of the property. Education Code section 45.003 limits a school district's maintenance & operation rate for any year. The rate may not exceed the rate equal to the sum of $0.17 and the product of the state compression percentage as determined by Section 48.255 multiplied by $1.00. The Texas Education Code requires school districts to demonstrate to the Texas Attorney General the projected ability to pay all debt issued after September 1, 1992, with a rate not to exceed $0.50.

Taxes Receivable at June 30, 2025 is as follows:

	Receivable	Allowance for Uncollectible	Property Taxes Receivable, net
General Fund	$ 6,780,785	$ 2,039,853	$ 4,740,932
Debt Service Fund	912,793	153,219	759,574
	$ 7,693,578	$ 2,193,072	$ 5,500,506

NOTE 5 – DEPOSITS AND INVESTMENTS

Deposits

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. During the year, the depository bank placed approved pledged securities with the District's agent bank to cover the bank deposits as authorized by Chapter 2257, Collateral for Public Funds of the Government Code, in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract.

The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC). At year-end, the carrying amount of the District's deposits was $7,469,322 and the bank balance of $10,049,418.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be covered by depository insurance, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

The District's cash deposits at June 30, 2025 and during the year ended June 30, 2025 were covered by pledged securities held in the District's name by a bank other than the pledging bank.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 5 – DEPOSITS AND INVESTMENTS *(Continued)*

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

a. Name of Bank: Frost Bank.
b. The amount of pledged securities as of the date of the highest combined balance on deposit was $30,810,600.
c. The largest combined balances of cash and savings accounts totaled to $28,006,332 and occurred during the month of November 2024.
d. Total amount of FDIC coverage at the time of the largest combined balance was $250,000.

Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. The Act requires an annual review of the investment policy and investment strategy. The District's management believes that it complied with the requirements of the Act and the District's investment policies.

The District's investment policies and types of investments are governed by the Public Funds Investments Act ("Act") of 1995. The following types of investment instruments are authorized:

1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009
2) Certificates of deposit and share certificates as permitted by Government Code 2256.010
3) Fully collateralized repurchase agreements as permitted by Government Code 2256.011
4) A securities lending program as permitted by Government Code 2256.0115
5) Banker's acceptances as permitted by Government Code 2256.012
6) Commercial paper as permitted by Government Code 2256.013
7) No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014
8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements as established by Government Code 2256.015
9) Public funds investment pools as permitted by Government Code 2256.016

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk.

Information on the credit rating and credit risk associated with debt securities (excluding U.S. government obligations and obligations guaranteed by the full faith and credit of the U.S. government), external investment pools, money market funds, bond mutual funds and other pooled investments of fixed-income securities at year-end is required.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 5 – DEPOSITS AND INVESTMENTS *(Continued)*

Investments (Continued)

State law and the District's investment policy restrict depository time and demand deposits to those fully collateralized or FDIC insured from eligible depositories (banks) doing business in Texas. By policy, depository CDs are limited to maturities not exceeding two (2) years and require collateralization to 102% with pledged securities (and 110% if collateral is a mortgage backed security). All collateral is to be held by an independent custodian. The pledging bank is contractually responsible for monitoring and maintaining the collateral margins daily. Brokered CD securities must be FDIC insured and delivered versus payment to the District's depository.

The maximum maturity for brokered CDs is one year and FDIC insurance must be verified before purchase. The policy requires that FDIC status of the brokered CD banks be monitored weekly and any mergers exposing the District to non-FDIC coverage requires immediate liquidation.

State law and the District's adopted investment policy limit repurchase agreements to primary dealers or banks doing business in Texas. The policy requires independent safekeeping of collateral, and a 102% margin on collateral. Repurchase agreements are limited to a maximum maturity of three (3) years executed under a Master Repurchase Agreement. Constant dollar, local-government investment pools, as by state law (2256.016) and approved by the adopted Policy are authorized. By state law, all local government pools are rated AAA or equivalent by at least one Nationally Recognized Securities Ratings Organization (NRSRO). All pools by Policy must strive to maintain a $1 NAV.

Debt issued by states, local governments and other political subdivisions must be general obligations of the issuer and be rated A or better by at least one NRSRO and are restricted to two (2) years to maturity.

AAA rated, SEC registered money market mutual funds are authorized if they strive to maintain a $1 NAV.

The Qualified School Construction Note Funds are defined as a separate sub-portfolio which has a maximum stated maturity and weighted average maturity of five (5) years. The policy restricts all other investments to a maximum stated maturity of two (2) years and also restricts the portfolio to a weighted average maturity of 365 days.

As of June 30, 2025:

- holdings in local government investment pools sated AAAm represented 55.38% of the total portfolio,
- holdings in fully FDIC insured or collateralized interest-bearing bank accounts represented 7.18% of the total portfolio,
- holding in commercial paper obligations represented 14.65% of total portfolio,
- holdings in U.S. Government treasury obligations represented 12.11% of the total portfolio,
- holdings in Municipal Bond obligations represented 1.44% of the total portfolio,
- holdings in U.S. government agency obligations represented 9.24% of the total portfolio.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 5 – DEPOSITS AND INVESTMENTS *(Continued)*

Interest-rate Risk

Interest-rate risk reduces the exposure to changes in interest rates that could adversely affect the value of investments. The District shall use final and weighted-average-maturity data. In order to limit interest and market rate risk from changes in interest rates, the District's adopted investment policy sets a maximum maturity of two (2) years. The total portfolio has a dollar weighted average maturity (WAM) limit of 365 days. The investment in the QSCN Reserve Fund has a maturity of 285 days in keeping with its specific policy and goals. The District's investment in TexPool and Lone Star are available daily. The dollar weighted average maturity of the total portfolio was 147 days.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act.

The District's adopted investment policy requires diversification on all authorized investment types and monthly monitoring of credit ratings. See concentrations of investments detailed under the credit risk section above.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act").

Chapter 2256 of the Texas Government Code, 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 AAAm or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the fair value of its underlying investment portfolio within one half of one percent of the value of its shares.

All of the investment pools that the District is invested in meet the criteria established under GASB Statement No. 79 to report their value at amortized cost. All of the investment pools strive to maintain a $1 per share net asset value. Additionally, the pools do not have any limitations or restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity or redemption gates.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 5 – DEPOSITS AND INVESTMENTS *(Continued)*

Public Funds Investment Pools (Continued)

The District's investments at June 30, 2025 are shown as follows:

	Reported Amount	Weighted Average Maturity (days)	Standard & Poor's Rating
Reported at Amortized Cost			
TexPool Government Investment Fund	$ 12,134,417	42	AAAm
TexPool Prime Investment Fund	12,264,507	51	AAAm
Lone Star Corporate Investment Fund	33,759,684	32	AAAm
Lone Star Government Investment Fund	19,945,121	28	AAAm
Reported at Fair Value (Level 2)			
Commercial Paper	20,660,344	137	A-1
Treasury	17,076,523	705	AA+
FFCB	13,028,636	404	Varies
Municipal Bond	2,026,882	216	Varies
	$ 130,896,115		

The District's investments, other than those which are obligations of or guaranteed by the U.S. Government, are rated as to credit quality.

The following is a reconcilement of the District's total cash:

Deposits	$ 7,467,093
Investments	130,896,115
Petty cash	2,229
Restricted cash	77,993
Total	$ 138,443,430
Exhibit A-1	
Cash and cash equivalents	$ 6,682,286
Current investments	89,977,426
Long-term investments	23,455,519
Other restricted assets	17,541,162
Total Exhibit A-1	$ 137,656,394
Exhibit E-1	
Fiduciary cash and cash equivalents	$ 787,036
Total Exhibit E-1	$ 787,036

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 5 – DEPOSITS AND INVESTMENTS *(Continued)*

Restricted Cash and Investments

Restricted cash and investments in the amount of $17,541,162 in the general fund is set aside for future payment of the Maintenance Tax Qualified School Construction Notes. The restricted cash to pay future requirements of the tax notes is offset in the restricted fund balance of the General Fund.

NOTE 6 – CAPITAL ASSETS

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

Governmental Activities	Beginning Balance (Restated)	Increases	Decreases	Transfers In/Out	Ending Balance
Capital assets, not being depreciated:					
Land	$ 12,166,772	$ -	$ (42,900)	$ -	$ 12,123,872
Construction in progress	1,194,042	1,459,837	-	(656,893)	1,996,986
Furniture and equipment in progress	172,000	2,175,801	-	(342,221)	2,005,580
Total capital assets, not being depreciated	13,532,814	3,635,638	(42,900)	(999,114)	16,126,438
Capital assets being depreciated:					
Buildings and improvements	346,136,302	3,486,904	(2,874,535)	656,893	347,405,564
Furniture and equipment	59,280,943	1,507,451	(360,896)	342,221	60,769,719
Vehicles	12,031,212	1,302,509	-	-	13,333,721
Leased property under capital lease	13,605,989	2,987,687	-	-	16,593,676
SBITA	2,346,307	610,638	(181,990)	-	2,774,955
Total capital assets, being depreciated	433,400,753	9,895,189	(3,417,421)	999,114	440,877,635
Less accumulated depreciation for:					
Buildings and improvements	152,332,475	8,595,810	(2,315,191)	-	158,613,094
Furniture and equipment	42,412,673	4,848,292	(332,790)	-	46,928,175
Vehicles	9,254,406	779,015	-	-	10,033,421
Leased property under capital lease	733,070	895,124	-	-	1,628,194
SBITA	822,408	814,080	(181,990)	-	1,454,498
Total Accumulated Depreciation	205,555,032	15,932,321	(2,829,971)	-	218,657,382
Total Capital Assets Being Depreciated (Net)	227,845,721	(6,037,132)	(587,450)	999,114	222,220,253
Governmental Activities Capital Assets (Net)	$ 241,378,535	$ (2,401,494)	$ (630,350)	$ -	$ 238,346,691

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 6 – CAPITAL ASSETS *(Continued)*

Business-Type Activities Nonmajor Enterprise Fund	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated:				
Furniture and equipment	$ 50,909	$ -	$ -	$ 50,909
Total capital assets, being depreciated	50,909	-	-	50,909
Less accumulated depreciation for:				
Furniture and equipment	50,909	-	-	$ 50,909
Total Accumulated Depreciation	50,909	-	-	50,909
Total Capital Assets Being Depreciated (Net)	-	-	-	-
Business-Type Activities Capital Assets (Net)	$ -	$ -	$ -	$ -

Depreciation was charged to the following functions:

Governmental Activities:

11 – Instruction	$ 5,230,756
12 – Instruction and instructional related services	124,177
13 – Curriculum and instructional staff development	18,710
21 – Instructional leadership	7,868
23 – School leadership	83,820
31 – Guidance, counseling and evaluation services	22,547
32 – Social work services	9,138
33 – Health services	17,767
34 – Student transportation	537,511
35 – Food services	1,717,176
36 – Extracurricular activities	1,659,892
41 – General administration	606,211
51 – Facilities, maintenance and operations	4,841,162
52 – Security and monitoring services	252,539
53 – Data processing services	801,915
61 – Community services	1,132
Total depreciation expense-governmental activities	$ 15,932,321

Business–Type Activities:

Nonmajor funds – Project Safe and Secure Depreciation	$ -

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 7 – INTERFUND RECEIVABLES/PAYABLES

Interfund receivable and payable balances at June 30, 2025 were:

	Governmental Funds Exhibit C-1	Proprietary Fund Exhibit D-1	Internal Service Fund Exhibit D-1	Total
Due from other funds	$ 1,665,008	$ 53,852	$ 4,071,389	$ 5,790,249
Due to other funds	$ 3,587,878	$ 2,269	$ 2,200,102	$ 5,790,249

These balances result from the time lag between the dates that transactions such as year-end payroll accruals, indirect cost, worker's compensation adjustments and other year-end accruals are recorded in the accounting system and payments between the funds are made. All amounts are scheduled to be repaid within one year.

NOTE 8 – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables and payables as of June 30, 2025 for the District's individual major, nonmajor, internal service funds and enterprise funds in the aggregate are as follows:

	General Fund	Nonmajor Governmental Funds	Internal Service Fund	Enterprise Fund	Total
Property taxes receivable	$ 6,780,785	$ 912,793	$ -	$ -	$ 7,693,578
Less: Allowance for uncollectible	(2,039,853)	(153,219)	-	-	$ (2,193,072)
	4,740,932	759,574	-	-	5,500,506
Other receivables	$ 98,098	$ 5,547	$ 2,245,511	$ 2	$ 2,349,158
Accrued Liabilities:					
Accrued wages payable	$ 23,762,865	$ 2,601,713	$ -	$ 2,749	$ 26,367,327
Payroll deductions and withholdings payable	2,017,153	-	-	-	2,017,153
	$ 25,780,018	$ 2,601,713	$ -	$ 2,749	$ 28,384,480

Other receivables do not have any allowances associated with them. See Note 14 for further detail regarding risk financing and claims payable.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 9 – DUE TO AND FROM OTHER GOVERNMENTS

Amounts due to and from other governments are reflected in the following funds:

	General Fund	Nonmajor Governmental Funds	Internal Service Fund	Total
Federal /State Funding:				
Texas Education Agency	$ 53,046,571	$ 3,679,689	$ -	$ 56,726,260
Texas Department of Agriculture				
National School Lunch/Breakfast	2,371,822	-	-	2,371,822
Federal Agencies	33,938	83,259	30,729	147,926
County of Hidalgo Tax Collections	281,884	47,823	-	329,707
Other	64,389	192,450	-	256,839
Exhibit C-1/D-1	$ 55,798,604	$ 4,003,221	$ 30,729	59,832,554
Due from U.S. Treasury QSC Notes Subsidy				273,618
Exhibit A-1				$ 60,106,172
Due To Other Governments:				
Due to State of Texas Ex. C-1	$ 410,389	$ 550	$ -	$ 410,939
Due to Texas Education Agency Ex. C-1	-	-	-	-
Due to Federal Agencies EX. C-1	-	-	-	-
Due to U. S. Treasury Ex. D-1	-	-	15,238	15,238
Exhibit A-1	$ 410,389	$ 550	$ 15,238	$ 426,177

NOTE 10 – DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES

Governmental funds report deferred inflows in connection with receivables for revenues that are not considered to be available to liquidate liabilities in the current period.

In the fund level financial statements, the District has the following deferred inflows of resources:

	General Fund	Nonmajor Governmental Funds	Total
Property Taxes, unavailable	$ 4,226,073	$ 666,103	$4,892,176
Medicaid Administrative Claiming	-	66,973	66,973
Totals Exhibit C-1	$ 4,226,073	$ 733,076	$4,959,149

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 10 – DEFERRED OUTFLOWS AND DEFERRED INFLOWS OF RESOURCES *(Continued)*

In the government-wide financial statements (Exhibit A-1), the District reports cumulative deferred charge on refunding as deferred outflows of resources in the amount of $2,773,145 net of cumulative amortization of $2,067,472 or $705,673.

Deferred outflows resources and deferred inflows resources related to pensions and OPEB are $69,440,816 and $91,042,819, respectively. See related details at Note 13 regarding pensions and Note 21 regarding Retiree Health Care Plan (OPEB).

NOTE 11 – UNEARNED REVENUES

Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

The following summarizes unearned revenues:

	General Fund	Nonmajor Governmental Funds	Total
Advances on donations	$ 43,409	-	$ 43,409
Refundable advances	-	119,333	119,333
Exhibit C-1	$ 43,409	$ 119,333	$ 162,742

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 12 – LONG-TERM OBLIGATIONS

Governmental Activities

Long-Term Debt

Changes in debt long-term obligations for the year ended June 30, 2025 are as follows:

Governmental Activities	Beginning Balance 7/1/2024	Increase	Decrease	Ending Balance 6/30/2025	Due within One Year
Bonds Payable					
General Obligation Bonds	$ 26,800,000	$ -	$ 12,500,000	$ 14,300,000	$ 5,475,000
Premium on Bonds	3,594,318	-	1,513,493	2,080,825	-
Sub-Total Bonds	30,394,318	-	14,013,493	16,380,825	5,475,000
Leases	1,049,231	2,956,187	1,556,256	2,449,162	1,359,713
SBITA	925,124	955,990	829,425	1,051,689	717,949
Maintenance Tax Notes	37,261,000	-	1,035,000	36,226,000	17,570,000
Premium on Tax Note	4,293,156	-	200,276	4,092,880	-
Total Long-Term Debt	73,922,829	3,912,177	17,634,450	60,200,556	25,122,662
Other Long-Term Liabilities					
Compensated Absences	13,425,420	-	695,704	12,729,716	3,088,996
Claims Payable	3,991,247	1,627,313	1,615,133	4,003,427	1,797,451
Total Other Long-Term Liabilities	17,416,667	1,627,313	2,310,837	16,733,143	4,886,447
Total Governmental Activities	$ 91,339,496	$ 5,539,490	$ 19,945,287	$ 76,933,699	$ 30,009,109

Bonded debt will be paid by the Debt Service Fund, claims payable will be paid by the Internal Service Fund, compensated absences will be paid by the General Fund and Federal and State Funds, as applicable, and the Maintenance Tax Notes debt will be paid by the General Fund.

Bonds Payable

Bonds payable at June 30, 2025 are comprised of the following:

Unlimited Tax School Building and Refunding Bonds:	
$8,075,000 Series 2020A due in varying installments through 2030, interest at 2% to 5%	$4,680,000
$32,800,000 Series 2020B due in varying installments through 2030, interest at 3% to 4%	9,620,000
	$14,300,000

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 12 – LONG-TERM OBLIGATIONS *(Continued)*

Debt service requirements are as follows:

Year Ending	Bonds Payable		Total
June 30,	Principal	Interest	Requirements
2026	$ 5,475,000	$ 519,550	$ 5,994,550
2027	5,695,000	300,550	5,995,550
2028	1,885,000	118,250	2,003,250
2029	1,245,000	49,800	1,294,800
	$ 14,300,000	$ 988,150	$ 15,288,150

Current Year In Substance Defeasance

In 2025, the District used interest and sinking fund tax collections to place in an irrevocable escrow account to provide future debt service payments of $4,000,000 of the February 15, 2028 and $1,920,000 of the February 15, 2029 maturity of the Series 2020B bond and $1,290,000 of the February 15, 2030 maturity of the Series 2020A bond. As of June 30, 2025, $5,920,000 of the defeased debt remains outstanding.

Prior Year In Substance Defeasance

In 2024, the District used interest and sinking fund tax collections to place in an irrevocable escrow account to provide future debt service payments of $2,915,000 (partial defeasance) of the February 15, 2029 and $4,990,000 (whole defeasance) of the February 15, 2030 maturity of the Series 2020B Bonds. As of June 30, 2025, $7,905,000 of the defeased debt remains outstanding.

Maintenance Tax Qualified School Construction Notes

Maintenance tax notes payable are comprised of the following at June 30, 2025:

2011 $16,485,000 Maintenance tax notes payable in annual installments of $1,175,000 to $1,180,000 to a sinking fund until the tax notes mature in 2026, with interest at 4.66% due semi-annually, February 2013 to February 2026. TEC Code Sec. 45.108.	$ 16,485,000
2012 $901,000 Maintenance tax notes payable in annual installments of $60,000 to $66,000 through August 2026, with interest at 4.24% due semi-annually, February 2013 to August 2026. TEC Code Sec. 45.108.	131,000
2020 $24,010,000 Maintenance tax notes payable in annual installments of $785,000 to $1,815,000 through February 2039, with interest at 4%-5% due semi-annually, August 2020 to February 2039.TEC Code Sec. 45.108.	19,610,000
	$ 36,226,000

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 12 – LONG-TERM OBLIGATIONS *(Continued)*

Tax levies are pledged to the payment of interest and principal of the tax notes. All maintenance tax notes requirements to term, including the required installments that must be made to a sinking fund for the $16,485,000 issue, are as follows:

	Maintenance Tax Notes			
Year Ending June 30,	Principal/ Sinking Fund	Interest	Interest Subsidy Available	Total Requirements
2026	$ 2,265,000	$ 1,639,677	$ 772,377	$ 3,132,300
2027	1,136,000	817,699	1,399	1,952,300
2028	1,120,000	762,800		1,882,800
2029	1,180,000	706,800	-	1,886,800
2030	1,235,000	647,800	-	1,882,800
2031-2039	13,985,000	2,989,300	-	16,974,300
	$ 20,921,000	$ 7564,076	$ 773,776	$ 27,711,300
General Fund				
Restricted Assets	15,305,000			15,305,000
Total Requirements	$ 36,226,000			$ 43,016,300

This debt will be paid by the General Fund. Under Code Section 6431(f), the District receives federal assistance on the interest requirements. For the fiscal year ended June 30, 2025, the District received federal assistance of $745,707.

Funds are required by ordinance to be set aside to pay the maintenance tax notes debt. The fair value of investments in a sinking fund is $17,522,667 and is recorded as restricted assets in the General Fund. These funds are managed by a Trustee and are currently invested in federal agency obligations and municipal bonds. Other restrictions of fund balance in the balance sheet includes this amount.

During the fiscal year ended June 30, 2025, in connection with its ongoing arbitrage compliance procedures, the District remitted an arbitrage yield reduction payment of $444,216 to the U.S. Treasury in accordance with Treasury Regulations Section 1.148-5(c). The payment related to investment earnings on funds associated with the Series 2020 Maintenance Tax Notes and was made to comply with federal arbitrage yield restriction requirements applicable to the District’s tax-exempt debt.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 12 – LONG-TERM OBLIGATIONS *(Continued)*

Leases Payable – Governmental Funds

Leases payable at June 30, 2025 are as follows:

Leases payable to Synovia Solutions, LLC for 90 GPS units, 5 annual payments of $48,600, with an imputed interest rate of 5.89% from February 2022 through February 2026.	$	45,894
Leases payable to Pitney Bowes Inc. for postage meters, 18 quarterly payments of $5,970 with an imputed interest rate of 6.993% from September 2021 through December 2025.		11,634
Leases payable to Wells Fargo Financial Services for Phase I of Toshiba copiers, 4 annual payments of $322,001 with an interest rate of 6.93% from March 2023 to March 2026.		254,994
Leases payable to Wells Fargo Financial Services for Phase II of Toshiba copiers, 4 annual payments of $87,144 with an interest rate of 12.18% from May 2023 to May 2026.		77,681
Leases payable to Wells Fargo Financial Services for Phase III of Toshiba copiers, 4 annual payments of $12,662 with an interest rate of 10.93% from August 2023 to August 2026.		21,702
Leases payable to Wells Fargo Financial Services for Phase IV of Toshiba copiers, 4 annual payments of $112,355 with an interest rate of 14.90% from November 2023 to November 2026.		180,410
Leases payable to Wells Fargo Financial Services for Toshiba copiers, 3 annual payments of $11,632 with an interest rate of 14.89% from September 2024 to September 2026.		18,937
Leases payable to Insight Investments for laptops, 3 annual payments of $1,087,707, with an interest rate of 11.40% from June 2025 to June 2027.		1,837,910
	$	2,449,162

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 12 – LONG-TERM OBLIGATIONS *(Continued)*

Lease requirements to term are as follows:

Year Ending June 30,	Lease Payable Principal	Lease Payable Interest	Total Requirements
2026	$ 1,359,713	$ 285,276	$ 1,644,989
2027	1,089,449	134,906	1,224,355
	$ 2,449,162	$ 420,182	$ 2,869,344

The leases have been recorded at the present value of their future minimum lease payments as of the inception date. All lease requirements are funded by the General Fund.

The assets acquired through leases are as follows:

	Governmental Activities
Leased Property	$ 16,593,676
Less: Accumulated Depreciation	1,628,194
	$ 14,965,482

Subscription Based Information Technology Arrangement (SBITA) – Governmental Funds

SBITA's at June 30, 2025 are as follows:

3 years SBITA payable to Netsync Network Solutions subscription from May 2023 through April 2026. 3 annual payments of $84,718 total of $254,154 with an imputed interest rate of 8.34%. As of June 30, 2025 the district had a liability of:	$ 77,962
3 year SBITA with CDW for Google Workspace for Education licenses from June 2022 to June 2026. 3 annual payments of $87,541 for a total of $262,623 with an imputed interest rate of 8.69%. As of June 30, 2025 the district had a liability of:	80,280
3 year SBITA with SHI Government Solutions Inc for Microsoft annual subscription licenses, covering the period from January 2024 to December 2026. The total payments amount to $864,037, with an imputed interest rate of 8.27%. The annual payments vary, with the first payment set at $284,441, followed by $289,798 for both the second and third years. As of June 30, 2025 the district had a liability of:	266,872

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 12 – LONG-TERM OBLIGATIONS *(Continued)*

3 year SBITA with Edmentum for a courseware licenses from October 01, 2023 through September 30, 2026. 3 annual payments of $196,401 totaling $589,203 with an imputed interest rate of 9.03%. As of June 30, 2025 the district had a liability of:	180,135
3 year SBITA with Uncharted Learning for a 3 year subscription from July 1, 2024 through June 30, 2027. 3 annual payments of $22,500 totaling $67,500 with an imputed interest rate of 8.71%.	39,736
5 year SBITA with Insight Public Sector for Cisco Voice Flex subscription from July 16, 2024 through July 15, 2029. 5 annual payments of $116,030 totaling $580,150, with an imputed interest rate of 5.5%.	406,704
	$ 1,051,689

Year Ending June 30,	SBITA payable Principal	SBITA payable Interest	Total Requirements
2026	$ 717,949	$ 36,944	$ 754,893
2027	119,510	19,020	138,530
2028	104,248	11,783	116,031
2029	109,982	6,049	116,031
	$ 1,051,689	$ 73,796	$ 1,125,485

SBITA Assets and their related accumulated depreciation:

	Governmental Activities
SBITA Assets	$ 2,774,955
Less: Accumulated Depreciation	1,454,498
	$ 1,320,457

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS

Defined Benefit Pension Plan

A. Plan Description

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

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

Defined Benefit Pension Plan *(Continued)*

B. Pension Plan Fiduciary Net Position

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

C. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used.

The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Accordingly, the 2023 Texas Legislature passed Senate Bill (SB) 10 and House Joint Resolution (HJR) to provide eligible retirees with a one-time stipend and an ad hoc cost-of-living-adjustment (COLA).

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS *(Continued)*

Defined Benefit Pension Plan *(Continued)*

C. Benefits Provided (Continued)

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.

D. Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2019 thru 2025. Contribution Rates can be found in the TRS 2024 ACFR, Note 11, on page 87.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS *(Continued)*

Defined Benefit Pension Plan *(Continued)*

D. Contributions (Continued)

Contribution Rates

	2024	2025
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%

Current fiscal year employer contributions	$ 7,126,631
Current fiscal year member contributions	$ 14,326,612
2024 measurement year NECE on-behalf contributions	$ 9,770,000

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

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

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

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

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

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS *(Continued)*

Defined Benefit Pension Plan *(Continued)*

E. Actuarial Assumptions

The total pension liability in the August 31, 2023 actuarial valuation was determined using the following actuarial assumptions: Actuarial Assumptions can be found in the 2024 TRS ACFR, Note 11, page 88.

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term Expected Rate	7.00%
Municipal Bond Rate as of August 2024	3.87%
Inflation	2.30%
Salary Increases	2.95% to 8.95% including inflation
Ad Hoc Post-Employment Benefit Changes	None

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

F. Discount Rate

A single discount rate of 7.00% was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers and the non-employer contributing entity will be made at the rates set by the Legislature during the 2019 session.

It is assumed that future employer and state contributions will be 9.54% of payroll in fiscal year 2025 and thereafter. This includes all employer and State contributions for active and rehired retirees.

Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term expected rate of return on pension plan investments is 7.00%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS *(Continued)*

Defined Benefit Pension Plan *(Continued)*

F. Discount Rate (Continued)

Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2024 (see page 56 of the 2024 TRS ACFR) are summarized below:

Asset Class	Target Allocation %**	Long-Term Expected Geometric Real Rate of Return***	Expected Contribution to Long-Term Portfolio Returns
Global Equity			
USA	18.00%	4.40%	1.00%
Non-U.S Developed	13.00%	4.20%	0.80%
Emerging Markets	9.00%	5.20%	0.70%
Private Equity	14.00%	6.70%	1.20%
Stable Value			
Government Bonds	16.00%	1.90%	0.40%
Absolute Return*	0%	4.00%	0.00%
Stable Value Hedge Funds	5.00%	3.00%	0.20%
Real Return			
Real Estate	15.00%	6.60%	1.20%
Energy, Natural Resources and 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******			-0.70%
Expected Return	100.00%		7.90%

*Absolute Return included Credit Sensitive Investments.

**Target allocations are based on the FY2024 policy model.

***Capital Market Assumption (CMA) come from 2024 SSA study CMA Survey (as of 12/31/2023)

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

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS *(Continued)*

Defined Benefit Pension Plan *(Continued)*

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discounted rate used was 1% less than and 1% greater than the discount rate that was used (7.00%) in measuring the 2024 Net Pension Liability.

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase in Discount Rate (8.00%)
District's proportionate share of the net pension liability	$ 130,213,956	$ 81,523,669	$ 41,180,304

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

On August 31, 2024, the District reported a liability of $81,523,669 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	$ 81,523,669
State's proportionate share that is associated with District	105,901,498
Total	$ 187,425,167

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

At August 31, 2024, the employer's proportion of the collective net pension liability was 0.1334611910% which was a decrease of 0.0039655478% from its proportion measured as of August 31, 2023.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS *(Continued)*

Defined Benefit Pension Plan *(Continued)*

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

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

For the year ended June 30, 2025, the District recognized pension expense of $23,060,072 and revenue of $12,656,999 for support provided by the State.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual actuarial experiences	$ 4,493,473	$ 636,497
Changes in actuarial assumptions	4,209,242	564,315
Difference between projected and actual investment earnings	495,554	-
Changes in proportion and difference between the employer's contribution and the proportionate share of contributions	11,172,744	15,280,824
Total as of August 31, 2024 measurement date	$ 20,371,013	$ 16,481,636
Contributions paid to TRS subsequent to the measurement date	6,042,802	-
Total as of Fiscal year-end	$ 26,413,815	$ 16,481,636

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 13 – PENSION PLAN OBLIGATIONS *(Continued)*

Defined Benefit Pension Plan *(Continued)*

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The District recognized $6,042,802 as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30,	Pension Expense Amount
2026	515,490
2027	8,723,661
2028	(449,087)
2029	(4,938,875)
2030	38,188
Thereafter	-

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	$ 94,398,909	$ -	$ 12,875,240	$ 81,523,669

NOTE 14 – RISK MANAGEMENT

A. General

During the fiscal year, the District maintained insurance for all governmental functions it may be liable for claims. The more significant of these included a property insurance policy covering District buildings and properties in an aggregate amount of $75,000,000 for all perils, except named storm of $50,000,000.

During the fiscal year, the District made various property damage claims and received insurance recoveries totaling approximately $576,529. None of these events resulted in an impaired asset.

The District participated in a public entity risk pool (the Program) for all other significant governmental functions that it may be liable for claims. The more significant of these includes $1,000,000 of general liability insurance.

Provisions of the Program require annual contributions based on a risk-funding plan developed by the Program. In addition, the terms of the Program allow the Program to collect an adjusted contribution if the Program's operations for any given fund year are inadequate to pay the ultimate cost of claims incurred in that fund year.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 14 – RISK MANAGEMENT *(Continued)*

A. General (Continued)

This adjusted contribution may be collected from a member who no longer participates in the Program if the year was attributable to a member's participation year. The Program shall provide excess coverage to ensure the Program's financial integrity.

There were no reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

B. Health and Dental Benefit Plan

During the year ended June 30, 2025, employees of the McAllen Independent School District were covered by a health care insurance plan (the Plan) which is accounted for in the Internal Service Fund. The plan year runs from January 1 through December 31. The District contributed premiums of $466.50 for medical and $18 for dental per employee per month through the plan year ending December 31, 2024 and renewed the same amounts on January 1, 2025 which continued through the District's fiscal year-end of June 30, 2025. Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. The Plan was authorized by Section 21.922, Texas Education Code, and was documented by contractual agreement.

The contract between the McAllen Independent School District and the third-party administrator is renewable each January 1, and terms of coverage and contribution costs are included in the contractual provisions. In accordance with state statute, the District was protected against unanticipated catastrophic individual or aggregate loss by stop-loss coverage carried through Liberty Mutual – Ironshore Indemnity, Inc.

For the plan year, stop-loss coverage was in effect for individual claims exceeding $330,000. Minimum aggregate retention was $25,859,191 with a $1,000,000 aggregate benefit. Management believes that adequate funding plans have been made for all incurred and anticipated claims at June 30, 2025.

C. Worker's Compensation

The District has a self-insured worker's compensation program which is accounted for in the Internal Service Fund. The District is self-insured for individual claims up to $400,000. Management believes that adequate funding has been made for all incurred and anticipated claims at June 30, 2025.

D. Claims Liabilities

The claims for worker's compensation insurance and health insurance liability of $4,003,427 of which $2,205,976 is long-term, reported in the Internal Service Fund at June 30, 2025, is based on the requirements of Governmental Accounting Standards Board Statement No. 10. This Statement requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 14 – RISK MANAGEMENT *(Continued)*

D. Claims Liabilities (Continued)

Changes in the Fund's claims liability amount in fiscal year 2024 and 2025 were:

	2024		2025	
	Health	Worker's Compensation	Health	Worker's Compensation
Beginning of fiscal year claims liability	$ 561,461	$ 2,955,682	$ 1,149,216	$ 2,842,031
Current year claims and changes in	25,204,327	609,191	25,275,640	503,356
Claim payments net of stop loss	(24,616,572)	(722,842)	(25,072,508)	(694,308)
End of fiscal year claims liability	$ 1,149,216	$ 2,842,031	$ 1,352,348	$ 2,651,079

NOTE 15 – REVENUES

Revenues of the District consist of the following:

Local and intermediate revenues in Governmental Fund Types consist of property taxes and related penalties & interest (86%), shared services arrangement (3%), and the remaining from gifts and bequests, food service activities, athletic activities, and co-curricular student activities (11%).

State program revenues are primarily comprised of foundation monies received from the Texas Education Agency and other miscellaneous state program reimbursements.

Federal program revenues include all federal grants direct from federal agencies or passed through from the Texas Education Agency or other state and local entities.

NOTE 16 – GENERAL FUND FEDERAL SOURCE REVENUES

The following summarizes general fund federal program revenues:

	ALN Number	Amount
National School Lunch/Breakfast	10.555/10.553	$ 17,015,250
Child and Adult Care Food Program	10.558	1,734,503
Commodity Supplemental Food Program	10.555	967,508
Fresh Fruit and Vegetable Program	10.582	165,526
Junior Reserve Officer Training Corps	12.U01	221,515
Community Development Block Grants/Entitlement Grants	14.218	156,582
SHARS	Not applicable	991,508
Maintenance Tax Notes Subsidy Federal Government	Not applicable	745,708
E-Rate	Not applicable	118,943
Indirect Cost Revenue Various Federal Programs	Various	1,961,928
Total For General Fund		$ 24,078,971

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 17 – OTHER FINANCING SOURCES (USES) AND TRANSFERS

Other financing sources, uses and transfers during the fiscal year are as follows:

	General Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Fund	Internal Service Fund	Total
Sale of real and personal property	$ 2,164,477	$ 50,349	$ 79	$ -	2,214,905
Proceeds from right to use leased assets	3,550,152	16,674	-	-	3,566,826
Transfers in	(3,837,902)	-	-	3,837,902	-
Transfers out	152,717	-	(152,717)	-	-
	$ 2,029,444	$ 67,023	$ (152,638)	$ 3,837,902	$ 5,781,731

During the fiscal year ended June 30, 2025, the Health Insurance Internal Service Fund experienced a deficit due to claims and related expenses exceeding the fund's available resources. To address this shortfall and ensure sufficient liquidity for ongoing obligations, the governing body authorized a transfer of funds from the General Fund to the Self-Insured Fund. The amount transferred from the General Fund to the Self-Insured Fund totaled $3,837,902. This transfer is reported as a transfer-out in the General Fund and a transfer-in in the Self-Insured Fund and does not represent an expenditure but rather an internal financing activity.

Other financing transfers include $152,717 from the Safe and Secure Enterprise fund into the General fund to help cover costs such as for landscaping, projectors, software, radios, a fence and canopy.

The District generated other financing sources through the sale of property for $2,164,477 and the execution of new lease agreements for copiers, laptops and software subscriptions totaling $3,550,152.

NOTE 18 – SHARED SERVICE ARRANGEMENT

The District is the fiscal agent for a Shared Service Arrangement (SSA) which provides deaf education services to member districts whose students are enrolled in the Regional Day School Program for the Deaf. In addition to the District, other member districts include Donna ISD, Edcouch-Elsa ISD, Edinburg CISD, Hidalgo ISD, IDEA Public Schools, La Joya ISD, La Villa ISD, Mercedes ISD, Mission CISD, Progreso ISD, Pharr-San Juan Alamo ISD (PSJA), Rio Grande City ISD, Roma ISD, San Isidro ISD, Sharyland ISD, South Texas ISD, Triumph Public High Schools, Valley View ISD, Vanguard Academy and Weslaco ISD.

The District, acting as the fiscal agent, receives monies from the granting agencies and administers the program. The fiscal agent is responsible for employment of personnel, budgeting, accounting and reporting. According to guidance provided in Texas Education Agency's Resource Guide, the District has accounted for the activities of the SSA in the appropriate Special Revenue Funds. Additionally, the SSA is accounted for using the Accounting and Reporting Treatment Guidance section of the Resource Guide.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 18 – SHARED SERVICE ARRANGEMENT *(Continued)*

According to the SSA agreement, costs incurred by the SSA shall be divided among the Member Districts in proportion to the number of students of each member district attending the Regional Day School program. Expenditures allocated to the SSA members as of June 30, 2025, are summarized below:

	Fund			
Member District	315	340	435	Total
Donna	$ 7,428	$ -	$ 169,312	$ 176,740
Edcouch-Elsa	6,809	-	155,203	162,012
Edinburg	12,999	214	296,296	309,509
Excellence in Leadership	619	-	14,109	14,728
Hidalgo	3,714	-	84,656	88,370
IDEA	20,428	-	465,608	486,036
La Joya	25,999	214	592,592	618,805
La Villa	619	-	14,109	14,728
McAllen	35,284	858	804,232	840,374
Mercedes	5,571	-	126,984	132,555
Mission	14,237	643	324,515	339,395
Progreso	3,095	214	70,547	73,856
PSJA	6,809	-	155,203	162,012
Rio Grande City	11,761	-	268,077	279,838
Roma	7,428	-	169,312	176,740
Sharyland	3,095	-	70,547	73,642
South Texas	1,238	-	28,219	29,457
Triumph Public High Schools	-	-	-	-
Valley View	4,333	-	98,765	103,098
Vanguard	6,809	-	155,203	162,012
Weslaco	20,428	858	465,609	486,895
Total Allocated	$ 198,703	$ 3,001	$ 4,529,098	$ 4,730,802

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 19 – CONTINGENT LIABILITIES

A. The District participates in a number of state and federally assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the District's compliance with applicable grant requirements will be finally determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

B. The District is independently self-insured for health and worker's compensation insurance. Claims paid are reported in the Internal Service Fund. Claims incurred but not reported have been considered in determining the accrual for claims and the District management believes adequate accruals have been provided at June 30, 2025.

C. The District participates in a public entity risk pool for various governmental functions. The District believes any adjustments to premiums for claims would be immaterial.

D. The District is involved in various legal proceedings arising from its operations. Management in consultation with its attorneys believes the outcomes will have no material effect on the District's financial position.

NOTE 20 – COMMITMENTS AND ENCUMBRANCES

A. At June 30, 2025, the District had the following remaining construction commitments:

PROJECT	AUTHORIZATION	EXPENDED	REMAINING	SOURCE
Light Post Replacement - Fossum, Fields, Hendricks	$ 166,129	$ 129,863	$ 36,266	Capital Projects Fund
Security Surveillance - McHi	80,277	64,977	15,300	General Fund
Network Operations Center (NOC) - Generators	131,000	111,600	19,400	Capital Projects Fund
Intercom System - Roosevelt	45,600	37,520	8,080	General Fund
Surveillance Cameras - Nikki Rowe HS	88,000	38,400	49,600	General Fund
Safety Security Film - All Campuses - Phase I	226,430	197,801	28,629	Special Revenue Fund
Safety Security Film - All Campuses - Phase II	215,539	188,026	27,513	Special Revenue Fund
Safety Security Film - All Campuses - Phase III	209,000	173,591	35,409	Special Revenue Fund
Storage Flasharray	229,519	130,095	99,424	Capital Projects Fund
Surveillance Cameras and Intercom System	1,855,760	1,760,152	95,608	General Fund
	$ 3,247,254	**$ 2,832,025**	**$ 415,229**	

B. Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be honored in the subsequent year.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 20 – COMMITMENTS AND ENCUMBRANCES *(Continued)*

As of June 30, 2025, the District had the following encumbrances outstanding:

Major Funds	Nonmajor Funds		Total
General Fund	Special Revenue Funds	Capital Project Funds	Governmental Funds
$ 1,925,864	$ 146,896	$ 704,074	$ 2,776,834

NOTE 21 – RETIREE HEALTH CARE PLAN

A. *Plan Description*

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

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

B. *OPEB Plan Fiduciary Net Position*

Detailed information about the TRS-Care's fiduciary net position is available in a 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 1-800-223-8778.

C. *Benefits Provided*

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

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

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 21 – RETIREE HEALTH CARE PLAN *(Continued)*

C. Benefits Provided (Continued)

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

TRS-Care Monthly Premium Rates

	Medicare	Non-Medicare
Retiree or surviving spouse	$ 135	$ 200
Retiree and spouse	529	689
Retiree or surviving spouse and children	468	408
Retiree and Family	1,020	999

D. Contributions

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

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of salary. Section 1575.204 establishes a public school contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75% of each active employee's pay for fiscal year 2024. The following table shows contributions to the TRS-Care plan by type of contributor.

Contribution Rates

	2024	2025
Member	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/Private Funding Remitted by Employers	1.25%	1.25%

Current fiscal year employer contributions	$ 1,606,149
Current fiscal year member contributions	$ 1,128,760
2024 measurement year NECE on-behalf contributions	$ 2,145,085

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 21 – RETIREE HEALTH CARE PLAN *(Continued)*

D. Contributions (Continued)

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.

E. 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: *Actuarial Assumptions can be found in the 2024 TRS ACFR, Note 9, page 78.*

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the pension plan, except that the OPEB valuation is more complex. The demographic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2021.

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

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

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

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 21 – RETIREE HEALTH CARE PLAN *(Continued)*

E. Actuarial Assumptions (Continued)

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
Salary Increases	2.95% to 8.95%, including inflation
Aging Factors	Based on the Society of Actuaries' 2013 Study "Health Care Cost – From Birth to Death"
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Ad hoc post-employment benefit changes	None

F. Discount Rate

A single discount rate of 3.87% was used to measure the total OPEB liability. This was a decrease of 0.26% in the discount rate since the previous year. *The Discount Rate can be found in the 2024 TRS ACFR on page 79.* Because the investments are held in cash and there is no intentional objective to advance fund the benefits, the single discount rate is equal to the prevailing municipal bond rate.

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

G. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (2.87%)	Discount Rate (3.87%)	1% Increase in Discount Rate (4.87%)
District's proportionate share of the net OPEB liability	$ 67,961,068	$ 57,204,036	$ 48,512,193

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 21 – RETIREE HEALTH CARE PLAN *(Continued)*

H. OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

At June 30, 2025, the District reported a liability of $ 57,204,036 for its proportionate share of the TRS's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	$ 57,204,036
State's proportionate share that is associated with the District	71,675,881
Total	$ 128,879,917

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

At August 31, 2024, the employer's proportion of the collective net OPEB liability was 0.1884716583% which was a decrease of 0.0038359575% from its proportion measured as of August 31, 2023.

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

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
District's proportionate share of the net OPEB liability	$ 46,584,195	$ 57,204,036	$ 71,042,748

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: *These can be found in the 2024 TRS ACFR on page 79.*

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

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 21 – RETIREE HEALTH CARE PLAN *(Continued)*

H. OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

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 District recognized OPEB expense of $(16,561,377) and revenue of $(9,316,542) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	$ 10,964,093	$ 28,547,915
Changes in actuarial assumptions	7,321,441	18,665,015
Difference between projected and actual investment earnings	-	160,190
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	23,389,695	27,188,063
Total as of August 31, 2024 measurement date	$ 41,675,229	$ 74,561,183
Contributions paid to TRS subsequent to the measurement date	1,351,772	-
Total as of fiscal year-end	$ 43,027,001	$ 74,561,183

The District recognized $1,351,772 as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,	OPEB Expense Amount
2026	$(8,482,080)
2027	(5,891,258)
2028	(6,349,951)
2029	(5,283,753)
2030	(3,069,969)
Thereafter	(3,808,943)

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 21 – RETIREE HEALTH CARE PLAN *(Continued)*

H. OPEB Liabilities, OPEB Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

	Beginning Balance	Additions	Retirements	Ending Balance
Net OPEB Liability	$ 42,573,647	$14,630,389	$ -	$ 57,204,036

I. Medicare Part D – On Behalf Payments for Reporting Entities

Funding Policy. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries, also 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. The amount of subsidy reimbursement received by TRS on behalf of the District for the period ending June 30, 2025, 2024 and 2023, was estimated at $1,236,380, $935,078 and $911,008 respectively, and was recognized by the District.

The contributions made by the State on behalf of the District have been recorded in the government-wide financial statements and in the fund financial statement of the General Fund as both state revenues and payroll expenditures.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 22 – FUND BALANCE

The District has classified its fund balances as follows:

		Other Governmental Funds			Total
Description	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Governmental Funds
Fund Balances:					
Nonspendable:					
Inventories	$ 1,205,843	$ -	$ -	$ -	$ 1,205,843
Prepaid items	3,767,128	-	-	-	3,767,128
Restricted:					
Food service/federal grant	2,264,178	523,655	-	-	2,787,833
State programs	15,786,160	1,997,218	-	-	17,783,378
Retirement of long-term debt	-	-	6,462,729	-	6,462,729
Other restricted fund balance					
Capital projects	-	-	-	2,429,811	2,429,811
Retirement of maintenance tax notes	16,900,102	-	-	-	16,900,102
Committed:					
Campus activity funds	-	1,382,981			1,382,981
Other committed fund balance					
Esser II	3,040,831	-	-	-	3,040,831
Assigned:					
Construction	207,619	-	-	330,113	537,732
Capital expenditures for equipment	2,214,365	-	-	-	2,214,365
Other assigned fund balances					
Encumbrances	450,403	-	-	-	450,403
Instructional	392,748	-	-	-	392,748
Advertising	187,141	-	-	-	187,141
Fine Arts	17,757	-	-	-	17,757
Technology	13,235	-	-	-	13,235
Unassigned:	105,745,927	-	-	-	105,745,927
Total Fund Balance	$ 152,193,437	$ 3,903,854	$ 6,462,729	$ 2,759,924	$ 165,319,944

Other Committed fund balance consists of ESSER II – Local projects. Other Assigned fund balance includes carry-forward purchase orders from 2024-2025, intercom replacements, marquees, cameras and the silent panic alert system.

The District has not established a contingency reserve or "Rainy Day Fund" but monitors an optimum fund balance that targets an estimated two and a half months (75 days) average cash disbursements balance.

C. DETAILED NOTES ON ALL FUNDS *(Continued)*

NOTE 23 – ROUNDING ADJUSTMENTS

Throughout this annual comprehensive financial report, dollar amounts are rounded, thereby creating differences between the details and the totals.

NOTE 24 – SUBSEQUENT EVENTS

The District has evaluated subsequent events through October 31, 2025 which is the date these financial statements were available to be issued. On August 26, 2025, the Board of Trustees adopted a resolution providing for the defeasance to maturity of certain currently outstanding District obligations, resulting in an I&S tax rate of $0.1300. The total tax rate decreased by $0.0644 from the previous year.

NOTE 25 – ADJUSTMENTS TO AND RESTATEMENTS OF BEGINNING BALANCES

Fund balance for the General Fund was restated to reflect expenditures that were recorded in the General Fund but reimbursed under a federal grant. In addition, for the governmental activities, an adjustment to beginning net position was needed to correct a subscription based information technology arrangement (SBITA) and depreciation expense for a capital asset incorrectly recorded. These corrections also caused a restatement in beginning balances for capital assets and long-term debt. Due to the implementation of GASB 101, Compensated Absences, an adjustment to beginning net position was needed. The cumulative effect on the General Fund was a decrease in fund balance of $11,930 and a decrease in net position for Governmental Activities of $24,614,030 (13.43%).

These error corrections resulted in restatements in beginning fund balance and beginning net position as follows:

Reporting Units Affected by Adjustments to and Restatements of Beginning Balances

	Funds	**Government Wide**
	General Fund	Governmental Activity
06/30/2024, as previously reported	$ 160,121,066	$ 183,326,954
GASB implementation	-	(11,833,940)
Grant reimbursement Correction	(11,930)	(11,930)
SBITA Correction	-	(86,337)
Depreciation Correction	-	(12,681,823)
6/30/2024, as restated	$ 160,109,136	$ 158,712,924

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APPENDIX C

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 Fund[1]

Fiscal Year Ending	2016	2017	2018	2019	2020	2021	2022	2023[2]	2024	2025
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.

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

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

PSF Corporation Strategic Asset Allocation

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

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

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

Asset Class	Target Allocation	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.

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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	7,860.0	8,084.6	(224.6)	-2.7%
Total Domestic Equity	11,592.4	11,735.9	(143.5)	-1.2%
International Equity	5,093.7	4,131.1	962.6	23.3%
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	5,525.2	4,648.1	877.1	18.9%
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.

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

Investment Schedule - PSF(SLB)[1]

Fair Value (in millions) August 31, 2025

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

[1] Unaudited figures from Table 5 in the FY 2025 Unaudited Annual Financial Report of the Texas General Land Office and Veterans Land Board.
[2] Historical Cost of investments at August 31, 2025 was: Sovereign Lands $838,676.44; Discretionary Internal Investments $830,739,719.64; Other Lands $37,306,005.32; and Minerals $13,437,552.03.
[3] Includes an estimated 1,000,000.00 acres in freshwater rivers.
[4] Includes an estimated 1,747,600.00 in excess acreage.
[5] Cash in State Treasury is managed by the Treasury Operations Division of the Comptroller of Public Accounts of the State of Texas.
[6] Future Net Revenues discounted at 10% and then adjusted for risk factors. A mineral reserve report is prepared annually by external third-party petroleum engineers.

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

The School District Bond Guarantee Program

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

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

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

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

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

The Charter District Bond Guarantee Program

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

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

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

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

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

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

Comptroller to withhold the amount paid with respect to the Charter District Bond Guarantee Program, plus interest, from the first State money payable to a charter district that fails to make a guaranteed payment on its bonds. The amount withheld will be deposited, first, to the credit of the PSF, and then to restore any amount drawn from the Charter District Reserve Fund as a result of the non-payment.

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

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

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

Capacity Limits for the Guarantee Program

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

Date	Multiplier
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

At 8/31	Principal Amount[1]
2021	95,259,161,922
2022	103,239,495,929
2023	115,730,826,682
2024	125,815,981,603
2025	143,940,955,098[2]

(1) Represents original principal amount; does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount shown excludes bonds that have been refunded and released from the Guarantee Program. The TEA does not maintain records of the accreted value of capital appreciation bonds that are guaranteed under the Guarantee Program.
(2) At August 31, 2025 (the most recent date for which such data is available), the TEA expected that the principal and interest to be paid by school districts and charter districts over the remaining life of the bonds guaranteed by the Guarantee Program was $230,761,751,555, of which $86,820,796,457 represents interest to be paid. As shown in the table above, at August 31, 2025, there were $143,940,955,098 in principal amount of bonds guaranteed under the Guarantee Program. Using the State Capacity Limit of $181,696,286,251 (the State Capacity Limit is currently the Capacity Limit), net of the Capacity Reserve, as of December 31, 2025, 7.86% of the Guarantee Program's capacity was available to the Charter District Bond Guarantee Program. As of December 31, 2025, the amount of outstanding bond guarantees represented 79.16% of the Capacity Limit (which is currently the State Capacity Limit). December 31, 2025 values are based on unaudited data, which is subject to adjustment.

Permanent School Fund Guaranteed Bonds by Category[1]

	School District Bonds		Charter District Bonds		Totals	
Fiscal Year Ended 8/31	No. of Issues	Principal Amount ($)	No. of Issues	Principal Amount ($)	No. of Issues	Principal Amount ($)
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 credit[1], 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 8-31-2025[1]

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 available at https://tea.texas.gov/sites/default/files/ch033a.pdf.

Through the codification of the TEA Undertaking and its commitment to guarantee bonds, the TEA has made the following agreement for the benefit of the issuers, holders, and beneficial owners of guaranteed bonds. The TEA (or its successor with respect to the management of the Guarantee Program) is required to observe the agreement for so long as it remains an "obligated person," within the meaning of Rule 15c2-12, with

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

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.

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APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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NORTON ROSE FULBRIGHT

September 8, 2026

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FINAL

IN REGARD to the authorization and issuance of the "McAllen Independent School District Unlimited Tax School Building Bonds, Series 2026" (the *Bonds*), dated August 1, 2026, in the aggregate principal amount of $96,205,000 we have reviewed the legality and validity of the issuance thereof by the McAllen Independent School District (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof. The Bonds have Stated Maturities of February 15 in each of the years 2027 through 2051, and 2056, 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 Board of Trustees of the Issuer in connection with the issuance of the Bonds, including the Order; (2) 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 (3) such other documentation, including an examination of the Bond executed and delivered initially by the Issuer, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS 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.

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

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 upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, corporations subject to the alternative minimum tax on adjusted financial statement income, owners of 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

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