

NEW ISSUE – Book-Entry-Only

Dated September 3, 2026

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2026A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the 2026A Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. The difference between the issue price of each 2026A Bond and the sum of all amounts to be paid with respect to such 2026A Bond constitutes original issue discount, the accrual of which is treated as interest on the 2026A Bonds. Bond Counsel observes that interest on the 2026A Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2026A Bonds. See "TAX MATTERS."

\$449,920,000*
MIDLAND INDEPENDENT SCHOOL DISTRICT
(Midland County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026A

Dated: September 15, 2026

Due: As shown on page 2 herein

Interest Accrual from Delivery Date (defined below)

PAYMENT TERMS . . . Midland Independent School District (the "District") is issuing its \$449,920,000* Midland Independent School District Unlimited Tax School Building Bonds, Series 2026A (the "2026A Bonds"). Interest on the 2026A Bonds will accrue from the date of initial delivery to the underwriters named below (the "Underwriters"), will be payable February 15 and August 15 of each year commencing February 15, 2028 (being an interest payment date in excess of one year from the Delivery Date), until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The 2026A Bonds will be issued as fully registered obligations in denominations of \$5,000 of principal amount or any integral multiple thereof for any one stated maturity. The definitive 2026A Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the 2026A Bonds may be acquired in authorized denominations thereof. No physical delivery of the 2026A Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the 2026A 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 2026A Bonds (see "THE BONDS - Book-Entry-Only System"). The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The 2026A 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, and an election held in the District on November 7, 2023, and an order adopted by the Board of Trustees (the "Board") of the District on August 25, 2026 (the "2026A Bond Order") in which the Board delegated to an officer of the District (the "Pricing Officer") authority to complete the sale of the 2026A Bonds through the execution of a "2026A Pricing Certificate" (the 2026A Bond Order and the 2026A Pricing Certificate are jointly referred to as the "2026A Order." The 2026A Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the 2026A Order (see "THE BONDS - Authority for Issuance"). **The District has applied for conditional approval for the payment of the 2026A Bonds to be guaranteed by the Permanent School Fund of Texas (see "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" herein).**

PURPOSE . . . Proceeds from the sale of the 2026A Bonds will be used for the purpose of (i) the design, construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings in the District, including two new high schools, middle school expansion, renovation and improvement, districtwide safety, security, and accessibility improvements, a new elementary school and rehabilitation and improvement of existing facilities; and (ii) paying the costs associated with the issuance of the 2026A Bonds.

MATURITY SCHEDULE - See Schedule on page 2

LEGALITY . . . The 2026A Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Orrick, Herrington & Sutcliffe 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 L.L.P., San Antonio, Texas.

DELIVERY . . . It is expected that the 2026A Bonds will be available for delivery through DTC on or about October 8, 2026* (the "Delivery Date").

**RAYMOND JAMES
FROST BANK**

SIEBERT WILLIAMS SHANK

STIFEL

BOK FINANCIAL SECURITIES, INC.

* Preliminary, subject to change.

\$449,920,000*
MIDLAND INDEPENDENT SCHOOL DISTRICT
(Midland County, Texas)
UNLIMITED TAX SCHOOL BUILDING BONDS, SERIES 2026A

MATURITY SCHEDULE*

CUSIP Prefix:597783⁽¹⁾

CURRENT INTEREST BONDS

Principal Amount	Maturity	Interest Rate	Initial Yield	CUSIP ⁽¹⁾	Principal Amount	Maturity	Interest Rate	Initial Yield	CUSIP ⁽¹⁾
\$ 5,285,000	2/15/2029				\$ 10,640,000	2/15/2043			
5,555,000	2/15/2030				11,185,000	2/15/2044			
5,835,000	2/15/2031				11,760,000	2/15/2045			
6,140,000	2/15/2032				12,360,000	2/15/2046			
6,455,000	2/15/2033				13,000,000	2/15/2047			
6,785,000	2/15/2034				37,715,000	2/15/2048			
7,135,000	2/15/2035				53,625,000	2/15/2049			
7,495,000	2/15/2036				56,375,000	2/15/2050			
7,880,000	2/15/2037				15,870,000	2/15/2051			
8,290,000	2/15/2038				16,690,000	2/15/2052			
8,710,000	2/15/2039				17,545,000	2/15/2053			
9,155,000	2/15/2040				18,440,000	2/15/2054			
9,630,000	2/15/2041				34,245,000	2/15/2055			
10,120,000	2/15/2042				36,000,000	2/15/2056			

(Interest to accrete from the Delivery Date)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the District, the Municipal Advisor, the Underwriters (defined herein) or their agents or counsel assume responsibility for the accuracy of such numbers.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem 2026A Bonds having stated maturities on and after February 15, _____, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, _____, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS – Optional Redemption").

* Preliminary, subject to change.

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NEW ISSUE – Book-Entry-Only

Dated September 3, 2026

Interest on the Taxable 2026B Bonds (hereinafter defined) is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986.

\$53,995,000*

MIDLAND INDEPENDENT SCHOOL DISTRICT
(Midland County, Texas)
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2026B

Dated: September 15, 2026

Due: As shown on page 4 herein

Interest Accrual from Delivery Date (defined below)

PAYMENT TERMS . . . Midland Independent School District (the "District") is issuing its \$53,995,000* Midland Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2026B (the "Taxable 2026B Bonds"). Interest on the Taxable 2026B Bonds will accrue from the date of initial delivery to the underwriters named below (the "Underwriters"), will be payable on May 1, 2027, until maturity and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Taxable 2026B Bonds will be issued as fully registered obligations in denominations of \$5,000 of principal amount or any integral multiple thereof for the stated maturity. The definitive Taxable 2026B Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Taxable 2026B Bonds may be acquired in authorized denominations thereof. No physical delivery of the Taxable 2026B Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Taxable 2026B 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 Taxable 2026B Bonds (see "THE BONDS - Book-Entry-Only System"). The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Houston, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Taxable 2026B Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including Chapters 1207 and 1371 of the Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the "Board") on July 21, 2026 (the "Taxable 2026B Bond Order"), in which the Board delegated pricing of the Taxable 2026B Bonds and certain other matters to a "Pricing Officer" who will approve a "Taxable 2026B Pricing Certificate" which will contain the final terms of sale and will complete the sale of the Taxable 2026B Bonds (the Taxable 2026B Bond Order and the Taxable 2026B Pricing Certificate are jointly referred to as the "Taxable 2026B Order"). The Taxable 2026B 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 Taxable 2026B Order (see "THE BONDS - Authority for Issuance"). **The Taxable 2026B Bonds WILL NOT be guaranteed by the Permanent School Fund of the State of Texas.**

PURPOSE . . . Proceeds from the sale of the Taxable 2026B Bonds will be used (i) to refund a portion of the District's outstanding debt described in Schedule I hereto for debt service savings and (ii) for the payment of the costs associated with the issuance of the Taxable 2026B Bonds. See "PLAN OF FINANCING – Purpose".

MATURITY SCHEDULE - See Schedule on page 4

LEGALITY . . . The Taxable 2026B Bonds are offered for delivery when, as and if issued and received by the Underwriters and subject to the approving opinion of the Attorney General of Texas and the opinion of Orrick, Herrington & Sutcliffe 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 L.L.P., San Antonio, Texas.

DELIVERY . . . It is expected that the Taxable 2026B Bonds will be available for delivery through DTC on or about October 8, 2026* (the "Delivery Date").

RAYMOND JAMES
FROST BANK

SIEBERT WILLIAMS SHANK

STIFEL

BOK FINANCIAL SECURITIES, INC.

* Preliminary, subject to change.

\$53,995,000*
MIDLAND INDEPENDENT SCHOOL DISTRICT
(Midland County, Texas)
UNLIMITED TAX REFUNDING BONDS, TAXABLE SERIES 2026B

MATURITY SCHEDULE*

CUSIP Prefix:597783⁽¹⁾

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP⁽¹⁾</u>
\$ 53,995,000	5/1/2027			

(Interest to accrete from the Delivery Date)

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- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. CUSIP data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the District, the Municipal Advisor, the Underwriters (defined herein) or their agents or counsel assume responsibility for the accuracy of such numbers.

NO OPTIONAL REDEMPTION . . . The Taxable 2026B Bonds shall not be subject to redemption prior to its stated maturity at the option of the District as provided herein. (see "THE BONDS – No Optional Redemption").

* Preliminary, subject to change.

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

No dealer, broker, salesman or other person has been authorized by the District or the Underwriters to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Underwriters. This Official Statement does not constitute an offer to sell Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Municipal Advisor or the Underwriters. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM - PSF Continuing Disclosure Undertaking" and "CONTINUING DISCLOSURE INFORMATION" for a description of the undertakings of the Texas Education Agency (the "TEA") and the District, respectively, to provide certain information on a continuing basis.

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

The cover page contains certain information for general reference only and is not intended as a summary of this offering. Investors should read the entire Official Statement, including the schedule and appendices attached hereto, to obtain information essential to making an informed investment decision.

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

NONE OF THE DISTRICT, ITS MUNICIPAL ADVISOR, OR THE UNDERWRITERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY ("DTC") OR ITS BOOK-ENTRY ONLY SYSTEM DESCRIBED UNDER "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" OR THE AFFAIRS OF THE TEA DESCRIBED IN "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM," AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DTC AND THE TEA, RESPECTIVELY.

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

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

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

PRELIMINARY OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds (defined below) 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 Midland Independent School District (the “District”) is a political subdivision located in Midland County, Texas and is approximately 751.39 square miles in area (see “INTRODUCTION - Description of the District”).

THE 2026A BONDS The \$449,920,000* Midland Independent School District Unlimited Tax School Building Bonds, Series 2026A (the “2026A Bonds”) are issued as serial bonds maturing on February 15 in the years 2029 through 2056 (see “THE BONDS - Description of the Bonds”).

THE TAXABLE 2026B BONDS The \$53,995,000* Midland Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2026B (the “Taxable 2026B Bonds”) are issued as serial bonds maturing on May 1 in the years 2027 and 2028 (see “THE BONDS - Description of the Bonds”). The 2026A Bonds together with the Taxable 2026B Bonds shall be collectively referred to as the “Bonds.”

PAYMENT OF INTEREST OF

THE 2026A BONDS..... Interest on the 2026A Bonds accrues from the date of initial delivery to the Underwriters and is payable February 15, 2028 (being an interest payment date in excess of one year from the Delivery Date), and each August 15 and February 15 thereafter until maturity or prior to redemption. (see “THE BONDS - Description of the Bonds”).

PAYMENT OF INTEREST OF

THE TAXABLE 2026B BONDS Interest on the Taxable 2026B Bonds accrues from the date of initial delivery to the Underwriters and is payable on May 1, 2027. (see “THE BONDS - Description of the Bonds”).

AUTHORITY FOR ISSUANCE The 2026A Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Sections 45.001 and 45.003(b)(1) of the Texas Education Code, as amended, Chapter 1371, Texas Government Code, as amended, an election held in the District on November 7, 2023, and an order (the “2026A Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on August 25, 2026 in which the Board delegated to an officer of the District (the “Pricing Officer”) authority to complete the sale of the 2026A Bonds through the execution of a “2026A Pricing Certificate” (the 2026A Bond Order and the 2026A Pricing Certificate are jointly referred to as the “2026A Order.”

The Taxable 2026B Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371 of the Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the “Board”) on July 21, 2026 (the “Taxable 2026B Bond Order”), in which the Board delegated pricing of the Taxable 2026B Bonds and certain other matters to a “Pricing Officer” who will approve a “Taxable 2026B Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Taxable 2026B Bonds (the Taxable 2026B Bond Order and the Taxable 2026B Pricing Certificate are jointly referred to as the “Taxable 2026B Order”). (see “The Bonds - Authority for Issuance”). The 2026A Bond Order and the Taxable 2026B Bond Order shall collectively hereinafter be referred to as the “Bond Orders”; the 2026A Pricing Certificate and the Taxable 2026B Pricing Certificate shall hereinafter be referred to as the “Pricing Certificates”; and the 2026A Order and the Taxable 2026B Order shall collectively hereinafter be referred to as the “Bond Orders”.

SECURITY FOR THE BONDS The Bonds constitute direct obligations of the District, payable from a continuing direct annual ad valorem tax levied by the District, without legal limit as to rate or amount, on all taxable property within the District (see “THE BONDS - Security and Source of Payment”). **Additionally, an application was filed with respect to the 2026A Bonds and the District received conditional approval for the payment of the 2026A Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas** (see “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” and “THE BONDS - Security and Source of Payment”). Also see “STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM” for a discussion of recent developments in State law affecting the financing of school districts in Texas).

* Preliminary, subject to change.

PERMANENT SCHOOL FUND

- GUARANTEE** The District applied for and received conditional approval from the Texas Education Agency for the payment of the 2026A Bonds to be guaranteed by the corpus of the Permanent School Fund of the State of Texas (see "THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM").
- The Taxable 2026B Bonds **will not be** guaranteed by the Permanent School Fund Guarantee Program.
- OPTIONAL REDEMPTION** The District reserves the right, at its option, to redeem 2026A Bonds having stated maturities on and after February 15, __, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, __, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the 2026A Bonds are to be redeemed, the District may select the maturities of the 2026A Bonds to be redeemed. If less than all the 2026A Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the 2026A Bonds are in Book-Entry-Only form) shall determine by lot the 2026A Bonds, or portions thereof, within such maturity to be redeemed (see "THE BONDS - Optional Redemption").
- NO OPTIONAL REDEMPTION.....** The Taxable 2026B Bonds **shall not** be subject to redemption prior to its stated maturity at the option of the District as provided herein. (see "THE BONDS – No Optional Redemption").
- TAX EXEMPTION** In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2026A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. The difference between the issue price of each 2026A Bond and the sum of all amounts to be paid with respect to such 2026A Bond constitutes original issue discount, the accrual of which is treated as interest on the 2026A Bonds. In the further opinion of Bond Counsel, interest on the 2026A Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that interest on the 2026A Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel observes that interest on the Taxable 2026B Bonds is not excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on the 2026A Bonds. See "TAX MATTERS."
- USE OF PROCEEDS** Proceeds from the sale of the 2026A Bonds will be used for the purpose of (i) the design, construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings in the District, including two new high schools, middle school expansion, renovation and improvement, districtwide safety, security, and accessibility improvements, a new elementary school and rehabilitation and improvement of existing facilities; and (ii) paying the costs associated with the issuance of the 2026A Bonds.
- Proceeds from the sale of the Taxable 2026B Bonds will be used (i) to refund a portion of the District's outstanding debt described in Schedule I hereto for debt service savings and (ii) for the payment of the costs associated with the issuance of the Taxable 2026B Bonds.
- RATINGS** The 2026A Bonds and Taxable 2026B Bonds and the currently outstanding debt of the District are rated "AA" by S&P and "Aaa" by Moody's. Additionally, the 2026A Bonds are rated "AAA" by S&P Global Ratings ("S&P") and "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. See "OTHER INFORMATION - Ratings" and "APPENDIX D - 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 of principal or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").
- PAYMENT RECORD** The District has never defaulted in the payment of its bonded indebtedness.

DISTRICT OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

Board of Trustees	Length of Service	Term Expires	Occupation
Josh Guinn President	2 Years	2028	Business Owner
Michael Booker Vice President	6 Years	2028	Senior Procurement Manager
Sara Burleson Secretary	4 Years	2026	Retired Teacher
Angel Hernandez Board Member	2 Year	2028	Bailiff
Tommy Bishop Board Member	20 Years	2026	Environmental Specialist/Levare U.S., Inc.
Dr. Matt Friez Board Member	2 Years	2028	Doctor
Brandon W. Hodges Board Member	19 Years	2026	Entrepreneur

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service to the District	Total School District Service
Dr. Stephanie Howard	Superintendent	3 Years	32 Years
Mr. Tucker Durham	Chief Financial Officer	3 Years	8 Years

CONSULTANTS AND ADVISORS

Independent Auditors.....	Eide Bailly LLP Abilene, Texas
Bond Counsel	Orrick, Herrington & Sutcliffe LLP Austin, Texas
Municipal Advisor	Hilltop Securities Inc. Dallas, Texas

For additional information regarding the District, please contact:

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**PRELIMINARY OFFICIAL STATEMENT
RELATING TO**

MIDLAND INDEPENDENT SCHOOL DISTRICT

\$449,920,000*
**UNLIMITED TAX SCHOOL
BUILDING BONDS, SERIES 2026A**

And

\$53,995,000*
**UNLIMITED TAX REFUNDING BONDS,
TAXABLE SERIES 2026B**

INTRODUCTION

This Preliminary Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of Midland Independent School District (the “District”) \$449,920,000* Unlimited Tax School Building Bonds, Series 2026A (the “2026A Bonds”) and \$53,995,000* Unlimited Tax Refunding Bonds, Taxable Series 2026B (the “Taxable 2026B Bonds”) and together with the 2026A Bonds, the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in each respective Order, except as otherwise indicated herein.

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 Municipal Advisor, Hilltop Securities Inc., Dallas, Texas.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement (defined herein) and the Escrow Agreement (defined herein) will be deposited with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE 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 Midland County, Texas. The District covers approximately 751.39 square miles in Midland County, encompassing the City of Midland. The District is governed by a seven-member Board of Trustees (the “Board”) the members of which serve staggered three-year terms with elections being held in November of each year. Policy-making and supervisory functions are the responsibility of, and are vested in, the Board. The Board delegates administrative responsibilities to the Superintendent of Schools who is the chief administrative officer of the District. Support services are supplied by consultants and advisors.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the 2026A Bonds will be used for the purpose of (i) the design, construction, acquisition, rehabilitation, renovation, expansion, improvement, and equipment of school buildings in the District, including two new high schools, middle school expansion, renovation and improvement, districtwide safety, security, and accessibility improvements, a new elementary school and rehabilitation and improvement of existing facilities; and (ii) paying the costs associated with the issuance of the 2026A Bonds.

Proceeds from the sale of the Taxable 2026B Bonds will be used (i) to refund a portion of the District’s outstanding debt described in Schedule I (the “Refunded Bonds”) for debt service savings and (ii) for the payment of the costs associated with the issuance of the Taxable 2026B Bonds.

REFUNDED BONDS . . . The principal and interest due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain escrow agreement (the “Escrow Agreement”) between the District and U.S. Bank Trust Company, National Association, Houston, Texas (the “Escrow Agent”). The Taxable 2026B Bond Order provides that from the proceeds of the sale of the Taxable 2026B Bonds received from the underwriter of the Bonds listed on the cover page hereof (the “Underwriters”), and other available District Funds, if any, the District will deposit with the Escrow Agent the amount which, together with the Defeasance Securities (defined below) purchased with a portion of the Taxable 2026B Bond proceeds and the interest to be earned on such Defeasance Securities, will be sufficient to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and used to purchase some or all of the following types of obligations: (a) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent and/or (c) noncallable obligations of a state or an agency or a county, municipality or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the District, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent (the “Defeasance Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal and interest on the Refunded Bonds.

* Preliminary, subject to change.

Public Finance Partners LLC (the “Verification Agent”), will verify at the time of delivery of the Taxable 2026B Bonds to the Underwriters the mathematical accuracy of the schedules that demonstrate the Defeasance Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay the principal of and interest on the Refunded Bonds on their redemption date. Such maturing principal of and interest on the Defeasance Securities will not be available to pay the Taxable 2026B Bonds (see “OTHER INFORMATION – Verification of Arithmetical and Mathematical Computations”).

By the deposit of the Defeasance Securities and cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all of the Refunded Bonds in accordance with State law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the verification report of the Verification Agent, the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Defeasance Securities and any cash held for such purpose by the Escrow Agent in the Escrow Fund and such Refunded Bonds will not be deemed as being outstanding obligations of the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The District will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time, including any insufficiency therein caused by the failure of the Escrow Agent to receive payment when due on the Defeasance Securities. Upon defeasance of the Refunded Bonds, the payment of such Refunded Bonds will no longer be guaranteed by the Permanent School Fund Guarantee of the State of Texas.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds, together with available District funds, if any, will be applied approximately as follows:

	The 2026A Bonds	The Taxable 2026B Bonds
<u>Sources of Proceeds</u>		
Par Amount of the Bonds	\$ -	\$ -
[Net] Reoffering Premium	-	-
Total Sources of Proceeds	<u>\$ -</u>	<u>\$ -</u>
<u>Uses of Proceeds</u>		
Deposit to the Project Fund	\$ -	\$ -
Deposit to the Escrow Fund		
Underwriters' Discount, Costs of Issuance and Rounding Amount	-	-
Total Uses of Proceeds	<u>\$ -</u>	<u>\$ -</u>

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds will be dated September 15, 2026. The 2026A Bonds will accrue interest from the date of initial delivery to the Underwriters, and such interest is payable on February 15 and August 15 in each year, commencing on February 15, 2028 (being an interest payment date in excess of one year from the Delivery Date), until maturity or prior redemption. The 2026A Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 2 of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

The Taxable 2026B Bonds will accrue interest from the date of initial delivery to the Underwriters, and such interest is payable on May 1 and November 1 in each year, commencing on May 1, 2027 until maturity. The Taxable 2026B Bonds will mature on the dates, in the principal amounts, and will bear interest at the rates set forth on page 4 of this Official Statement, and such interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Interest on the Bonds is payable to the registered owner appearing on the bond registration books of the Paying Agent/Registrar, initially U.S. Bank Trust Company, National Association, Houston, Texas, on the Record Date (as defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent United States Mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity (or early redemption as it relates to the 2026A Bonds), upon their presentation and surrender to the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “THE BONDS - Book-Entry-Only System” herein. If the date for payment on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will be issued only in fully registered form and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. The Bonds will be issued in denominations of \$5,000 of principal amount or any integral multiple thereof within a maturity. **No physical delivery of the**

Bonds will be made to the beneficial owners thereof. The principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS - Book-Entry-Only System” herein.

AUTHORITY FOR ISSUANCE . . . The 2026A 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, an election held in the District on November 7, 2023, and an order (the “2026A Bond Order”) adopted by the Board of Trustees (the “Board”) of the District on August 25, 2026 in which the Board delegated to an officer of the District (the “Pricing Officer”) authority to complete the sale of the 2026A Bonds through the execution of a “2026A Pricing Certificate” (the 2026A Bond Order and the 2026A Pricing Certificate are jointly referred to as the “2026A Order.” The 2026A Bonds are direct and voted obligations of the District, payable from an annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property located within the District, as provided in the 2026A Order.

The Taxable 2026B Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1207 and 1371 of the Texas Government Code, as amended, and a bond order passed by the Board of Trustees of the District (the “Board”) on July 21, 2026 (the “Taxable 2026B Bond Order”), in which the Board delegated pricing of the Taxable 2026B Bonds and certain other matters to a “Pricing Officer” who will approve a “Taxable 2026B Pricing Certificate” which will contain the final terms of sale and will complete the sale of the Taxable 2026B Bonds (see “The Bonds - Authority for Issuance”). The Taxable 2026B Bond Order and the Taxable 2026B Pricing Certificate are jointly referred to as the “Taxable 2026B Order”. The 2026A Bond Order and the Taxable 2026B Bond Order shall collectively hereinafter be referred to as the “Bond Orders”; the 2026A Pricing Certificate and the Taxable 2026B Pricing Certificate shall hereinafter be referred to as the “Pricing Certificates”; and the 2026A Order and the Taxable 2026B Order shall collectively hereinafter be referred to as the “Orders”.

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 and interest on the Bonds. Additionally, an application has been filed for the 2026A Bonds and the District has received conditional approval for the payment of the 2026A Bonds to be guaranteed by the corpus of the Permanent School Fund of Texas.

PERMANENT SCHOOL FUND GUARANTEE FOR THE 2026A BONDS . . . In connection with the sale of the 2026A Bonds, the District has submitted an application to the Texas Education Agency on the 2026A Bonds and received conditional approval from the Commissioner of Education for guarantee of the 2026A Bonds under the Permanent School Fund Guarantee Program (Chapter 45, Subchapter C of the Texas Education Code). Subject to satisfying certain conditions discussed under the heading “THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM” herein, the payment of the 2026A Bonds will be absolutely and unconditionally guaranteed by the corpus of the Permanent School Fund of the State of Texas. In the event of default by the District in the scheduled payments of the 2026A Bonds, registered owners will receive all payments due from the corpus of the Permanent School Fund.

The Taxable 2026B Bonds shall **not be guaranteed** by the Permanent School Fund Guarantee Program.

OPTIONAL REDEMPTION . . . The District reserves the right, at its option, to redeem the 2026A Bonds having stated maturities on and after February 15, 20__, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 20__ or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the 2026A Bonds are to be redeemed, the District may select the maturities of the 2026A Bonds to be redeemed. If less than all the 2026A Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the 2026A Bonds are in Book-Entry-Only form) shall determine by lot the 2026A Bonds, or portions thereof, within such maturity to be redeemed. If two or more serial bonds of consecutive maturities are combined into one or more “term” bonds (the “2026A Term Bonds”) by the Underwriters, such 2026A Term Bonds will be subject to mandatory sinking fund redemption in accordance with provisions of the 2026A Bond Order and such information will be included in the final official statement.

NO OPTIONAL REDEMPTION . . . The Taxable 2026B Bonds shall not be subject to redemption prior to its stated maturity at the option of the District.

NOTICE OF REDEMPTION AND DTC NOTICES . . . Not less than 30 days prior to a redemption date for the 2026A Bonds, the District shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the 2026A Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND THE FUNDS NECESSARY TO REDEEM SUCH 2026A BONDS HAVING BEEN PROVIDED, THE 2026A BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY 2026A BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH 2026A BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

In the 2026A Bond Order, the District reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem 2026A Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to

effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the District retains the right to rescind such notice at any time prior to the scheduled redemption date if the District delivers a certificate of the District to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any 2026A Bonds subject to conditional redemption which redemption notice has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default.

Further, in the case of a conditional redemption, the failure of the District to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

The Paying Agent/Registrar and the District, so long as a Book-Entry-Only System is used for the 2026A Bonds, will send any notice of redemption, notice of proposed amendment to the 2026A Bond Order or other notices with respect to the 2026A Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the 2026A Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the 2026A Bonds by the District will reduce the outstanding principal amount of such 2026A Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such 2026A Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such 2026A Bonds from the beneficial owners. Any such selection of 2026A Bonds to be redeemed will not be governed by the 2026A Bond Order and will not be conducted by the District or the Paying Agent/Registrar. Neither the District nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the 2026A Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the 2026A Bonds for redemption. See "THE BONDS - Book-Entry-Only System" herein.

DEFEASANCE . . . The Orders provide for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds to their due date (whether such due date be by reason of stated maturity, redemption or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment and/or (2) Defeasance Securities, that will 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, and thereafter the District will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The District has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the District moneys in excess of the amount required for such defeasance.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Orders do not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Defeasance Security will be maintained at any particular rating category.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the District has reserved the option, to be exercised at the time of the defeasance of the 2026A Bonds, to call for redemption at an earlier date those 2026A Bonds which have been defeased to their maturity date, if the District (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the 2026A Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the 2026A 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. 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 take any other action amending the terms of the Bonds are extinguished.

Upon defeasance, such defeased Bonds shall no longer be regarded to be Outstanding or unpaid, and the 2026A Bonds will no longer be guaranteed by the Texas Permanent School Fund.

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

The District may amend the Orders without the consent of any bondholder to (i) cure any ambiguity, defect or omission in the Orders that does not materially adversely affect the interests of the bondholders, (ii) grant additional rights or security for the benefit of the bondholders, (iii) add events of default that are consistent with the provisions of the Orders and that do not materially adversely affect the interests of the bondholders, (iv) qualify the Orders under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws, or (v) make such other provisions that are consistent with the provisions of the Orders and that do not, in the opinion of Bond Counsel, materially adversely affect the bondholders.

Bondholders owning bonds aggregating in a majority of the aggregate principal amount of then outstanding Bonds that are the subject of a proposed amendment shall have the right to approve any amendment to the Orders that may be deemed necessary or desirable by the District; provided, however, the consent of the bondholders of 100% of the aggregate principal amount of then outstanding Bonds shall be required in order to amend the Orders or the Bonds so as to: (i) make any change in the maturity of any of the outstanding Bonds; (ii) reduce the rate of interest on the Bonds; (iii) reduce the amount of the principal payable on any outstanding Bonds; (iv) modify the terms of payment on outstanding Bonds or any of them or impose any condition with respect to such payment; or (v) change the minimum percentage of the principal of the Bonds necessary for consent to such amendment. If at any time the District amends the Orders, the District shall send by U.S. mail to each bondholder of the affected Bonds a copy of the proposed amendment and state whether consent of the bondholders is or is not required for such proposed amendment.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, interest and redemption payments (only as related to the 2026A Bonds) 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 and the Underwriters believe the source of such information to be reliable, but take no responsibility for the accuracy or completeness thereof.*

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 (as related to the 2026A Bonds) shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

The District may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered to DTC.

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued, printed certificates will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Orders 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, notices that are to be given to registered owners under the Orders will be given only to DTC.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association, Houston, Texas. In the Orders, the District retains the right to replace the Paying Agent/Registrar. The District covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a bank or trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the District agrees to promptly

cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be paid to the registered owner at the stated maturity or earlier redemption (only as related to the 2026A Bonds) upon presentation and surrender to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “THE BONDS - Book-Entry-Only System” herein. If the date for any payment on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment will be the next succeeding day which is not such a day, and payment on such date will have the same force and effect as if made on the date payment was due. So provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, payments of principal of the Bonds will be made as described in “THE BONDS - Book-Entry-Only System” above.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, printed Bond certificates will be delivered to registered owners and thereafter the Bonds may be transferred, registered and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 of principal amount 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. The Paying Agent/Registrar shall not be required to make any such transfer or exchange during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“2026A Record Date”) for the interest payable on the 2026A Bonds on any interest payment date means the last business day of the month next preceding each Interest Payment Date.

The record date (“Taxable 2026B Record Date”) for the interest payable on the Taxable 2026B Bonds on any interest payment date means the fifteenth calendar day of the month next preceding each Interest Payment Date. The 2026A Record Date and Taxable 2026B Record Date may be collectively referred to herein as the “Record 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 from the District. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class, postage prepaid, to the address of each Bondholder appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BONDHOLDERS’ REMEDIES . . . The Orders do not specify events of default with respect to the Bonds. If the District defaults in the payment of principal, interest, or redemption price (only as it relates to the 2026A Bonds) on the Bonds when due, or if it fails to make payments into any fund or funds created in the Orders, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Orders, the registered owners may seek a writ of mandamus to compel District officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Orders and the District’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Orders do not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the District to perform in accordance with the terms of the Orders, 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, Texas Government Code, which pertains to the issuance of public securities by issuers such as the District, permits the District to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the District has not waived sovereign immunity, and therefore, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Order covenants in the absence of District action. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the

United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. See "APPENDIX D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" attached hereto for a description of the procedures to be followed for payment of the 2026A Bonds by the Permanent School Fund in the event the District fails to make a payment on the 2026A Bonds when due. The opinions of Bond Counsel (defined herein) will note that all opinions relative to the enforceability of the Orders and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity which permit the exercise of judicial discretion.

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

Subject to satisfying certain conditions, the payment of the 2026A 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 2026A Bonds from the Permanent School Fund, and the Charter District Bond Guarantee Reserve would be the first source to pay debt service if a charter school was unable to make such payment. See "Appendix D - THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM" for pertinent information regarding the Permanent School Fund Guarantee Program. The disclosure regarding the Permanent School Fund Guarantee Program in Appendix D is incorporated herein and made a part hereof for all purposes.

The Taxable 2026B Bonds are **not** guaranteed by the corpus of the Permanent School Fund of the State of Texas.

STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS

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

On May 13, 2016, the Court issued its opinion in the most recent school finance litigation, *Morath v. The Texas Taxpayer & Student Fairness Coal.*, 490 S.W.3d 826 (Tex. 2016) ("*Morath I*"). The plaintiffs and intervenors in the case had alleged that the Finance System, as modified by the State Legislature in part in response to prior decisions of the Court, violated article VII, section 1 and article VIII, section 1-e of the Texas Constitution. In its opinion, the Court held that "despite 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, the District filed a suit in the 126th Judicial District Court of Travis County, Texas, styled *Midland Independent School District, et al. v. Mike Morath, Commissioner of Education*. (Cause No. D-1-GN-26-006002), 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 the plaintiff in 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 Finance System was "undeniably imperfect". While not compelled by the *Morath I* decision to reform the Finance System, the State Legislature could enact future changes to the Finance System. Any such changes could benefit or be a detriment to the District. If the State Legislature enacts future changes to, or fails adequately to fund the Finance System, or if changes in circumstances otherwise provide grounds for a challenge, the Finance System could be challenged again in the future. In its 1995 opinion in *Edgewood Independent School District v. Meno*, 917 S.W.2d 717 (Tex. 1995), the Court stated

that any future determination of unconstitutionality "would not, however, affect the district's authority to levy the taxes necessary to retire previously issued bonds, but would instead require the State Legislature to cure the system's unconstitutionality in a way that is consistent with the Contract Clauses of the U.S. and Texas Constitutions" (collectively, the "Contract Clauses"), which prohibit the enactment of laws that impair prior obligations of contracts.

Although, as a matter of law, the Bonds, upon issuance and delivery, will be entitled to the protections afforded previously existing contractual obligations under the Contract Clauses, the District can make no representations or predictions concerning the effect of Morath II 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 2026A Bonds would be adversely affected by any such legislation (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein).

CURRENT PUBLIC SCHOOL FINANCE SYSTEM

OVERVIEW

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

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

2025 LEGISLATIVE 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.

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 a Statewide election held on November 4, 2025 and legislation passed by both houses of the Legislature there is an increase in: (1) the State mandated general homestead exemption from \$100,000 to \$140,000, (2) the additional exemption on the residence homesteads of those at least sixty-five (65) years of age or disabled from \$10,000 to \$60,000, and (3) the exemption for tangible personal property used in the production of income from the current \$2,500 to \$125,000. Additionally, the Legislature passed legislation that authorizes roughly \$8.5 billion in funding for public schools and provides districts with a \$55 per-student increase to their base funding beginning September 1, 2025, as well as providing 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 created an education savings account ("ESA") program (commonly referred to as vouchers) for students that attend private schools or home school. The legislation became effective September 1, 2025, when the state fiscal biennium began, though families will not receive ESA funds until the 2026-2027 school year. The amount spent for purposes of the program for the 2026-2027 biennium may not exceed \$1 billion. Beginning on September 1, 2027, the legislation requires the Legislature to re-appropriate funds for the program for each subsequent State fiscal biennium. Such program could impact attendance in the District by incentivizing students to homeschool or attend private schools, which could negatively affect the District's attendance-based funding.

The District 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%. For the State fiscal year ending in 2027, the SCP is set at 62.54%.

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. During the 2025 Legislative Session, the Legislature took action to reduce the MCR for the 2025-2026 school year. The MCR for the 2025-2026 school year is \$0.6322 and the floor is \$0.5689. For the 2026-2027 school year, the MCR was established with \$0.6254 as the maximum rate and \$0.5628 as the floor.

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 to increase or decrease its Enrichment Tax Rate to

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

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

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

TIER ONE

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

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

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

TIER TWO

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

EXISTING DEBT ALLOTMENT, INSTRUCTIONAL FACILITIES ALLOTMENT, AND NEW INSTRUCTIONAL FACILITIES ALLOTMENT

The Foundation School Program also includes facilities funding components consisting of the IFA and the EDA, subject to legislative appropriation each State fiscal biennium. To the extent funded for a biennium, these programs assist school districts in funding facilities by, generally, equalizing a school district's I&S tax effort. The IFA guarantees each awarded school district a specified amount per student (the "IFA Yield") in State and local funds for each cent of I&S tax levied to pay the principal of and

interest on eligible bonds issued to construct, acquire, renovate or improve instructional facilities. The IFA Yield has been \$35 since 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 of Education (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 FUNDING EQUITY

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

For the 2026-2027 fiscal biennium, 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 as it existed on January 1, 2025, if any increase in a residence homestead exemption under the Texas Constitution, and any additional limitation on tax increases under the elderly or disabled tax ceiling had not occurred.

LOCAL REVENUE LEVEL IN EXCESS OF ENTITLEMENT

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

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

OPTIONS FOR LOCAL REVENUE LEVEL 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. A district that enters into an agreement to exercise an option to reduce the district’s local revenue level in excess of entitlement under options (3), (4), or (5) for the 2025-2026 school year and that has not previously held an election to exercise said options may request and may receive approval from the Commissioner to delay the date of the election otherwise required to be ordered before September 1. The Commissioner shall set a date by which each district that receives approval to delay an election must order the election and requires the Commissioner, not later than the 2026-2027 school year, to order detachment and annexation of district property or consolidation as necessary to reduce the district’s excess local revenue to the level established by law for a district that receives approval to delay an election and subsequently fails to hold the election or does not receive voter approval at the election. A district that receives approval of a request to delay the date of an election shall pay for credit purchased in equal monthly payments as determined by the Commissioner beginning March 15, 2026, and ending August 15, 2026. Alternatively, the district may pay for credit purchased with one lump sum payment made not later than August 15, 2026, provided that the district notifies the Commissioner of the district’s election to pay through a lump sum not later than March 15, 2026.

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

CURRENT PUBLIC SCHOOL FINANCE SYSTEM AS APPLIED TO THE DISTRICT

For the 2026-27 the 2026-27 school year, the District was designated as an “excess local revenue” Chapter 49 school district by the TEA. Accordingly, the District has been required to exercise one of the options to reduce local revenues permitted under applicable State law. According to currently available information from the TEA, for the 2026-2027 fiscal year, the District is subject to recapture and will reduce its local revenue level pursuant to Option 3, an agreement to purchase attendance credit pursuant to Chapter 49 (See “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Revenue Level In Excess of Entitlement”). The District does not receive any State funding to pay debt service requirements on its outstanding indebtedness, including the Bonds.

A district’s status as to any excess local revenue in Tier One and its wealth per student for Copper Penny purposes in Tier Two must be tested for each future school year and, if it exceeds the maximum permitted levels, the excess must be reduced by exercising one of the permitted options. If the District were to consolidate (or consolidate its tax base for all purposes) with a property-poor district, the outstanding debt of each district could become payable from the consolidated district’s combined property tax base, and the District’s ratio of taxable property to debt could become diluted. If the District were to detach property voluntarily, a portion of its outstanding debt (including the Bonds) could be assumed by the district to which the property is annexed, in which case timely payment of the Bonds could become dependent in part on the financial performance of the annexing district.

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

AD VALOREM PROPERTY 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. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

VALUATION OF TAXABLE PROPERTY. . . The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") collectively responsible for appraising property for all taxing units within the county. The appraisal of property within the District is the responsibility of the Midland Central Appraisal District (the "Appraisal District") in which the District is located. Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District as of January 1 of each year and 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.

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.

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.

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 taxes levied for general elementary and secondary public school purposes, (1) a \$140,000 exemption of the appraised value of all homesteads, (2) a \$60,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

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

Cities, counties and school districts are prohibited from repealing or reducing an optional homestead exemption described in (1), above, that was granted in tax year 2022 through December 31, 2027.

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

PERSONAL PROPERTY. . . Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and

inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Legislation passed by the Legislature during the 89th Regular Session and approved by the voters provides a person an exemption from taxation by a taxing unit of \$125,000 of the appraised value of the tangible personal property the person owns that is held or used for the production of income and has taxable situs at the same location in the taxing unit. A person who leases tangible personal property is also entitled to a tax exemption of \$125,000, regardless of where the property is located in the taxing unit. Such exemption is applicable from and after the 2026 tax year.

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

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

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

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER . . . The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the Governor to be a disaster area following a disaster and is at least 15 percent physically damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15% to 100% 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. Section 11.35 of the Tax Code further provides that “damage” for purposes of such statute is limited to “physical damages.” For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code, as amended.

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

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

TAX LIMITATION AGREEMENTS. . . The Texas Economic Development Act (Chapter 313, Texas Tax Code, as amended), allowed school districts to grant limitations on appraised property values to certain corporations and limited liability companies to encourage economic development within the school district. Generally, during the last eight (8) years of the ten-year term of a tax limitation agreement, a school district could only levy and collect M&O taxes on the agreed-to limited appraised property value. For the

purposes of calculating its Tier One and Tier Two entitlements, the portion of a school district's property that is not fully taxable is excluded from the school district's taxable property values. Therefore, a school district was not subject to a reduction in Tier One or Tier Two State funds as a result of lost M&O tax revenues due to entering into a tax limitation agreement (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM – State Funding for School Districts"). The 87th Texas Legislature did not take action to extend this program, which expired by its terms effective December 31, 2022.

During the 88th Regular Session, House Bill 5 (codified as Chapter 403, Texas Government Code, Subchapter T. Texas Jobs, Energy, Technology and Innovation Act ("Chapter 403")) was enacted into law. Chapter 403 is intended as a replacement of former Chapter 313, Texas Tax Code, but it contains significantly different provisions than the prior program under Chapter 313, Texas Tax Code. The effective date of Chapter 403 was January 1, 2024. Under Chapter 403, a school district may offer a 50% abatement on taxable value for maintenance and operations property taxes for certain eligible projects, except that projects in a federally designated economic opportunity zone receive a 75% abatement. Chapter 403 also provides a 100% abatement of maintenance and operations taxes for eligible property during a project's construction period. Taxable valuation for purposes of the debt services taxes securing the Bonds cannot be abated under Chapter 403. Eligible projects must relate to manufacturing, provision of utility services, dispatchable electric generation (such as non-renewable energy), development of natural resources, critical infrastructure, or research and development for high-tech equipment or technology, and projects must create and maintain jobs and meet certain minimum investment requirements. The District is currently monitoring the State's implementation of this economic development program and cannot make any representations as to what impact, if any, Chapter 403 will have on its finances or operations.

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 PROPERTY TAXATION – District Application of Property Tax Code" herein.

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

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

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

LEVY AND COLLECTION OF TAXES. . . The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and generally become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision

for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the District may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1.

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.

DISTRICT APPLICATION OF THE PROPERTY TAX CODE . . . The State mandates exemptions of \$140,000 for general homestead and an additional homestead exemption of \$60,000 for persons who are aged 65 and over or disabled. The District does not grant an additional local option exemption to the market value of the residence homestead of persons who are 65 years of age or older or disabled.

In addition to the State mandated exemptions of \$140,000 for general homestead and an additional \$60,000 for persons over 65 and the disabled, the District has granted an additional exemption of 10% of the market value of residence homesteads; minimum exemption of \$5,000.

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

Ad valorem taxes are levied by the District against the exempt value of residence homesteads for the payment of debt.

The District does tax non-business personal property; and the Midland Central Appraisal District collects taxes for the District.

The District does permit split payment of taxes, as permitted on a local option basis, but discounts for the early payment of taxes are not allowed.

The District does tax freeport property.

The District has taken action to continue taxing goods-in-transit in calendar year 2012 and thereafter.

The District has a current value limitation agreement under Chapter 313 of the Texas Tax Code, as amended ("Chapter 313"). Under Chapter 313, Texas school districts may grant value limitation agreements that limit the taxable value of certain qualified investments for maintenance and operations tax purposes. The existing value limitation agreement was approved by the Texas Comptroller's office and the Board. The agreement was granted for the purpose of enhancing the local tax base, improving the public education system, creating high-paying jobs and advancing economic development goals of the State.

The agreement with Pioneer Hutt Wind Energy, LLC provides for a minimum capital investment totaling \$100 million within the District's boundaries during the qualifying time period (2023-2024 tax years) to create jobs. Beginning on January 1, 2025, the taxable value of the investment has a taxable value of the lesser of appraised value or \$100 million. The value limitation expires in 2034, while Pioneer Hutt Wind Energy, LLC is required to maintain a presence in the District until 2039, absent early termination of the agreement.

The District has a tax abatement policy and has a tax abatement agreement with Pioneer Hutt Wind Energy, LLC, for limitations on appraised value of property for school district maintenance and operations taxes pursuant to Chapter 313 of the Texas Tax Code, as amended.

The District does not participate in any TIRZ.

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 October 2, 1956 pursuant to Article 2784e-1, Texas Revised Civil Statutes Annotated, as amended (“Article 2784e-1”).

The maximum M&O tax rate per \$100 of taxable value that may be adopted by a school district is the sum of \$0.17 (subject to compression of the nine available copper pennies in a year in which the State increases the guaranteed yield on those pennies) 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. For any year, the highest possible MCR for a school district is \$0.93 (see “TAX RATE LIMITATIONS – Public Hearing and Voter-Approval Tax Rate” and “CURRENT PUBLIC SCHOOL FINANCE SYSTEM – Local Funding for School Districts” herein).

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

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

Section 45.0031 of the Texas Education Code, as amended, requires a school district to demonstrate to the Texas Attorney General that it has the prospective ability to pay its maximum annual debt service on a proposed issue of bonds and all previously issued bonds, other than bonds approved by voters of a school district at an election held on or before April 1, 1991 and issued before September 1, 1992 (or debt issued to refund such bonds, collectively, “exempt bonds”), from a tax levied at a rate of \$0.50 per \$100 of assessed valuation before bonds may be issued (the “50-cent Test”). In demonstrating the ability to pay debt service at a rate of \$0.50, a school district may take into account EDA and IFA allotments to the school district, which effectively reduces the school district’s local share of debt service, and may also take into account Tier One funds allotted to the school district. If a school district exercises this option, it may not adopt an I&S tax until it has credited to the school district’s I&S fund an amount equal to all State allotments provided solely for payment of debt service and any Tier One funds needed to demonstrate compliance with the threshold tax rate test and which is received or to be received in that year. Additionally, a school district may demonstrate its ability to comply with the 50-cent Test by applying the \$0.50 tax rate to an amount equal to 90% of projected future taxable value of property in the school district, as certified by a registered professional appraiser, anticipated for the earlier of the tax year five (5) years after the current tax year or the tax year in which the final payment for the bonds is due. However, if a school district uses projected future taxable values to meet the 50-cent Test and subsequently imposes a tax at a rate greater than \$0.50 per \$100 of valuation to pay for bonds subject to the test, then for subsequent bond issues, the Texas Attorney General must find that the school district has the projected ability to pay principal and interest on the proposed bonds and all previously issued bonds subject to the 50-cent Test from a tax rate of \$0.45 per \$100 of valuation. Once the prospective ability to pay such tax has been shown and the bonds are issued, a school district may levy an unlimited tax to pay debt service. Refunding bonds issued pursuant to Chapter 1207, Texas Government Code, are not subject to the 50-cent Test; however, taxes levied to pay debt service on such bonds (other than bonds issued to refund exempt bonds) are included in maximum annual debt service for calculation of the 50-cent Test when applied to subsequent bond issues that are subject to the 50-cent Test. The 2026A Bonds are issued as new debt for school building purposes pursuant to Chapter 45 and are subject to the 50-cent Test. The Taxable 2026B Bonds are issued as refunding bonds pursuant to Chapter 1207 and are not subject to the 50-cent Test; however, taxes levied to pay debt service on the Taxable 2026B Bonds are included in the calculation of the \$0.50 tax rate as applied to subsequent issues of new debt.

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

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

The Voter-Approval Tax Rate for a school district is the sum of (i) the school district’s MCR; (ii) the greater of (a) the school district’s Enrichment Tax Rate for the preceding year, or (b) the rate of \$0.05 per \$100 of taxable value; and (iii) the school district’s

current I&S tax rate. A school district's M&O tax rate may not exceed the rate equal to the sum of (i) \$0.17 and (ii) the school district's MCR (see "CURRENT PUBLIC SCHOOL FINANCE SYSTEM" herein for more information regarding the State Compression Percentage, MCR, and the Enrichment Tax Rate).

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

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

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

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

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TABLE 1 - VALUATION, EXEMPTIONS AND TAX SUPPORTED DEBT ⁽¹⁾

2025/26 Market Valuation Established by the Midland Central Appraisal District		\$ 64,702,761,911
Less Exemptions/Reductions at 100% Market Value:		
State Mandated General Homestead Exemptions	\$ 3,196,204,141	
State Mandated Over 65 Exemptions or Disabled Exemptions	84,175,837	
Local Option Exemption Loss	1,113,230,551	
Constitutional Exemptions	1,148,840,000	
Miscellaneous Exemptions	56,103,443	
Veteran Exemption Loss	89,308,327	
Pollution Control Loss	145,645,875	
Minimum Value Exemption Loss	1,193,225	
Productivity Loss	503,077,170	
10% Cap Loss	1,678,505,131	(8,016,283,700)
2025/26 Taxable Assessed Valuation ⁽²⁾		\$ 56,686,478,211
Debt Payable from Ad Valorem Taxes as of 8/31/2026		
Outstanding Debt ⁽³⁾	\$ 688,035,000	
The 2026A Bonds ⁽⁴⁾	449,920,000	
The Taxable 2026B Bonds ⁽⁴⁾	53,995,000	
Debt Payable from Ad Valorem Taxes ⁽³⁾⁽⁴⁾		\$ 1,191,950,000
General Obligation Interest and Sinking Fund as of 6/30/2026		\$ 21,226,079
Ratio Tax Supported Debt to Certified Taxable Assessed Valuation		2.10%

2027 Current Estimated Population - 183,182
Per Capita Ad Valorem Taxable Assessed Valuation - \$309,454
Per Capita Debt Payable from Ad Valorem Taxes - \$6,507

- (1) The District's certified Taxable Assessed Valuation for 2026/2027 is \$47,931,733,669. Decrease attributable to the volatility associated with the oil and gas industry.
- (2) Valuations shown do not exclude the values on which property taxes are frozen for the age 65 and over and disabled taxpayer exemptions.
- (3) Projected, excludes the Refunded Bonds.
- (4) Preliminary, subject to change.

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY ⁽¹⁾

Category	Fiscal Year Ended June 30,					
	2026		2025		2024	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 15,493,174,546	23.95%	\$ 15,083,058,219	25.70%	\$ 14,240,321,220	25.10%
Real, Residential, Multi-Family	2,364,126,361	3.65%	2,310,147,691	3.94%	2,363,079,448	4.17%
Real, Vacant Lots/Tracts	436,729,266	0.67%	427,300,069	0.73%	413,795,398	0.73%
Real, Acreage (Land Only)	498,781,150	0.77%	506,315,510	0.86%	505,483,890	0.89%
Real, Farm and Ranch Improvements	499,001,120	0.77%	443,069,278	0.75%	475,502,758	0.84%
Real, Commercial	5,128,804,799	7.93%	4,920,179,834	8.38%	4,654,317,772	8.20%
Real, Industrial	1,247,542,790	1.93%	1,148,076,426	1.96%	877,935,488	1.55%
Real, Oil, Gas & Minerals	28,084,128,751	43.40%	23,751,569,701	40.46%	23,832,201,567	42.01%
Real & Tangible Personal, Utilities	2,863,993,768	4.43%	2,531,312,660	4.31%	2,115,836,281	3.73%
Tangible Personal, Commercial	2,508,321,990	3.88%	2,642,301,310	4.50%	2,323,320,861	4.10%
Tangible Personal, Industrial	5,176,661,450	8.00%	4,669,465,020	7.95%	4,685,985,210	8.26%
Tangible Personal, Mobile Homes	166,922,120	0.26%	158,497,420	0.27%	151,248,277	0.27%
Residential Inventory	356,910	0.00%	-	0.00%	-	0.00%
Special Inventory	211,866,350	0.33%	92,669,780	0.16%	74,788,290	0.13%
Totally Exempt	22,350,540	0.03%	15,794,580	0.03%	17,494,520	0.03%
Total Appraised Value Before Exemptions	\$ 64,702,761,911	100.00%	\$ 58,699,757,498	100.00%	\$ 56,731,310,980	100.00%
Less: Total Exemptions/Reductions	(8,016,283,700)		(6,714,718,065)		(6,759,875,860)	
Taxable Assessed Value	<u>\$ 56,686,478,211</u>		<u>\$ 51,985,039,433</u>		<u>\$ 49,971,435,120</u>	

Category	Fiscal Year Ended June 30,			
	2023		2022	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 13,240,711,466	26.98%	\$ 12,611,967,348	33.25%
Real, Residential, Multi-Family	1,947,309,449	3.97%	1,433,324,506	3.78%
Real, Vacant Lots/Tracts	405,640,120	0.83%	415,310,914	1.09%
Real, Acreage (Land Only)	507,961,730	1.03%	530,528,670	1.40%
Real, Farm and Ranch Improvements	426,239,375	0.87%	409,517,410	1.08%
Real, Commercial	3,554,109,997	7.24%	3,459,077,767	9.12%
Real, Industrial	566,988,078	1.16%	554,961,844	1.46%
Real, Oil, Gas & Minerals	20,389,594,598	41.54%	10,254,199,438	27.03%
Real & Tangible Personal, Utilities	1,763,458,002	3.59%	1,613,894,257	4.25%
Tangible Personal, Commercial	1,871,747,560	3.81%	1,792,707,032	4.73%
Tangible Personal, Industrial	4,171,345,850	8.50%	4,628,593,950	12.20%
Tangible Personal, Mobile Homes	150,282,351	0.31%	144,276,960	0.38%
Residential Inventory	-	0.00%	45,910	0.00%
Special Inventory	70,791,230	0.14%	70,097,110	0.18%
Totally Exempt	15,852,830	0.03%	11,417,280	0.03%
Total Appraised Value Before Exemptions	\$ 49,082,032,636	100.00%	\$ 37,929,920,396	100.00%
Less: Total Exemptions/Reductions	(3,889,270,396)		(3,473,047,792)	
Taxable Assessed Value	<u>\$ 45,192,762,240</u>		<u>\$ 34,456,872,604</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Midland Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. A large portion of the District's assessed valuation consists of oil and natural gas mineral interests. Because drilling activity is dependent upon the prices of volatile commodities, the District's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values (see "Table 5 – Ten Largest Taxpayers").

(1) The District's certified Taxable Assessed Valuation for 2026/2027 is \$47,931,733,669.

TABLE 3 - VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 6/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾⁽³⁾	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at Fiscal Year End ⁽⁴⁾	Ratio of Tax Debt to Taxable Assessed Valuation	Tax Debt Per Capita
2022	169,308	34,456,872,604	203,516	154,225,982	0.45%	911
2023	167,122	45,192,762,240	270,418	149,224,986	0.33%	893
2024	178,636	49,971,435,120	279,739	985,699,986	1.97%	5,518
2025	178,203	51,985,039,433	291,718	847,560,000	1.63%	4,756
2026	183,182	56,686,478,211	309,454	742,030,000	1.31%	4,051
2027	183,182	47,931,733,669 ⁽⁵⁾	261,662	\$ 1,124,055,000 ⁽⁶⁾	2.35% ⁽⁶⁾	\$ 6,136 ⁽⁶⁾

(1) Source: The District.

(2) Net taxable assessed values, with the exception of fiscal year 2026, are as reported in the District's comprehensive annual financial report. Fiscal year ending 2026 is as reported by the Midland Central Appraisal District on the District's annual State Property Tax Reports. Such values are subject to change during the ensuing year.

(3) A large portion of the District's assessed valuation consists of oil and natural gas mineral interests. Because drilling activity is dependent upon the prices of volatile commodities, the District's tax base may grow or constrict in any particular year as a result of fluctuations in mineral values (see "Table 2 - Taxable Assessed Valuations by Category" and "Table 5 – Ten Largest Taxpayers").

(4) The amounts of outstanding tax-supported debt shown in the table above include the principal amount of current interest bonds and capital appreciation bonds as of the issuance date thereof and exclude the accreted value of such outstanding capital appreciation bonds.

(5) The District's certified Taxable Assessed Valuation for 2026/2027 is \$47,931,733,669.

(6) Projected, includes the Bonds but excludes the Refunded Bonds. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 6/30	Tax Rate	Local Maintenance	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2022	\$ 1.02360	\$ 0.95340	\$ 0.07020	\$ 346,467,315	95.74%	98.70%
2023	0.91480	0.84460	0.07020	409,574,661	98.04%	99.55%
2024	0.87700	0.65950	0.21750	436,597,811	96.06%	97.55%
2025	0.87700	0.66690	0.21010	452,145,852	95.05%	95.85%
2026	0.84150	0.63140	0.21010	458,561,525 ⁽¹⁾	99.03% ⁽²⁾	99.95% ⁽²⁾

(1) Provided by Midland Central Appraisal District.

(2) Unaudited collections as of June 30, 2026.

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TABLE 5 - TEN LARGEST TAXPAYERS ⁽¹⁾

Name of Taxpayer	Nature of Property	2025/26 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation ⁽¹⁾
Pioneer Natural Resources (WI)	Oil & Gas	\$ 7,136,640,880	12.59%
Diamondback E&P LLC	Oil & Gas	3,352,017,270	5.91%
XTO Energy Incorporated	Oil & Gas	2,205,760,130	3.89%
Chevron USA Inc.	Oil & Gas	1,788,016,200	3.15%
COG Operating LLC	Oil & Gas	1,527,505,660	2.69%
Apache Corp	Oil & Gas	1,167,292,720	2.06%
Permian Deep Rock Oil CO LLC	Oil & Gas	895,604,650	1.58%
Chevron USA Inc. RI/ORI	Oil & Gas	626,803,170	1.11%
Ovintiv USA Inc.	Oil & Gas	509,151,060	0.90%
Endeavor Energy Resources LP	Oil & Gas	457,573,040	0.81%
		<u>\$ 19,666,364,780</u>	<u>34.69%</u>

- (1) As shown in the table above, the total combined top ten taxpayers in the District currently account for over 34.69% of the District's tax base, thereby creating a concentration risk for the District. Any adverse development related to the taxpayers and their ability to continue to conduct business at their respective locations within the District's boundaries may result in significantly less local tax revenue, thereby severely affecting the District's finances and its ability to repay its outstanding indebtedness. Accordingly, the District makes no representation regarding the continued valuation of any of the property listed in the above table or the generation of future tax revenues therefrom.

TABLE 6 - TAX ADEQUACY⁽¹⁾

2027 Principal and Interest Requirements	\$ 99,880,767 ⁽¹⁾
\$.2157 Tax Rate at 97% Collection Produces	\$ 99,886,748
Average Annual Principal and Interest Requirements, 2027-2056.....	\$ 71,116,038 ⁽¹⁾
\$.1536 Tax Rate at 97% Collection Produces	\$ 71,129,367
Maximum Annual Principal and Interest Requirements, 2027	\$ 99,880,767 ⁽¹⁾
\$.2157 Tax Rate at 97% Collection Produces	\$ 99,886,748

- (1) Includes the Bonds but excludes the Refunded Bonds. Calculations are based on Taxable Assessed Valuation for Fiscal Year 2027 of \$47,931,733,669.

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TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2025/26 Taxable Assessed Value	2025/26 Tax Rate	Total Tax Supported Debt as of 7/31/2026	Estimated % Applicable	District's Overlapping Tax Supported Debt
Midland ISD	\$ 56,686,478,211	\$ 0.8415	\$ 1,191,950,000 ⁽¹⁾	100.00%	\$ 1,191,950,000 ⁽¹⁾
Midland County	66,543,243,363	0.1214	150,030,000	90.04%	135,087,012
Midland County Hospital District	67,698,747,883	0.0763	125,895,000	90.04%	113,355,858
City of Midland	23,151,532,931	0.3486	573,900,000	99.22%	569,423,580
City of Odessa	13,147,753,993	0.4707	257,917,734	12.57%	32,420,259
Total Direct and Overlapping Tax Supported Debt					\$ 2,042,236,709
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					3.60%
Per Capita Direct and Overlapping Tax Supported Debt					\$ 11,148.68

(1) Projected, includes the Bonds but excludes the Refunded Bonds. Preliminary, subject to change.

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DEBT INFORMATION

TABLE 8 – PRO-FORMA TAX SUPPORTED DEBT SERVICE REQUIREMENTS

CYE ⁽¹⁾ 12/31	Outstanding Debt ⁽²⁾			The 2026A Bonds ⁽³⁾			The Taxable 2026B Bonds ⁽³⁾			Total Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total	Total	
2026	\$ 83,910,000	\$ 35,782,550	\$ 119,692,550	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119,692,550	
2027	13,900,000	30,546,650	44,446,650	-	-	-	53,995,000	1,439,117	55,434,117	99,880,767	
2028	14,585,000	29,834,525	44,419,525		41,617,600	41,617,600				86,037,125	
2029	15,335,000	29,086,525	44,421,525	5,285,000	22,363,875	27,648,875				72,070,400	
2030	16,120,000	28,300,150	44,420,150	5,555,000	22,092,875	27,647,875				72,068,025	16.36%
2031	16,950,000	27,473,400	44,423,400	5,835,000	21,808,125	27,643,125				72,066,525	
2032	17,815,000	26,604,275	44,419,275	6,140,000	21,508,750	27,648,750				72,068,025	
2033	18,730,000	25,690,650	44,420,650	6,455,000	21,193,875	27,648,875				72,069,525	
2034	19,690,000	24,730,150	44,420,150	6,785,000	20,862,875	27,647,875				72,068,025	
2035	20,700,000	23,720,400	44,420,400	7,135,000	20,514,875	27,649,875				72,070,275	26.25%
2036	21,765,000	22,658,775	44,423,775	7,495,000	20,149,125	27,644,125				72,067,900	
2037	22,880,000	21,542,650	44,422,650	7,880,000	19,764,750	27,644,750				72,067,400	
2038	24,050,000	20,369,400	44,419,400	8,290,000	19,360,500	27,650,500				72,069,900	
2039	25,155,000	19,265,050	44,420,050	8,710,000	18,935,500	27,645,500				72,065,550	
2040	26,185,000	18,238,250	44,423,250	9,155,000	18,488,875	27,643,875				72,067,125	38.91%
2041	27,250,000	17,169,550	44,419,550	9,630,000	18,019,250	27,649,250				72,068,800	
2042	28,365,000	16,057,250	44,422,250	10,120,000	17,525,500	27,645,500				72,067,750	
2043	29,520,000	14,899,550	44,419,550	10,640,000	17,006,500	27,646,500				72,066,050	
2044	30,725,000	13,694,650	44,419,650	11,185,000	16,460,875	27,645,875				72,065,525	
2045	32,145,000	12,276,525	44,421,525	11,760,000	15,887,250	27,647,250				72,068,775	54.69%
2046	33,795,000	10,628,025	44,423,025	12,360,000	15,284,250	27,644,250				72,067,275	
2047	35,525,000	8,895,025	44,420,025	13,000,000	14,650,250	27,650,250				72,070,275	
2048	13,290,000	7,674,650	20,964,650	37,715,000	13,382,375	51,097,375				72,062,025	
2049	-	7,342,400	7,342,400	53,625,000	11,098,875	64,723,875				72,066,275	
2050	-	7,342,400	7,342,400	56,375,000	8,348,875	64,723,875				72,066,275	74.73%
2051	43,175,000	6,478,900	49,653,900	15,870,000	6,542,750	22,412,750				72,066,650	
2052	44,935,000	4,716,700	49,651,700	16,690,000	5,728,750	22,418,750				72,070,450	
2053	46,770,000	2,882,600	49,652,600	17,545,000	4,872,875	22,417,875				72,070,475	
2054	48,680,000	973,600	49,653,600	18,440,000	3,973,250	22,413,250				72,066,850	94.49%
2055				34,245,000	2,656,125	36,901,125				36,901,125	
2056				36,000,000	900,000	36,900,000				36,900,000	100.00%
	<u>\$ 771,945,000</u>	<u>\$ 514,875,225</u>	<u>\$ 1,286,820,225</u>	<u>\$ 449,920,000</u>	<u>\$ 460,999,350</u>	<u>\$ 910,919,350</u>	<u>\$ 53,995,000</u>	<u>\$ 1,439,117</u>	<u>\$ 55,434,117</u>	<u>\$ 2,253,173,692</u>	

(1) The District's fiscal year end is June 30th. Due to the timing of tax collection receipts, the District budgets for debt payments on a calendar year basis.

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

(3) Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION ⁽¹⁾

Tax Supported Debt Service Requirements, Calendar Year 12/31/26		\$ 119,692,550 ⁽¹⁾
Interest and Sinking Fund Balance, as of 6/30/26	\$ 53,420,496	
Defeased Bonds, 8/15/2025	(22,218,906)	
Budgeted Interest and Sinking Fund Tax Collections	113,755,566	
Estimated Investment Earnings	<u>1,360,000</u>	<u>146,317,156</u>
Estimated Balance, 12/31/2026		<u><u>\$ 26,624,606</u></u>

(1) The District's fiscal year end is June 30th. Debt service requirements are presented on a calendar year basis to conform to the District's manner of budgeting for debt service payments.

TABLE 10 -AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS

Purpose	Date Authorized	Amount Authorized	Amount Previously Issued	Amount Being Issued ⁽¹⁾	Unissued Balance
School Building and Security	11/7/2023	\$ 1,415,400,000	\$ 900,000,000	\$ 460,000,000	\$ 55,400,000

(1) The amount of voted authorization for the Bonds represents the principal amount plus any premium that may be deposited to the construction fund. Preliminary, subject to change.

ANTICIPATED ISSUANCE OF ADDITIONAL UNLIMITED TAX DEBT . . . The District does not have plans to issue additional unlimited tax bonds within the next 12 months.

TABLE 11 - OTHER OBLIGATIONS

NOTES . . . Payment requirements for the District's other long-term debt as of June 30, 2025 are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$3,000,490	\$ 236,277	\$ 3,236,767
2027	2,372,810	112,362	2,485,172
2028	1,319,552	48,479	1,368,031
2029	360,963	4,362	365,325
Total	<u>\$ 7,053,815</u>	<u>\$ 401,480</u>	<u>\$ 7,455,295</u>

LEASES . . . The District entered a master lease agreement to lease vehicles for District-wide use beginning April 2021. Under the terms of the lease, the District pays various monthly rental fees that range between \$668 and \$2,283. The lease terminates in fiscal year 2029.

The District entered an agreement to lease dark fiber infrastructure beginning June 30, 2020. Under the terms of the lease, the District pays a monthly base fee of \$22,294 and paid an initial installation fee of \$4,358,000. The agreement can be extended upon mutual agreement by the District and the lessor; therefore, no additional periods are included as both parties must agree to extend the lease.

At June 30, 2025, the District has recognized a right to use asset of \$1,652,049 and a lease liability of \$1,726,700 related to these agreements. During the fiscal year, the District recorded \$1,816,234 in amortization expense and \$112,883 in interest expense. The District used discount rates that ranged between 3.5% and 12.5%. The discount rates were based the stated rates in the agreements, if available. If no stated rates were available, the discount rates were based on the estimated incremental borrowing rate of the District.

Remaining obligations associated with these leases are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 567,380	\$ 76,552	\$ 643,932
2027	512,279	50,274	562,553
2028	505,450	23,262	528,712
2029	141,591	2,647	144,238
Total	<u>\$ 1,726,700</u>	<u>\$ 152,735</u>	<u>\$1,879,435</u>

SUBSCRIPTION-BASED INFORMATION TECHNOLOGY ARRANGEMENT (SBITAs)

The District has entered into twenty-two SBITA contracts for educational and productivity software. As of June 30, 2025, the value of the subscription liabilities was \$4,575,250. The District is required to make annual principal and interest payments of ranging from \$750 to \$767,580 through September 2028. The subscriptions have an interest rate of 3.50%.

Remaining obligations associated with these subscription agreements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 2,223,496	\$ 142,191	\$2,365,687
2027	1,783,355	53,519	1,836,874
2028	748,831	21,265	770,096
2029	193,123	1,287	194,410
Total	<u>\$ 4,948,805</u>	<u>\$ 218,262</u>	<u>\$5,167,067</u>

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FINANCIAL INFORMATION

TABLE 12 – CHANGES IN NET POSITION

	Fiscal Year Ended June 30,				
	2025	2024	2023	2022	2021
<u>Program Revenues:</u>					
Charges for Services	\$ 7,560,173	\$ 8,411,483	\$ 8,840,595	\$ 7,677,396	\$ 3,248,988
Operating and Capital Grants & Contributions	37,068,702	58,671,637	52,734,246	43,597,926	50,232,910
Maintenance & Operations Taxes	331,771,155	319,663,217	375,682,880	316,487,053	344,384,055
Debt Service Taxes	104,603,140	105,144,532	31,217,618	23,305,344	25,260,525
State Aid - Formula Grants	21,764,197	63,668,837	70,727,918	77,005,106	76,181,141
Grants and Contributions (Not Restricted)	1,258,618	2,434,742	4,265,779	3,117,893	1,233,772
Investment Earnings	52,794,055	30,643,131	13,703,288	734,035	244,319
Miscellaneous	8,828,092	8,391,531	11,433,560	10,468,711	15,067,635
Total Revenues	<u>\$ 565,648,132</u>	<u>\$ 597,029,110</u>	<u>\$ 568,605,884</u>	<u>\$ 482,393,464</u>	<u>\$ 515,853,345</u>
<u>Expenses:</u>					
Instruction, Curriculum and Media Services	\$ 210,492,109	\$ 223,750,013	\$ 190,005,597	\$ 182,761,443	\$ 184,992,241
Instructional and School Leadership	23,186,835	24,249,951	21,463,785	21,280,216	20,142,042
Student Support Services	29,820,770	31,328,377	25,314,736	24,212,334	22,423,047
Child Nutrition	14,894,414	14,732,078	13,552,570	14,558,354	10,106,078
Co-curricular/Extracurricular Activities	8,489,226	8,947,135	7,061,482	6,946,754	5,617,185
General Administration	8,204,408	8,642,126	7,923,848	6,637,190	8,216,210
Plant Maintenance, Security & Data Processing	56,417,243	54,888,015	40,013,279	42,803,083	38,714,250
Community Services	2,151,682	2,258,870	2,073,030	1,387,494	1,335,738
Shared Service Arrangements	91,853,129	91,816,062	165,146,615	124,399,133	153,891,996
Debt Service	37,701,095	20,962,430	3,587,463	4,906,317	6,152,490
Facilities Repair and Maintenance	71,535	158,643	8,540	17,800	-
Other Activities	3,496,578	3,078,650	2,899,804	2,323,593	2,241,283
Total Expenses	<u>\$ 486,779,024</u>	<u>\$ 484,812,350</u>	<u>\$ 479,050,749</u>	<u>\$ 432,233,711</u>	<u>\$ 453,832,560</u>
Increase (Decrease) in Net Position	78,869,108	112,216,760	89,555,135	50,159,753	62,020,785
Beginning Net Position	460,116,808 ⁽¹⁾	350,450,048	260,894,913	210,735,160 ⁽¹⁾	145,320,899
Prior Period Adjustments	-	-	-	-	-
Ending Net Position	<u>\$ 538,985,916</u>	<u>\$ 462,666,808</u>	<u>\$ 350,450,048</u>	<u>\$ 260,894,913</u>	<u>\$ 207,341,684</u>

(1) Restated due to the adoption of GASB Statement No. 101 related to compensated absences.

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TABLE 12A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended June 30,				
	2025	2024	2023	2022	2021
Revenues:					
Local and Intermediate Sources	\$ 355,111,419	\$ 348,180,632	\$ 402,957,183	\$ 330,100,005	\$ 351,228,906
State Program Revenue	35,994,226	77,176,523	82,558,514	88,143,185	87,496,752
Federal Program Revenue	1,493,485	3,161,922	5,777,962	4,881,978	2,233,974
Total Revenues	<u>\$ 392,599,130</u>	<u>\$ 428,519,077</u>	<u>\$ 491,293,659</u>	<u>\$ 423,125,168</u>	<u>\$ 440,959,632</u>
Expenditures:					
Instruction	\$ 183,683,667	\$ 182,643,817	\$ 147,856,932	\$ 159,264,586	\$ 149,810,598
Instructional Resources and Media Services	3,271,616	3,095,207	2,697,965	2,660,163	2,376,455
Curriculum and Staff Development	6,660,525	6,409,012	6,450,815	4,943,643	3,808,308
Instructional Leadership	7,016,537	7,460,959	5,135,633	5,614,801	3,693,206
School Leadership	16,150,932	16,461,412	14,362,814	15,639,409	14,767,612
Guidance, Counseling and Evaluation Services	13,472,152	12,340,434	11,560,394	10,255,912	9,240,671
Social Work Services	646,546	829,043	457,533	222,036	232,846
Health Services	3,586,851	3,562,459	3,182,030	3,550,756	3,290,085
Student (Pupil) Transportation	9,130,960	11,600,393	9,780,507	8,470,485	8,175,860
Food Services	303,993	300,224	136,874	417,275	-
Cocurricular/Extracurricular Activities	7,837,080	8,819,552	6,975,654	7,011,366	5,449,193
General Administration	8,106,811	8,407,851	7,993,876	6,877,727	7,751,435
Plant Maintenance and Operations	40,325,550	44,161,488	30,017,115	29,340,887	26,465,365
Security and Monitoring Services	7,999,777	5,690,420	3,283,467	1,459,793	2,307,928
Data Processing Services	6,271,472	7,195,012	6,105,876	6,921,717	9,400,250
Community Services	1,257,216	1,286,618	1,162,059	1,191,336	1,121,521
Debt Service	3,532,157	2,238,743	1,562,935	394,725	-
Facilities Acquisition and Construction	472,472	14,339,008	1,686,233	642,137	10,360,755
Intergovernmental Charges	95,349,707	94,744,996	167,869,336	126,537,526	155,990,466
Total Expenditures	<u>\$ 415,076,021</u>	<u>\$ 431,586,648</u>	<u>\$ 428,278,048</u>	<u>\$ 391,416,280</u>	<u>\$ 414,242,554</u>
Other Resources and (Uses) & Special Items	<u>\$ 4,153,411</u>	<u>\$ 3,182,842</u>	<u>\$ (31,212,600)</u>	<u>\$ (11,434,923)</u>	<u>\$ (7,564,715)</u>
Excess (Deficiency) of					
Revenues Over Expenditures	\$ (18,323,480)	\$ 115,271	\$ 31,803,011	\$ 20,273,965	\$ 19,152,363
Beginning Fund Balance on September 1	<u>\$ 230,207,094</u>	<u>\$ 230,091,823</u>	<u>\$ 198,288,812</u>	<u>\$ 178,014,847</u>	<u>\$ 158,862,484</u>
Ending Fund Balance on August 31	<u>\$ 211,883,614</u>	<u>\$ 230,207,094</u>	<u>\$ 230,091,823</u>	<u>\$ 198,288,812</u>	<u>\$ 178,014,847</u>

FINANCIAL POLICIES

Summary of Significant Accounting Policies . . . The financial statements of the District have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Basis of Presentation . . . *Government-wide financial statements* - The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. Internal Service fund activity is eliminated to avoid overstatement of revenues and expenses. The statements distinguish between governmental and business-type activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the governmental activities of the District. Direct expenses are those that are specifically associated with a service, program or department and therefore are clearly identifiable to a particular function. Program revenues include amounts

paid by the recipient of goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. All taxes and revenues not classified as program revenues are presented as general revenues of the District.

Fund Financial Statements - Fund financial statements report detailed information about the District. Their focus is on major funds rather than reporting funds by type. Each major governmental aid fund is presented in a separate column, and all nonmajor funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Basis of Accounting . . . Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

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

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

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Revenues from local sources consist primarily of property taxes. Property tax revenues are recognized under the susceptible to accrual concept. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. For state entitlements, the District has adopted a budgetary basis of accounting for Foundation School Program revenues. Such entitlements are recorded as received.

Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are accounted for on the cash basis.

Expenditures are recognized in the accounting period in which the fund liability is incurred when measurable, except expenditures for debt service including unmatured interest on long-term debt. Expenditures for principal and interest on long-term debt are recognized when due.

Budgetary Data . . . Budgets are presented on the modified accrual basis of accounting for the General and Debt Service funds. The budget is prepared and controlled at the function level.

The official school budget is prepared for adoption for required governmental funds prior to June 20 of the preceding fiscal year for the subsequent fiscal year beginning July 1. The Board formally adopts the budget at a public meeting held at least ten days after public notice has been given. Once adopted, the budget can be amended by subsequent Board action. The District ended the 2025-26 fiscal year with a surplus of approximately \$7.89 million (unaudited). The District adopted a balance budget for the 2026-27 fiscal year.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law, the District is authorized to invest in obligations meeting the requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the "PFIA"), which may include: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the District selects from a list the governing body or

designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the District selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the District appoints as its custodian of the banking deposits issued for its account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under Securities and Exchange Commission Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for District deposits, or (ii) certificates of deposits where (a) the funds are invested by the District through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the District as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the District, (b) the broker or the depository institution selected by the District arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the District, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the District appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the District with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (12), or, if applicable, corporate bonds as described below, require the securities being purchased by the District or cash held by the District to be pledged to the District, held in the District's name, and deposited at the time the investment is made with the District or with a third party selected and approved by the District, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the District with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with Federal Securities and Exchange Commission Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (15) for bond proceeds, guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the District and deposited with the District or a third party selected and approved by the District. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The District is also authorized to purchase, sell, and invest its funds in corporate bonds, but only if the District has formally amended its investment policy to authorize such investments. "Corporate bond" is defined as a senior secured debt obligation issued by a domestic business entity and rated not lower than "AA-" or the equivalent by a nationally recognized investment rating firm (does not include convertible bonds or unsecured debt). The bonds must have a stated final maturity that is not later than 3 years from the date the corporate bonds were purchased. The District may not (1) invest more than 15 percent of its monthly average fund balance (excluding bond proceeds, reserves, and other funds held for the payment of debt service), in corporate bonds; or (2) invest more than 25 percent of the funds invested in corporate bonds in any one domestic business entity, including subsidiaries and affiliates of the entity. The District must sell corporate bonds if they are rated "AA-" or its equivalent and are either downgraded or placed on negative credit watch. Corporate bonds are not an eligible investment for a public funds investment pool. The District has not taken the required steps to authorize the investment of District funds in corporate bonds.

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

An eligible political subdivision such as the District may enter into hedging transactions, including hedging contracts, related security, credit, and insurance agreements in connection with commodities used by the political subdivision in its general operations, with the acquisition or construction of a capital project, or with an eligible project. A hedging transaction must comply with the regulations of the Commodity Futures Trading Commission and the SEC. The political subdivision may pledge to such contracts or agreements any general or special revenues or funds it is authorized by law to pledge to the payment of any other obligations. The political subdivision's cost under such contract or agreement may be considered an operations and maintenance expense, an acquisition cost, a project cost, or a construction expense.

The District may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AA+ or an equivalent by at least one nationally recognized rating service. The District may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the District retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the District must do so by order, ordinance, or resolution. The District is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

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

TABLE 13 - CURRENT INVESTMENTS

As of July 30, 2026, the District's investable funds were invested in the following categories:

Description of Investment	Market Value	Percent
Investment Pools	\$ 271,236,256	83.14%
Bank Account	8,831,141	2.71%
Money Market Mutual Funds	46,190,441	14.16%
TOTAL	\$ 326,257,837	100.00%

TAX MATTERS – 2026A BONDS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the 2026A Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). The difference between the issue price of each 2026A Bond and the sum of all amounts to be paid with respect to such 2026A Certificate constitutes original issue discount, the accrual of which is treated as interest on the 2026A Bonds. Bond Counsel is of the further opinion that interest on the 2026A Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. Bond Counsel observes that interest on the 2026A Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the 2026A Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

The following discussion summarizes certain United States federal income tax considerations generally applicable to U.S. Holders (as defined in the Taxable 2026B Bonds discussion, below) of the Bonds that acquire their Bonds in the initial offering, and does not address tax considerations applicable to any investors in the Bonds other than investors that are U.S. Holders.

For federal income tax purposes, original issue discount is treated as interest on the 2026A Bonds only as it accrues. For this purpose, the issue price of a particular maturity of the 2026A Bonds is the first price at which a substantial amount of such maturity of the 2026A Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the 2026A Bonds accrues daily over the term to maturity of such 2026A Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted U.S. federal income tax basis of such 2026A Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2026A Bonds. Beneficial Owners of the 2026A Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2026A Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2026A Bonds in the original offering to the public at the first price at which a substantial amount of such 2026A Bonds is sold to the public.

2026A Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium 2026A Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium 2026A Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's U.S. federal income tax basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium 2026A Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the 2026A Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2026A Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the 2026A Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2026A Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the 2026A Bonds may adversely affect the value of, or the tax status of interest on, the 2026A Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2026A Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the 2026A Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future federal or state legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the 2026A Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the 2026A Bonds. Prospective purchasers of the 2026A Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2026A Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2026A Bonds ends with the issuance of the 2026A Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the 2026A Bonds in the event of an audit examination by the IRS. Under current procedures, Beneficial Owners would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of 2026A Bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2026A Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the 2026A Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Payments on the 2026A Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of 2026A Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the 2026A Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the 2026A Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. Holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

TAX MATTERS – TAXABLE 2026B BONDS

Interest on the Taxable 2026B Bonds is not excluded from gross income for federal income tax purposes pursuant to Section 103 of the Code.

The following discussion summarizes certain U.S. federal income tax considerations generally applicable to holders of the Taxable 2026B Bonds that acquire their Taxable 2026B Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions. Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their Taxable 2026B Bonds as part of a hedge, straddle or an integrated or conversion transaction, investors whose "functional currency" is not the U.S. dollar, or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the Taxable 2026B Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their Taxable 2026B Bonds pursuant to this offering for the issue price that is applicable to such Taxable 2026B Bonds (i.e., the price at which a substantial amount of the Taxable 2026B Bonds are sold to the public) and who will hold their Taxable 2026B Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a Beneficial Owner of a Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S.

federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, “Non-U.S. Holder” generally means a Beneficial Owner of a Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the Taxable 2026B Bonds in light of their particular circumstances.

FOR U.S. HOLDERS OF TAXABLE 2026B BONDS

Interest. Interest on the Taxable 2026B Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder’s method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the Taxable 2026B Bonds is less than the amount to be paid at maturity of such Taxable 2026B Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Taxable 2026B Bonds) by more than a de minimis amount, the difference may constitute original issue discount (“OID”). U.S. Holders of Taxable 2026B Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

Taxable 2026B Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a Taxable 2026B Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such Taxable 2026B Bond.

Sale or Other Taxable Disposition of the Taxable 2026B Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition of a Taxable 2026B Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a Taxable 2026B Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the Taxable 2026B Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder’s adjusted U.S. federal income tax basis in the Taxable 2026B Bond (generally, the purchase price paid by the U.S. Holder for the Taxable 2026B Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such Taxable 2026B Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the Taxable 2026B Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder’s holding period for the Taxable 2026B Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the Taxable 2026B Bonds. If the District defeases any Taxable 2026B Bond, the Taxable 2026B Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder’s adjusted U.S. federal income tax basis in the Taxable 2026B Bond.

Information Reporting and Backup Withholding. Payments on the Taxable 2026B Bonds generally will be subject to U.S. information reporting and possibly to “backup withholding.” Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the Taxable 2026B Bonds may be subject to backup withholding with respect to “reportable payments,” which include interest paid on the Taxable 2026B Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the Taxable 2026B Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number (“TIN”) to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a “notified payee underreporting” described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder’s federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. Holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

FOR NON-U.S. HOLDERS OF TAXABLE 2026B BONDS

Interest. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders,” payments of principal of, and interest on, any Taxable 2026B Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation described in Section 881(c)(3)(C) of the Code, and (2) a bank which acquires such Taxable 2026B Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the Beneficial Owner of the Taxable 2026B Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading “Information Reporting and Backup Withholding,” or an exemption is otherwise established.

Disposition of the Taxable 2026B Bonds. Subject to the discussions below under the headings “Information Reporting and Backup Withholding” and “Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders,” any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the District or a deemed retirement due to defeasance of the Taxable 2026B Bond) or other disposition of a Taxable 2026B Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the District) or other disposition and certain other conditions are met.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading “Foreign Account Tax Compliance Act (“FATCA”)—U.S. Holders and Non-U.S. Holders,” under current U.S. Treasury Regulations, payments of principal and interest on any Taxable 2026B Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the Beneficial Owner of the Taxable 2026B Bond or a financial institution holding the Taxable 2026B Bond on behalf of the Beneficial Owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a Beneficial Owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury.

FOREIGN ACCOUNT TAX COMPLIANCE ACT (“FATCA”)—U.S. HOLDERS AND NON-U.S. HOLDERS OF TAXABLE 2026B BONDS

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Taxable 2026B Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain “passthru” payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term “foreign passthru payments.” Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of Taxable 2026B Bonds in light of the holder’s particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of Taxable 2026B Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

CONTINUING DISCLOSURE INFORMATION

In the Orders, 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 obligated to advance funds to pay the Bonds pursuant to Rule 15c2-12. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the MSRB.

ANNUAL REPORTS . . . The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 13 and in Appendix B, which is the District’s annual audited financial report. The District will update and provide the information in the numbered tables within six months after the end of each fiscal year ending in and after 2026. The District will additionally provide audited financial statements when and if available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the District will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available. 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, the District must provide updated information included in the above-referenced tables by the last day of December in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by June 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the District otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Website or filed with the SEC, as permitted by Rule 15c2-12.

NOTICE OF CERTAIN EVENTS . . . The District will also provide timely notices of certain events to the MSRB. The District will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District, any of which reflect financial difficulties. In addition, the District will provide timely notice of any failure by the District to provide annual financial information in accordance with their agreement described above under "Annual Reports". Neither the Bonds nor the Orders make any provision for a trustee, liquidity enhancement, credit enhancement (other than the Permanent School Fund Guarantee related to the 2026A Bonds) or debt service reserves.

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

For the events listed in clause (15) and (16) above, the term "financial obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) a guarantee of either (A) or (B). The term "financial obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

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

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if (1) the agreement, as amended would have permitted an underwriter to purchase or sell the Bonds in the offering made hereby 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 registered owners of a majority in aggregate principal amount (or any greater amount required by any other provisions of the respective Order that authorizes such amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners 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 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 in the primary offering of the Bonds. If the District amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . The District became obligated to file annual reports to the MSRB through its Electronic Municipal Market Access ("EMMA") service in an offering that took place in 2015. Due to an oversight on a payment invoice, the August 15, 2022 interest payment for the District's Unlimited Tax Refunding Bonds, Series 2012 was made on August 16, 2022. The August 15, 2022 interest payments on the District's other outstanding bonds were paid timely on their respective August 15, 2022 due dates. The District had sufficient funds on hand to make the interest payment on a timely basis, and the payment delay bears no relation to the District's financial condition. A notice of the late payment was filed on EMMA on August 29, 2022.

OTHER INFORMATION

RATINGS

The 2026A Bonds and Taxable 2026B Bonds and the currently outstanding debt of the District are rated "AA" by S&P and "Aaa" by Moody's. Additionally, The 2026A Bonds are rated "AAA" by S&P Global Ratings ("S&P") and "Aaa" by Moody's Investors Service, Inc. ("Moody's") by virtue of the guarantee of the Permanent School Fund of the State of Texas. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the views of such organizations, and the District makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings, or any of them, will continue for any given period of time or that one or more of the ratings will not be revised downward or withdrawn entirely by a rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or any of them, may have an adverse effect on the market price or marketability of the Bonds.

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

LITIGATION

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

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

See "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS – Current Litigation relating to the Texas Public School Finance System" for a discussion on the District's current lawsuit with the TEA and the State of Texas.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. In accordance with the PFIA, the Bonds must be rated not less than "A" or its equivalent as to investment quality by a national rating agency in order for most municipalities or other political subdivisions or public agencies of the State of Texas to be authorized to invest in the Bonds, except for purchases for interest and sinking funds of such entities. See "OTHER INFORMATION – Ratings" herein. Moreover, municipalities or other political subdivisions or public agencies of the State that have adopted investment policies and guidelines in accordance with the PFIA may have other, more stringent requirements for purchasing securities, including the Bonds. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General 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 limitation as to rate or amount, upon all taxable property in the District and the approving legal opinions of Bond Counsel. The forms of Bond Counsel's opinions are attached hereto as Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. The legal opinions of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

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 appearing under the captions and subcaptions "PLAN OF FINANCING – Refunded Bonds," "THE BONDS" (except under the subcaptions "Book-Entry-Only System," and "Bondholders' Remedies"), "STATE AND LOCAL FUNDING OF SCHOOL DISTRICTS IN TEXAS," "CURRENT PUBLIC SCHOOL FINANCE SYSTEM," "TAX RATE LIMITATIONS – M&O Tax Rate Limitations" (first paragraph only), "TAX MATTERS," "CONTINUING DISCLOSURE INFORMATION," and the subcaptions "Registration and Qualification of Bonds for Sale," "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Matters" (except for the last three sentences of the second paragraph thereof) under the caption "OTHER INFORMATION", and such firm is of the opinion that the information relating to the Bonds and legal matters 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 Orders. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, whose legal fees are contingent upon 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 the Official Statement.

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

MUNICIPAL ADVISOR

Hilltop Securities Inc., is employed as Municipal Advisor to the District in connection with the issuance of the Bonds. The Municipal Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Municipal Advisor has agreed, in its Municipal Advisory contract, not to bid for the Bonds, either independently or as a member of a syndicate organized to submit a bid for the Bonds. Hilltop Securities Inc., in its capacity as Municipal Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2026A Bonds from the District at a price equal to the initial offering price to the public, as shown on page 2 hereof, less an underwriting discount of \$_____. The Underwriters will be obligated to purchase all of the 2026A Bonds if any 2026A Bonds are purchased. The 2026A Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing 2026A Bonds into investment trusts) at prices lower than the public offering prices of such 2026A Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain conditions, to purchase the Taxable 2026B Bonds from the District at a price equal to the initial offering price to the public, as shown on page 4 hereof, less an underwriting discount of \$_____. The Underwriters will be obligated to purchase all of the Taxable 2026B Bonds if any Taxable 2026B Bonds are purchased. The Taxable 2026B Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Taxable 2026B Bonds into investment trusts) at prices lower than the public offering prices of such Taxable 2026B Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

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.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The Verification Agent will deliver to the District, on or before the settlement date of the Taxable 2026B Bonds, its verification report indicating that it has verified the mathematical accuracy of the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Defeasance Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds.

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

The forward-looking statements included herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control

of the District. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

WEATHER EVENTS

The District is located in west Texas. Land located in this area is susceptible to high winds, tornados, fires 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, Texas 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. 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.

CYBERSECURITY

The District's operations are increasingly dependent on information technologies and services, which are exposed to cybersecurity risks and cyber incidents or attacks. While the District continually assesses and monitors its cybersecurity risks, the District has been (and may be in the future) subject to cyber-attacks from time to time. In December 2024, the District was the subject of a cybersecurity incident. The District responded timely with its incident response plan for such threats. In response to such assessments and monitoring, the District takes actions it deems appropriate in response to cybersecurity risks, including, but not limited to, implementing cybersecurity training programs, obtaining technology improvements to mitigate cybersecurity risks, engaging a third party mitigation specialist, and taking other similar measures. To date, the District has not been the victim of any cyber-attack that has had a material adverse effect on its operations or financial condition. However, no assurance can be given that the District will fully prevent or successfully remediate the operational and/or financial impact of any cybersecurity incursions or incidents arising from events wholly or partially beyond the District's control, including electrical telecommunications outages, natural disasters or cyber-attacks initiated by criminal activities of individuals or organizations. Any such occurrence could materially and adversely affect the District's operations and/or financial condition.

MISCELLANEOUS

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

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

In the Orders, the Board authorized the Pricing Officer to approve, for and on behalf of the District, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and the sale of the Bonds in accordance with the provisions of Rule 15c2-12.

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SCHEDULE 1 - SCHEDULE OF REFUNDED BONDS
(Preliminary, subject to change)

Unlimited Tax School Building Bonds, Series 2024

Original Dated Date	Original Maturity (February 15)	Interest Rate	Principal Amount Being Refunded	Call Date	Call Price
April 1, 2024	2048	5.000%	⁽¹⁾ \$ 24,060,000	2/15/2028	100%
	2049	5.000%	⁽¹⁾ 29,935,000	2/15/2028	100%
			<u>\$ 53,995,000</u>		

(1) Represents a sinking fund redemption on a 5.00% term bond maturing on February 15, 2050.

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APPENDIX A

GENERAL INFORMATION REGARDING THE DISTRICT

THE DISTRICT

The Midland Independent School District is a political subdivision of the State of Texas. The District encompasses approximately 751.39 square miles and has a student enrollment of approximately 27,842 (approximately 800 students less than previously projected). An estimated 178,636 people live within District boundaries. The District is located in Midland County and serves the City of Midland.

The District's Board policy and decisions are decided by a majority vote of the Board. The Superintendent of Schools is selected by the Board. Other District officials are employed as a result of action by the Superintendent and the Board.

The District owns and operates 38 schools, which are fully accredited by the Texas Education Agency and the Southern Association of Colleges and Schools. Students attend classes in air-conditioned schools complete with cafeterias, library/media centers and gymnasiums.

HISTORICAL DISTRICT ENROLLMENT ⁽¹⁾

Year	Elementary (PK-5)	Junior High (6-8)	High School (9-12)	Total
2021-22	13,331	6,012	7,055	26,398
2022-23	14,204	6,188	7,450	27,842
2023-24	14,762	6,262	7,728	28,752
2024-25	15,011	6,525	8,115	29,651
2025-26	14,544	6,542	8,001	29,087

(1) For the 2026-27 fiscal year, the District's enrollment declined by approximately 1,400 students, due in large part to the expiration of an 1882 partnership (contract with an open-enrollment charter school).

SCHOOL AND EMPLOYEE INFORMATION

Midland Independent School District 2025-26 School Year

Number of teachers holding doctorates degrees	11
Number of teachers holding masters degrees	361
Number of teachers holding bachelors degrees	973

Employee Information

Number of Employees	2,830
Number of Teachers	1,422

Pupil/Teacher Ratio:

Elementary School:

Pre-K - 2nd Grade	24:1
3rd - 4th Grade	26:1
5th - 6th Grade	28:1

Junior High	30:1
Freshman School Campus	30:1
High School	30:1

Source: The District.

EXPENDITURES, AVERAGE DAILY ATTENDANCE AND PER PUPIL COST

Fiscal Year End 6/30	Expenditures	Average Daily Attendance	Per Pupil Cost
2021	\$ 414,242,554	23,258	\$ 17,811
2022	391,416,280	23,971	16,329
2023	428,278,048	24,986	17,141
2024	431,586,648	25,803	16,726
2025	415,076,021	25,936	16,004

THE CITY OF MIDLAND

LOCATION AND AREA

The City of Midland, County Seat of Midland County, Texas, is located in the Permian Basin of West Texas midway between Dallas-Fort Worth and El Paso. Midland is 300 miles west of Dallas and 20 miles east of Odessa on Interstate 20.

POPULATION

<u>Midland County</u>		<u>City of Midland</u>	
1960 Census	67,717	1960 Census	62,625
1970 Census	65,433	1970 Census	59,463
1980 Census	82,636	1980 Census	70,525
1990 Census	106,611	1990 Census	89,443
2000 Census	116,009	2000 Census	94,996
2010 Census	136,872	2010 Census	111,147
2020 Census	169,984	2020 Census	132,524
2026 Estimate	187,855	2026 Estimate	143,687

Source: US Census Bureau

BUSINESS AND INDUSTRY

Midland is located in the Permian Basin region of West Texas and Eastern New Mexico. The Permian Basin is one of the United States greatest mineral reservoirs with exploration and drilling for additional reserves continuing. Extensive mineral exploration, drilling, production and processing activities throughout the Permian Basin and the United States, as well as world-wide, are directed from major and independent oil company offices in Midland.

Other Midland industrial and business operations include semi-conductor products, telecommunications, dairy products, plastics and household goods. Midland is a financial, transportation and communication center.

EMPLOYMENT DATA

	Annual Averages				
	2026 ⁽¹⁾	2025	2024	2023	2022
Midland County					
Civilian Labor Force	104,143	103,780	101,511	97,298	91,561
Total Employment	100,397	100,556	98,515	94,527	88,490
Unemployment	3,746	3,224	2,996	2,771	3,071
Percent Unemployment	3.6%	3.1%	3.0%	2.8%	3.4%
State of Texas					
Civilian Labor Force	15,904,858	15,883,632	15,628,870	15,248,074	14,784,035
Total Employment	15,203,617	15,218,369	14,985,161	14,636,691	14,200,881
Unemployment	701,241	665,263	643,709	611,383	583,154
Percent Unemployment	4.4%	4.2%	4.1%	4.0%	3.9%

Source: Texas Workforce Commission.

(1) Through June 30, 2026.

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MINERAL PRODUCTION

Midland County is a significant oil and gas producer:

Midland County Statewide Onshore Oil/Gas Production Annual Totals, 2022-2026

Date	Oil (BBL)	Casinghead (MCF)	GW Gas (MCF)	Condensate (BBL)
2022	221,678,087	716,973,501	3,084,609	63,259
2023	234,518,583	826,255,606	2,859,384	59,219
2024	234,761,557	912,870,434	2,441,123	50,801
2025	245,221,310	981,734,167	5,579,079	781,956
2026 ⁽¹⁾	97,555,111	407,886,850	2,690,470	342,499

Source: Railroad Commission of Texas. MCF means thousand cubic feet and BBL means barrel of crude oil.

(1) Data through July 31, 2026.

HIGHER EDUCATION

The Midland College District, with boundaries coterminous with the Midland Independent School District, owns and operates Midland College, a public, state-supported, accredited junior college with enrollment of approximately 6,300 students each semester.⁽¹⁾

The University of Texas of the Permian Basin is located in Odessa, 20 miles southwest of Midland.

(1) Source: Midland College District.

TRANSPORTATION

Aviation...Scheduled airline transportation at Midland International Airport is furnished by Southwest Airlines, American Airlines, Delta, and United Airlines. The airport has over twenty daily departures with non-stop service to DFW, Dallas Love Field, Houston Intercontinental, Houston Hobby, Las Vegas, Phoenix and Denver. Passenger boardings in calendar year 2022 were 633,964. Extensive general aviation facilities are located at the Airport and at Airpark, a 500-acre airport located in North Midland.

Rail...Midland is served by a main east-west line of the Union Pacific Railroad with daily freight schedules.

Highways...Interstate 20 borders Midland on its Savannah, Georgia, to Los Angeles, California, route; Interstate 20 Business serves Midland local interests. State Highways 349 and 158 and a well-developed farm/ranch-to-market highway system serve Midland and Midland County. Greyhound Bus Lines provides bus service.

HOSPITALS AND MEDICAL CARE

There are three hospitals in the City with over 592 licensed beds. Midland Memorial Hospital (the "Hospital"), a 474-bed acute care facility, is owned by the Midland County Hospital District and operated by the Midland Memorial Foundation under a management contract with the District. The Hospital offers a complete range of diagnostic and therapeutic medical/surgical services. There are several state-licensed nursing homes, and a physical rehabilitation hospital is located between Midland and Odessa.

RECREATION AND ENTERTAINMENT

Midland boasts 31 neighborhood parks, 4 specialty parks, 4 community parks, 1 metropolitan park and 1 regional park totaling 1,172 acres of leisure fun as well as the 23,000 square foot Martin Luther King Jr Community Center. The Parks and Recreation Division assists in hosting numerous local, regional and national sporting and cultural events each year. Additionally, the City maintains 5 18-hole golf courses, 2 swimming pools, numerous sports fields and courts covering baseball/softball, tennis, soccer and other facilities. Midland offers the Midland Community Theatre, the Midland-Odessa Symphony and Chorale, the Permian Basin Petroleum Museum and other museums, ballet associations, libraries and Midland College facilities and events.

CHURCHES

Midland has over 140 churches representing approximately 33 denominations.

APPENDIX B

EXCERPTS FROM THE
MIDLAND INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2025

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



Independent Auditor's Report

The Board of Trustees of
Midland Independent School District
Midland, Texas

Report on the Audit of the Financial Statements

Opinions

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the 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 (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter

As discussed in Notes 1 and 16 to the financial statements, the District has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences* for the year ended June 30, 2025. Accordingly, a restatement has been made to the governmental activities net position as of July 1, 2024 to restate beginning net position. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund (Exhibit G-1), Schedule of the District's Proportionate Share of the Net Pension Liability – Teacher Retirement System of Texas (Exhibit G-2), Schedule of the District's Contributions to the Pension Plan – Teacher Retirement System of Texas (Exhibit G-3), Schedule of the District's Proportionate Share of the Net OPEB Liability (Exhibit G-4), Schedule of the District's Contributions to the OPEB Plan (Exhibit G-5) be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements, TEA required schedules and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements, TEA required schedules and the Schedule of Expenditures of Federal Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section, statistical section, and Exhibit L-1 but does not include the basic financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated December 3, 2025 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

Abilene, Texas
December 3, 2025

This section of the District's Annual Comprehensive Financial Report (ACFR) discusses and analyzes the District's financial performance for the fiscal year ending on June 30, 2025. This management discussion and analysis intend to look at financial performance as a whole. Therefore, readers should also review the transmittal letter, financial statements, and notes to the basic financial statements to further enhance their understanding of the District's financial performance.

FINANCIAL HIGHLIGHTS

- The 86th Texas Legislature passed House Bill 3 (HB3) on June 11, 2019. HB3 made significant changes to the state's funding formula and provided property tax relief through the compression of the school district's Maintenance and Operations (M&O) property tax rate. Districts with property values growth of more than 2.5% per year are required to compress maintenance and operations tax rates. Also, a transition provision, Equalized Wealth Transition Grant ("transition"), holds the district harmless in that it ensures the district will receive at least 3% more funding than if calculated under prior law. Transition funds were only available for five years, and have now ended. The District's Maintenance and Operations (M&O) tax rate increased to \$0.6669 per \$100 valuation for the 2024-2025 school year from \$0.6595 per \$100 valuation in the 2023-2024 school year.
- At the close of the twelve-month period ending June 30, 2025, the District's assets plus deferred outflows of resources exceeded liabilities plus deferred inflows of resources. The net position was approximately \$539 million.
- The government-wide statements reported total revenues of \$566 million, which met the total expenditures of \$487 million and resulted in a net increase of net position of \$78.9 million.
- The governmental fund financial statements reported a combined ending fund balance of \$1.1 billion for the twelve-month period ending June 30, 2025, a decrease of \$130.4 million compared with the prior twelve-month period. This balance consists of \$211.9 million in the General Fund, \$53.4 million in debt services, \$857 million for capital projects and \$12.9 million for other non-major governmental funds. \$111 million is unassigned and available for spending at the District's discretion. Assigned fund balance of \$97.9 million includes funds for construction projects, self-insurance, and coverage for anticipated future state aid reduction. Restricted fund balance totals \$919 million and is included in the General Fund, Debt Service Fund, Capital Projects and Non-Major Funds. The committed fund balance is \$5 million, which consists of amounts held in campus activity and construction funds. Non-spendable fund balance is \$2.2 million which consists of General funds and other non-major government funds.
- 2024-2025 property values increased by from the prior year, resulting in the following for the General Fund:
 - Local property tax revenue of \$330 million increased by \$8 million, or 3%, from the prior year
 - Recapture expense of \$91.6 million decreased by \$80k, from the prior year
 - State revenue of \$36.0 million decreased by \$41.2 million, or 53% less, from the prior year.
- The General Fund had \$393 million in revenues, which primarily consisted of local property taxes and state aid. Expenditures of \$415 million, including \$91.6 million in recapture, which resulted in a decrease in fund balance by \$18.3 million for the twelve-month period ending June 30, 2025.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The statements are followed by a section of required supplementary information, required TEA schedules, and other information that further explains and supports the information in the financial statements.

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

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

Major features of the District's *government-wide* and *fund financial statements* are summarized below:

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

Midland Independent School District

Management's Discussion and Analysis

Twelve Months Ended June 30, 2025

Type of Inflow/Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after year-end, expenditures when goods or services have been received and payment is due during the year or soon thereafter.	All revenue and expenses during the year, regardless of when cash is received or paid.	Custodial funds do not report revenue and expenditures.
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The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-Wide Financial Statements

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

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

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

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

The government-wide financial statements 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.
- Component units—The District includes another entity in its report. Although legally separate, "component units" are important because the District is financially accountable for them. Midland Education Foundation, Inc., a nonprofit organization that provides support to the District, teachers, and students, is included here.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds, rather than the District as a whole. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Some funds are required by State law and by bond covenants, while many other funds are established by the District to help manage resources for particular purposes and compliance with various grant provisions. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and the Debt Service Fund, both of which are considered major funds. Data from the other governmental funds, including the National School Breakfast and Lunch Program, and a Local Capital Outlay Fund, are combined into a single aggregated presentation as nonmajor funds.

Proprietary Funds. Services for which the District charges users (other units of the District) a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long and short-term financial information. The District uses internal service funds to report activities that provide supplies and services for the District's Print Shop, Self-insurance program, Employee Housing, and Employee Childcare.

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

Notes to the Basic Financial Statements

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

Midland Independent School District
Management's Discussion and Analysis
Twelve Months Ended June 30, 2025

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District's combined net position increased by \$79 million from the previous year as can be seen in the following table.

Midland Independent School District's Net Position						
	2025		Governmental Activities		Increase (Decrease)	
	2024 (restated)					
	Amount	%	Amount	%	Amount	%
Current and other assets	\$ 1,275,013,235	73	\$ 1,412,351,245	78	\$ (137,338,010)	-10
Capital assets, net of						
accumulated depreciation	468,278,402	27	393,572,835	22	74,705,567	19
Total assets	1,743,291,637	100	1,805,924,080	100	(62,632,443)	-3
Total deferred outflows of resources	52,779,965	100	56,657,962	100	(3,877,997)	-7
Other liabilities	141,156,425	12	143,515,651	11	(2,359,226)	-2
Long-term liabilities outstanding	1,061,503,438	88	1,188,774,499	89	(127,271,061)	-11
Total liabilities	1,202,659,863	100	1,332,290,150	100	(129,630,287)	-10
Total deferred inflows of resources	54,425,823	100	70,175,083	100	(15,749,260)	-22
Net position						
Net investment in capital assets	424,281,660	78	238,840,741	52	185,440,919	78
Restricted	52,468,120	10	129,230,954	28	(76,762,834)	-59
Unrestricted	62,236,136	12	92,045,113	20	(29,808,977)	-32
Total net position	\$ 538,985,916	100	\$ 460,116,808	100	\$ 78,869,108	17

The District's capital assets, which consist of the District's land, buildings, building improvements, vehicles, and equipment, represent about 78 percent of total assets. The remaining assets consist mainly of investments, cash, grants, property taxes receivable, state revenue receivable, and prepaid assets.

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

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

An additional portion of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of the unrestricted net position may be used to meet the district's ongoing obligations to students, employees, and creditors.

The change in net position is attributed to the following:

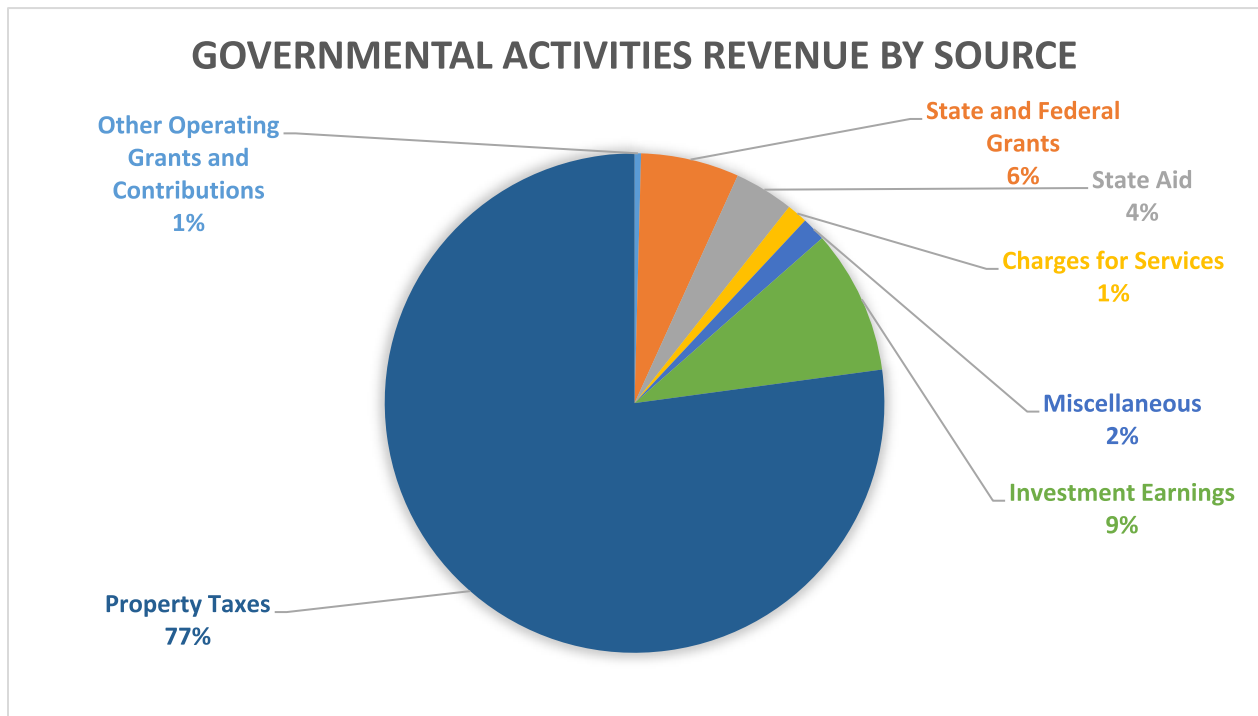
- Property values resulted in a 2% increase in the property tax base which increased current assets related to property taxes receivable from the levy. In addition, delinquent taxes collected increased by 27%.
- As allowed by HB3, the District elected to make one recapture payment in August and October, after the end of the fiscal year, as opposed to monthly payments starting in February. As a result, investments had a higher ending balance than the prior year, especially since the Chapter 49 recapture payable to the State also increased.
- Total liabilities decreased by \$127 million, primarily due to bond defeasement.

Governmental Activities

Funding for government-wide activities is by the specific program revenue or through general revenues such as property taxes and investment earnings. Revenues for the District's governmental activities decreased by \$31 million while total expenses increased by \$2.0 million, this still resulted in a net increase of net position of \$78.9 million.

Revenues

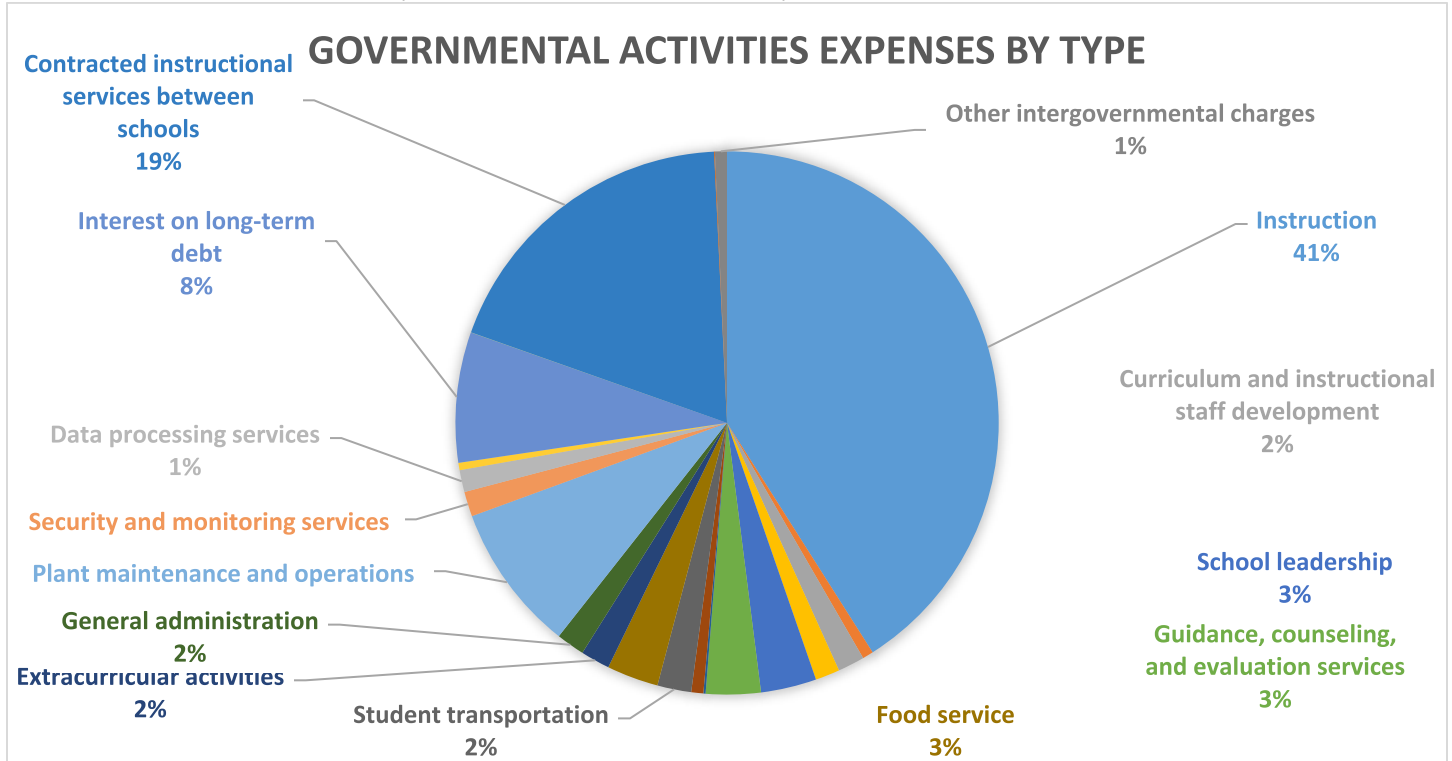
The District's total revenues were \$566 million, representing a decrease of \$31 million from the previous year. The majority of this decrease is due to the loss of the State Formula Transition Grant. An increase in the District's assessed valuations which resulted in increases in property tax revenue and state transition funds. As seen below, approximately 83.8% of the District's revenue comes from local property taxes, 4.2% from state and federal sources, .2% from other grants and contributions, 1.7% from miscellaneous contributions, and 10.1% from investment revenues.



Expenses

The District's total expenses were \$487 million, representing an increase of \$2.0 million from the previous year. The District's primary functional expenses are

- Instruction - \$200.0 million, or 40.99 percent of total expenses
- Recapture ("Contracted instructional service") - \$91.6 million, or 18.8 percent
- Plant maintenance and operations - \$42.9 million, or 8.8 percent



In total, governmental activities increased the District's net position by \$79 million dollars. Key elements of this change are as follows:

Midland Independent School District
Management's Discussion and Analysis
Twelve Months Ended June 30, 2025

Midland Independent School District's Change in Net Position

	Governmental Activities					
	2025		2024 (restated)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program revenues:						
Charges for service	\$ 7,560,173	1	\$ 8,411,483	1	\$ (851,310)	-10
Operating grants	37,068,702	7	58,671,637	10	(21,602,935)	-37
General revenues:						
Property taxes - general	331,771,155	59	319,663,217	54	12,107,938	4
Property taxes - debt	104,603,140	18	105,144,532	18	(541,392)	-1
State aid - Formula grants	21,764,197	4	63,668,837	11	(41,904,640)	-66
Grants and contributions not restricted	1,258,618	-	2,434,742	0	(1,176,124)	-48
Investment earnings	52,794,055	9	30,643,131	5	22,150,924	72
Miscellaneous	8,828,092	2	8,391,531	1	436,561	5
Total revenues	565,648,132	100	597,029,110	100	(31,380,978)	-5
Expenses:						
Instruction	199,569,985	41	211,287,549	44	(11,717,564)	-6
Instructional resources and media	3,180,653	1	3,068,147	1	112,506	4
Curriculum and staff development	7,741,471	2	9,394,317	2	(1,652,846)	-18
Instructional leadership	7,073,935	1	7,540,718	2	(466,783)	-6
School leadership	16,112,900	3	16,709,233	3	(596,333)	-4
Guidance, counseling, evaluation	15,861,542	3	15,896,628	3	(35,086)	0
Social work services	620,620	-	814,044	-	(193,424)	-24
Health services	3,495,012	1	3,576,283	1	(81,271)	-2
Student transportation	9,843,596	2	11,041,422	2	(1,197,826)	-11
Food service	14,894,414	3	14,732,078	3	162,336	1
Extracurricular activities	8,489,226	2	8,947,135	2	(457,909)	-5
General administration	8,204,408	2	8,642,126	2	(437,718)	-5
Plant maintenance and operations	42,861,693	9	41,333,176	9	1,528,517	4
Security and monitoring services	7,206,940	1	6,356,246	1	850,694	13
Data processing services	6,348,610	1	7,198,593	1	(849,983)	-12
Community services	2,151,682	-	2,258,870	-	(107,188)	-5
Interest on long-term debt	37,701,095	8	20,962,430	4	16,738,665	80
Facilities repair and maintenance	71,535	-	158,643	-	(87,108)	-55
Contracted instructional services						
between schools	91,617,936	19	91,666,346	19	(48,410)	0
Payments related to SSA	235,193	-	149,716	-	85,477	57
Other intergovernmental	3,496,578	1	3,078,650	1	417,928	14
Total expenses	486,779,024	100	484,812,350	100	1,966,674	0
Change in net position	78,869,108		112,216,760		(33,347,652)	
Net position - beginning	460,116,808		347,900,048		112,216,760	
Net position - ending	\$ 538,985,916		\$ 460,116,808		\$ 78,869,108	

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Governmental Funds

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

Total Governmental funds. At the end of the current fiscal year, the combined total of the District's Total Governmental funds had an ending fund balance \$1.1 billion. This total is made of the following: General funds, \$212 million, Debt Service Funds, \$53 million, Capital Projects, \$857 million, and Non-Major Governmental funds of \$12.9 million.

General Fund. At the end of the current fiscal year, the District's General Fund had a combined ending fund balance of \$211.9 million, a decrease of \$18.3 million in comparison with the prior year. Approximately 52 percent of this total amount (\$111 million) constitutes unassigned fund balance, which is available for spending at the District's discretion. The remainder of the fund balance is non-spendable, restricted, or assigned to indicate that it is not available for new spending because it has already been 1) used to purchase inventories or prepaids (\$1.5 million), 2) restricted by cooperative partnership agreements (\$1.3 million), or 3) assigned for future capital projects (\$47 million), self-insurance (\$2 million), and coverage for anticipated future state aid reduction (\$48 million). Assignments reflect the District's self-imposed limitation on the use of otherwise available expendable financial resources in governmental funds.

Debt Service Fund. The Debt Service Fund has a total fund balance of \$53.4 million, all of which is restricted for the payment of debt service. The net decrease in fund balance was \$63.6 million. Revenues totaled \$107 million which is a 1.3 percent decrease from the previous year. Expenditures totaled \$171 million, The increase was due to a larger redemption of bond principal paid in advance as compared to the previous year.

Capital Projects Fund. The local capital projects and bond fund has a total fund balance of \$857,242,335, all of which is restricted or committed to capital acquisition and improvements.

Budgetary Highlights

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

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

- ***Variances of original expenditure budget compared to amended budget.***

The amended expenditure budget increased by \$14 million from the original budget. The original budget was adopted with lower property values provided at the time by the Midland Central Appraisal District. These factors were considered in the original recapture calculation, which was lower than the final recapture amount. Additionally, the Board approved a deficit budget in order to assist the district in the loss of the Formula Transition Grant. The final amendment was based on the knowledge of the final projected expenses for the fiscal year.

- ***Variances of amended budget to actual expenditures.***

Expenditures were \$11 million less than the final budgeted amounts. This was largely due to a reduction in spending throughout the budget.

- ***Variances of original revenue budget compared to actual revenue***

Revenues exceeded the original budget by \$23.4 million. The original budget was adopted with lower property values provided by the Midland Central Appraisal District at the time, at a lower collection rate and tax rate.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2025, the District had invested \$468 million in a broad range of capital assets, including land, buildings, and equipment. This amount represents a net increase of \$74.7 million, or 19 percent over last year. Additional information on the District's capital assets can be found in Note 4 of this report.

Midland Independent School District's Capital Assets
(net of depreciation)

	Governmental Activities					
	2025		2024		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and improvements	\$ 24,761,916	5	\$ 24,761,916	6	\$ -	-
Buildings and improvements	288,613,810	62	295,047,771	75	(6,433,961)	(2)
Furniture and equipment	33,592,536	7	18,994,175	5	14,598,361	77
Right-to-use assets	6,227,299	1	6,839,071	2	(611,772)	(9)
Construction in progress	115,082,841	25	47,929,902	12	67,152,939	140
Totals	\$ 468,278,402	100	\$ 393,572,835	100	\$ 74,705,567	19

Long-Term Debt

At the end of 2025, the District had \$1 billion in long-term liabilities, including general obligation bonds, net pension liability, and net OPEB liability. The District's long-term liabilities decreased by \$127 million. Additional information on the District's long-term debt can be found in Note 5 of this report.

Midland Independent School District
Management's Discussion and Analysis
Twelve Months Ended June 30, 2025

	Governmental Activities					
	2025		2024 (restated)		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General obligation bonds (net)	\$ 847,560,000	81	\$ 985,699,986	83	\$ (138,139,986)	(14)
Unamortized bond premium	43,139,380	4	51,566,344	4	(8,426,964)	(16)
Accretion on CAB	-	-	364,497	-	(364,497)	(100)
Other long-term debt	22,542,156	2	12,212,169	1	10,329,987	85
Net pension liability	91,438,585	9	100,286,927	8	(8,848,342)	(9)
Net OPEB liability	56,823,317	5	38,644,576	3	18,178,741	47
Totals	\$ 1,061,503,438	101	\$ 1,188,774,499	99	\$ (127,271,061)	(11)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The 2025-2026 appraised property values, based on October 1, 2025 MCAD estimates, saw a 12% increase from the prior year. In continued preparation for a balanced budget, largely due to the loss in the Formula Transition grant, the district has reduced it's 2025-2026 budget by 6.2 percent.

The proposed Maintenance & Operations (M&O) budget for the 2025-2026 fiscal year is \$386.09 million, with a proposed tax rate of \$0.6669. The proposed Debt Service Fund (I&S) budget for the 2025-2026 fiscal year is \$104.57 million, with a proposed tax rate of \$0.2101. These rates are subject to change prior to the board adopting a tax rate later this fall, after TEA provides the MCR and the district knows values for tax year 2025. Overall, the current proposed tax rate remains flat at \$0.8770.

Current revised General Fund expenditures are budgeted \$25.6 million under the prior year's final expenditures. Major expenditure changes include an increase in instructional services, plant maintenance and operations, and facilities acquisition and construction. The biggest decrease is attributed to the recapture expenditures.

In the past, the oil and gas industry has experienced booms and busts. The production of oil in the region has increased as compared to last year and is expected to maintain high production levels, which are the main driver of immigration and economic activity in the Permian Basin region. The District has maintained a healthy fund balance which is budgeted to remain at the same level for next year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the District's Financial Services Department at 615 West Missouri Avenue, Midland, TX 79701 or you can give us a call at 432-240-1018.

Midland Independent School District

Statement of Net Position (Exhibit A-1)

June 30, 2025

Data Control Codes		1	Component
		Primary Government Governmental Activities	Unit Midland I.S.D. Education Foundation
Assets			
1110	Cash and cash equivalents	\$ 42,482,183	\$ 3,210,733
1120	Investments - current	464,373,711	729,853
1220	Property taxes receivable (delinquent)	18,079,828	-
1230	Allowance for uncollectible taxes	(9,507,941)	-
1240	Due from other governments	13,114,308	-
1250	Accrued interest	155,896	-
1267	Due from private purpose trust fund	18,835	-
1290	Other receivables	934,839	-
1300	Inventories at cost	1,267,570	-
1410	Prepayments	2,069,346	-
1490	Other current assets	1,984,456	-
Capital assets			
1510	Land	24,761,916	-
1520	Buildings, net	288,613,810	-
1530	Furniture and equipment, net	33,592,536	-
1550	Right-to-use assets, net	6,227,299	-
1580	Construction in progress	115,082,841	-
1910	Long-term investments	740,040,204	-
1000	Total assets	1,743,291,637	3,940,586
Deferred outflows of resources			
1705	Deferred outflows - pension	22,566,172	-
1706	Deferred outflows - OPEB	29,687,383	-
1710	Deferred charge on refunding	526,410	-
1700	Total deferred outflows of resources	52,779,965	-
Liabilities			
2110	Accounts payable	13,902,920	-
2140	Interest payable	14,477,274	-
2150	Payroll deductions and withholdings	2,901,169	-
2160	Accrued wages payable	12,224,236	-
2180	Due to other governments	93,243,015	-
2200	Accrued liabilities	2,886,453	-
2300	Unearned revenue	1,521,358	-
Noncurrent liabilities			
2501	Due within one year	49,550,490	-
2502	Due in more than one year	863,691,046	-
2540	Net pension liabilities	91,438,585	-
2545	Net OPEB liabilities	56,823,317	-
2000	Total liabilities	1,202,659,863	-

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

Data Control Codes		1	Component
		Primary Government <u>Governmental Activities</u>	Unit <u>Midland I.S.D. Education Foundation</u>
	Deferred Inflows of Resources		
2605	Deferred inflows - pension	2,287,310	-
2606	Deferred inflows - OPEB	52,138,513	-
2600	Total deferred inflows of resources	54,425,823	-
	Net Position		
3200	Net investment in capital assets	424,281,660	-
3820	Restricted for grants	11,128,582	-
3850	Restricted for debt service	39,992,103	
3890	Restricted for other purposes (SB-1882)	1,347,435	3,940,586
3900	Unrestricted	62,236,136	-
3000	Total net position	\$ 538,985,916	\$ 3,940,586

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

1

Data Control Codes	Functions/Programs	Expenses
	Primary government	
	Governmental activities	
11	Instruction	\$ 199,569,985
12	Instructional resources and media services	3,180,653
13	Curriculum and instructional staff development	7,741,471
21	Instructional leadership	7,073,935
23	School leadership	16,112,900
31	Guidance, counseling, and evaluation services	15,861,542
32	Social work services	620,620
33	Health services	3,495,012
34	Student transportation	9,843,596
35	Food service	14,894,414
36	Extracurricular activities	8,489,226
41	General administration	8,204,408
51	Plant maintenance and operations	42,861,693
52	Security and monitoring services	7,206,940
53	Data processing services	6,348,610
61	Community services	2,151,682
72	Interest on long-term debt	37,701,095
81	Facilities acquisition and construction	71,535
91	Contracted instructional services between schools	91,617,936
93	Payments related to shared services arrangement	235,193
99	Other intergovernmental charges	3,496,578
TG	Total governmental activities	<u>486,779,024</u>
TP	Total primary government	<u>\$ 486,779,024</u>
IC	Component unit	<u>\$ 2,135,161</u>

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

3	4	5	Net (Expense) Revenue and Changes in Net Position	Component Unit
Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Midland I.S.D. Education Foundation
\$ 1,488,996	\$ 14,155,169	\$ -	\$ (183,925,820)	
-	87,104	-	(3,093,549)	
-	1,512,534	-	(6,228,937)	
-	538,538	-	(6,535,397)	
-	839,299	-	(15,273,601)	
-	3,196,717	-	(12,664,825)	
-	13,534	-	(607,086)	
-	99,356	-	(3,395,656)	
143,550	193,713	-	(9,506,333)	
3,216,448	12,358,975	-	681,009	
829,524	723,857	-	(6,935,845)	
-	351,688	-	(7,852,720)	
1,881,655	1,042,038	-	(39,938,000)	
-	261,273	-	(6,945,667)	
-	215,523	-	(6,133,087)	
-	1,002,054	-	(1,149,628)	
-	477,330	-	(37,223,765)	
-	-	-	(71,535)	
-	-	-	(91,617,936)	
-	-	-	(235,193)	
-	-	-	(3,496,578)	
7,560,173	37,068,702	-	(442,150,149)	
\$ 7,560,173	\$ 37,068,702	\$ -	\$ (442,150,149)	
\$ -	\$ 2,372,663	\$ -		\$ 237,502
General revenues:				
Taxes:				
MT Property taxes, levied for general purposes			331,771,155	-
DT Property taxes, levied for debt services			104,603,140	-
SF State aid not restricted to specific purpose			21,764,197	-
GC Grants and contributions not restricted to specific programs			1,258,618	-
IE Investment earnings			52,794,055	63,578
MI Miscellaneous			8,828,092	-
TR Total general revenues			521,019,257	63,578
CN Change in net position			78,869,108	301,080
NB Net position - beginning			462,666,808	3,639,506
PA Prior period adjustments			(2,550,000)	-
Beginning net position, as restated			460,116,808	3,639,506
NE Net position - ending			\$ 538,985,916	\$ 3,940,586

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

		10	50
Data Control Codes		General Fund	Debt Service Fund
Assets			
1110	Cash and cash equivalents	\$ 18,084,587	\$ 21,600
1120	Current investments	276,294,893	52,105,165
1220	Property taxes - delinquent	14,432,803	3,647,025
1230	Allowance for uncollectable taxes	(7,667,472)	(1,840,469)
1240	Due from other governments	6,348,435	569,272
1250	Accrued interest	118,555	-
1260	Due from other funds	18,728,881	-
1290	Other receivables	813,622	-
1300	Inventories	520,350	-
1410	Prepayments	991,610	-
1490	Other current assets	1,984,456	-
1900	Long-term investments	-	-
1000	Total assets	330,650,720	54,502,593
1000a	Total assets and deferred outflows of resources	\$ 330,650,720	\$ 54,502,593
Liabilities			
2110	Accounts payable	\$ 1,533,611	\$ -
2150	Payroll deductions and withholdings	2,683,468	-
2160	Accrued wages payable	11,522,226	-
2170	Due to other funds	5,612,201	30,594
2180	Due to other governments	93,106,070	2,622
2300	Unearned revenue	-	-
2000	Total liabilities	114,457,576	33,216
Deferred inflows of resources			
2601	Unavailable revenue - property taxes	4,309,530	1,048,881
2600	Total deferred inflows of resources	4,309,530	1,048,881
Fund balances			
3410	Nonspendable - inventories	520,350	-
3430	Nonspendable - prepayments	991,610	-
3450	Restricted - grants	-	-
3470	Restricted - construction	-	-
3480	Restricted - debt service	-	53,420,496
3490	Restricted - other (SB 1882)	1,347,435	-
3510	Committed - construction	-	-
3545	Committed - other	-	-
3550	Assigned - construction	35,000,000	-
3570	Assigned - equipment capital expenditures	12,038,752	-
3580	Assigned - self-insurance	2,000,000	-
3590	Assigned - other	48,912,143	-
3600	Unassigned	111,073,324	-
3000	Total fund balances	211,883,614	53,420,496
4000	Total liabilities, deferred inflows of resources, and fund balances	\$ 330,650,720	\$ 54,502,593

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

60 Capital Projects Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ 12,813,811	\$ 6,192,212	\$ 37,112,210
109,505,302	21,836,444	459,741,804
-	-	18,079,828
-	-	(9,507,941)
-	6,196,601	13,114,308
37,341	-	155,896
5,515,854	60,750	24,305,485
-	67,395	881,017
-	747,220	1,267,570
-	-	991,610
-	-	1,984,456
740,040,204	-	740,040,204
867,912,512	35,100,622	1,288,166,447
<u>\$ 867,912,512</u>	<u>\$ 35,100,622</u>	<u>\$1,288,166,447</u>
\$ 10,670,177	\$ 987,572	\$ 13,191,360
-	217,701	2,901,169
-	702,010	12,224,236
-	18,643,855	24,286,650
-	134,323	93,243,015
-	1,521,358	1,521,358
10,670,177	22,206,819	147,367,788
-	-	5,358,411
-	-	5,358,411
-	747,220	1,267,570
-	-	991,610
-	11,128,582	11,128,582
853,200,246	-	853,200,246
-	-	53,420,496
-	-	1,347,435
4,042,089	-	4,042,089
-	1,018,001	1,018,001
-	-	35,000,000
-	-	12,038,752
-	-	2,000,000
-	-	48,912,143
-	-	111,073,324
857,242,335	12,893,803	1,135,440,248
<u>\$ 867,912,512</u>	<u>\$ 35,100,622</u>	<u>\$1,288,166,447</u>

See Notes to Financial Statements

Midland Independent School District

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

Total Fund Balances - Governmental Funds (Exhibit C-1)		\$1,135,440,248
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and employee housing to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		12,854,757
Capital assets, net of accumulated depreciation, less assets held in internal service funds are not financial resources and therefore are not reported as assets in governmental funds.		462,959,070
Some liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	(847,560,000)	
Other long-term debt	(7,053,815)	
Deferred charge on refunding	526,410	
Unamortized premiums on bonds payable	(43,139,380)	
Compensated absences	(2,591,000)	
Arbitrage rebate liabilities	<u>(12,897,341)</u>	(912,715,126)
Accrued interest is not due and payable in the current period and therefore is not reported as a liability in the governmental funds.		(14,477,274)
Certain assets are not available to pay for current period expenditures and therefore are deferred in the funds. These are:		
Deferred resource inflow for property taxes		5,358,411
The government-wide statements includes the District's proportionate share of the TRS net pension liabilities and TRS-Care net OPEB liabilities, as well as certain pension and OPEB related transactions accounted for as deferred inflows and outflows of resources:		
Net pension liability	(91,438,585)	
Deferred outflows of resources - TRS pension	22,566,172	
Deferred inflows of resources - TRS pension	(2,287,310)	
Net OPEB liability	(56,823,317)	
Deferred outflows of resources - TRS-Care OPEB	29,687,383	
Deferred inflows of resources - TRS-Care OPEB	<u>(52,138,513)</u>	<u>(150,434,170)</u>
Total Net Position - Governmental Activities (Exhibit A-1)		<u>\$ 538,985,916</u>

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

Data Control Codes		10	50
		General Fund	Debt Service Fund
	Revenues		
5700	Local and intermediate revenues	\$ 355,111,419	\$ 106,801,182
5800	State program revenues	35,994,226	477,330
5900	Federal program revenues	1,493,485	-
5020	Total revenues	392,599,130	107,278,512
	Expenditures		
	Current		
0011	Instruction	183,683,667	-
0012	Instructional resources and media services	3,271,616	-
0013	Curriculum and instructional staff development	6,660,525	-
0021	Instructional leadership	7,016,537	-
0023	School leadership	16,150,932	-
0031	Guidance, counseling, and evaluation services	13,472,152	-
0032	Social work services	646,546	-
0033	Health services	3,586,851	-
0034	Student transportation	9,130,960	-
0035	Food service	303,993	-
0036	Extracurricular activities	7,837,080	-
0041	General administration	8,106,811	-
0051	Plant maintenance and operations	40,325,550	-
0052	Security and monitoring services	7,999,777	-
0053	Data processing services	6,271,472	-
0061	Community services	1,257,216	-
	Debt service		
0071	Principal on long-term debt	3,305,975	138,129,986
0072	Interest on long-term debt	226,182	32,789,645
	Capital outlay		
0081	Facilities acquisition and construction	472,472	-
	Intergovernmental		
0091	Contracted instructional services between schools	91,617,936	-
0093	Payments related to shared service arrangements	235,193	-
0099	Other intergovernmental charges	3,496,578	-
6030	Total expenditures	415,076,021	170,919,631
1100	Excess (deficiency) of revenues over (under) expenditures	(22,476,891)	(63,641,119)
	Other financing sources (uses)		
7912	Sale of real and personal property	55,693	-
7913	Proceeds from right to use lease and SBITA assets	4,097,718	-
7080	Total other financing sources (uses)	4,153,411	-
1200	Net change in fund balances	(18,323,480)	(63,641,119)
0100	Fund balances, beginning	230,207,094	117,061,615
3000	Fund balances, ending	\$ 211,883,614	\$ 53,420,496

Midland Independent School District

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

60 Capital Projects Fund	ONMF Other Non-Major Governmental Funds	98 Total Governmental Funds
\$ 38,964,952	\$ 4,842,125	\$ 505,719,678
-	3,204,676	39,676,232
-	26,969,681	28,463,166
38,964,952	35,016,482	573,859,076
193,569	11,310,352	195,187,588
-	56,485	3,328,101
-	1,376,757	8,037,282
-	394,932	7,411,469
-	526,895	16,677,827
-	2,958,473	16,430,625
-	-	646,546
-	36,428	3,623,279
-	475	9,131,435
-	15,161,924	15,465,917
-	591,109	8,428,189
42,259	196,887	8,345,957
5,507,735	702,838	46,536,123
6,400	12,260	8,018,437
-	95,920	6,367,392
-	1,013,714	2,270,930
-	50,540	141,486,501
-	1,300	33,017,127
82,167,029	113,342	82,752,843
-	-	91,617,936
-	-	235,193
-	-	3,496,578
87,916,992	34,600,631	708,513,275
(48,952,040)	415,851	(134,654,199)
-	1,461	57,154
-	51,689	4,149,407
-	53,150	4,206,561
(48,952,040)	469,001	(130,447,638)
906,194,375	12,424,802	1,265,887,886
\$ 857,242,335	\$ 12,893,803	\$ 1,135,440,248

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

Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-2)	\$ (130,447,638)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and employee housing, to appropriate functions to other funds. The change in net position of internal service funds are reported with governmental activities. The net effect of this consolidation is to decrease net position.	(1,566,350)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. Net decrease in accreted interest on capital appreciation bonds of \$364,497 increases net position. The net effect of including the 2025 capital outlays of \$96,307,836, removing defeased principal of \$109,129,986, bond principal payments of \$29,010,000, amortization of deferred charges/gains on refunding of \$89,362, and other debt payments of \$3,356,515, recognition of other debt items related to defeasance of \$6,381,679, and increase in compensated absences of \$41,000 is to increase net position.	244,420,151
Government funds report debt proceeds as financing sources when debt is first issued, whereas these are reported as long-term liabilities in the statement of net position. The net effect of reclassing debt proceeds of \$4,149,407 is to decrease net position.	(4,149,407)
2025 depreciation and amortization expense increases accumulated depreciation and amortization. The net effect of the current year's depreciation, less depreciation recorded in internal service funds, is to decrease net position.	(21,487,222)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing deferred tax revenue of \$5,358,411 as revenue and removing the prior year's tax collection of \$4,840,673.	517,738
Interest payable on long-term debt is accrued in the government-wide financial statements, whereas in the fund financial statements, interest expense is reported when due. The current year change in the accrual is an increase of \$3,597,579 and an increase in arbitrage liability. of \$9,496,095. The net effect is to decrease net position.	(13,093,674)
Bond premiums are recorded as other financing sources when received in the fund financial statements but are capitalized and amortized in the government-wide financial statements. This is the current year amortization.	1,742,891
Changes in the deferred outflows of resources, deferred inflows of resources and net pension liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$336,755. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the pension expense must be recognized. These cause the change in net position to decrease in the amount of \$5,462,648. The net effect is a decrease in net position.	(5,125,893)
Changes in the deferred outflows of resources, deferred inflows of resources and net OPEB liability must be recorded as expenses. Changes in contributions made after the measurement date caused the change in net position to increase in the amount of \$12,358. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date must be amortized and the District's proportionate share of the OPEB expense must be recognized. These cause the change in net position to increase in the amount of \$8,046,154. The net effect is an increase in net position.	8,058,512
Change in Net Position for Governmental Activities (Exhibit B-1)	<u><u>\$ 78,869,108</u></u>

Midland Independent School District
Statement of Net Position – Proprietary Funds (Exhibit D-1)
June 30, 2025

	Governmental Activities
	Internal Service Funds
Assets	
Current assets	
Cash and cash equivalents	\$ 5,369,973
Current investments	4,631,907
Other receivables	53,822
Prepaid items	1,077,736
Total current assets	<u>11,133,438</u>
Noncurrent assets	
Buildings and improvements, net	<u>5,319,332</u>
Total noncurrent assets	<u>5,319,332</u>
Total assets	<u>16,452,770</u>
Liabilities	
Current liabilities	
Accounts payable	711,560
Accrued liabilities	<u>2,886,453</u>
Total current liabilities	<u>3,598,013</u>
Total liabilities	<u>3,598,013</u>
Net Position	
Investment in capital assets	5,319,332
Unrestricted	<u>7,535,425</u>
Total net position	<u><u>\$ 12,854,757</u></u>

Midland Independent School District

Statement of Revenues, Expenditures, and Changes in Net Position– Proprietary Funds (Exhibit D-2)

Year Ended June 30, 2025

	Governmental Activities <u>Internal Service Funds</u>
Operating revenues	
Local and intermediate revenues	<u>\$ 27,794,272</u>
Total revenues	<u>27,794,272</u>
Operating expenses	
Professional and contracted services	951,471
Depreciation/Amortization expense	115,964
Other operating costs	<u>28,504,905</u>
Total expenses	<u>29,572,340</u>
Operating loss	<u>(1,778,068)</u>
Non-operating revenues	
Earnings from temp. deposits and investments	<u>211,718</u>
Total non-operating revenues	<u>211,718</u>
Change in net position	(1,566,350)
Net position, beginning	<u>14,421,107</u>
Net position, ending	<u><u>\$ 12,854,757</u></u>

Midland Independent School District
Statement of Cash Flows– Proprietary Funds (Exhibit D-3)
Year Ended June 30, 2025

	Governmental Activities
	Internal Service Funds
Operating activities	
Cash received from quasi-external operating activities	\$ 27,795,072
Cash payments to suppliers for goods and benefits	(29,344,505)
Net cash used for operating activities	<u>(1,549,433)</u>
Noncapital financing activities	
Transfers from other funds	3,297,824
Net cash provided by noncapital financing activities	<u>3,297,824</u>
Capital and related financing activities	
Acquisition of capital assets	(918)
Net cash used for capital and related financing activities	<u>(918)</u>
Investing activities	
Interest and dividends received on investments	211,718
Purchase of investments	(211,720)
Net cash used for investing activities	<u>(2)</u>
Net change in cash and cash equivalents	1,747,471
Cash and cash equivalents, beginning of year	<u>3,622,502</u>
Cash and cash equivalents, end of the year	<u>\$ 5,369,973</u>
Reconciliation of operating loss to net cash used for operating activities	
Operating loss	\$ (1,778,068)
Depreciation	115,964
Change in assets and liabilities	
(Increase) decrease in other receivables	(53,822)
(Increase) decrease in prepaid items	(230,112)
Increase (decrease) in accounts payable	239,503
Increase (decrease) in payable from restricted assets	<u>157,102</u>
Net cash used for operating activities	<u>\$ (1,549,433)</u>

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

Data Control Codes		801 Private Purpose Trust Fund	865 Custodial Fund
	Assets		
1110	Cash and cash equivalents	\$ 500	\$ 632,730
1120	Current investments	305,403	-
1290	Other receivables	-	948
		<u> </u>	<u> </u>
1000	Total assets	<u>305,903</u>	<u>633,678</u>
	Liabilities		
2110	Accounts payable	-	501
2170	Due to other funds	18,835	-
2400	Payable from restricted assets	77,971	-
		<u> </u>	<u> </u>
2000	Total liabilities	<u>96,806</u>	<u>501</u>
	Net Position		
3800	Restricted	<u>209,097</u>	<u>633,177</u>
		<u> </u>	<u> </u>
	Total net position	<u>\$ 209,097</u>	<u>\$ 633,177</u>

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

	801 Private Purpose Trust Fund	865 Custodial Fund
	<u> </u>	<u> </u>
Additions		
Contributions		
Donations	\$ -	\$ 349,794
	<u> </u>	<u> </u>
Total contributions	-	349,794
	<u> </u>	<u> </u>
Investment Earnings		
Temp. deposits and investments	14,608	-
	<u> </u>	<u> </u>
Total investment earnings	14,608	-
	<u> </u>	<u> </u>
Total additions	14,608	349,794
	<u> </u>	<u> </u>
Deductions		
Scholarships awarded	-	-
Extracurricular activities	-	347,064
	<u> </u>	<u> </u>
Total deductions	-	347,064
	<u> </u>	<u> </u>
Change in net position	14,608	2,730
Net position, beginning	194,489	630,447
	<u> </u>	<u> </u>
Net position, ending	\$ 209,097	\$ 633,177
	<u> </u>	<u> </u>

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

The Board of Trustees, a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the Midland Independent School District (the District). The public elects the members of the Board of Trustees. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the TEA or to the State Board of Education are reserved for the trustees, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards. The Midland I.S.D. Education Foundation is a component unit of the District. The Foundation's purpose is to support teachers and students of the District in the advancement of their educational careers and to provide grants for great ideas to develop creative learning in the classroom. The District has financial accountability because it must approve the members of the board of directors and a financial benefit/burden relationship exists. It is discretely presented in a separate column on the government-wide financial statements (Exhibits A-1 and B-1) in order to emphasize that it is legally separate from the District. The Midland I.S.D. Education Foundation does not issue separate financial statements.

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

Government-Wide and Fund Financial Statements

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

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

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

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

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

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

The District reports the following major governmental funds:

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

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

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

Additionally, the District reports the following nonmajor fund types:

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

The *internal service funds*, a proprietary fund type. Revenues and expenses are related to services provided to organizations inside the District on a cost reimbursement basis. Internal service funds inherently create redundancy because their expenses are recorded a second time in the fund that are billed for the services they provide. Therefore, on the government-wide financial statements, the operations of the internal service funds are consolidated and interfund transactions are eliminated. The District has an internal service fund for health, dental and workers' compensation benefits, an internal service fund for employee housing, an internal service fund for the District's internal print shop and another internal service fund for childcare for employees.

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

Private purpose trust funds – Donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the scholarship fund.

Employee benefit trust funds – These funds are used to account for other employee benefit funds that are provided by the District.

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

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

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

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

Deposits and Investments

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

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the applicable governmental column in the government-wide financial statements and in the proprietary fund financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

<u>Capital Asset Class</u>	<u>Lives</u>
Buildings and improvements	40
Furniture and equipment	5-10

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

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

Inventory and Prepaid Items

The consumption method is used to account for inventories of supplies and materials. Under this method, these items are carried in an inventory account of the respective fund at cost, using the weighted average method of accounting and are subsequently charged to expenditures when consumed or requisitioned. Although food commodities are received at no cost, their fair value is supplied by the Texas Department of Agriculture and is recorded as inventory on the date received. Prepaid items on the balance sheet are accounted for using the consumption method and are recognized as expenditures over the periods in which the service is provided. In the governmental funds, inventories and prepaid items are reported as non-spendable fund balance.

Long-Term Liabilities

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

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

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

Compensated Absences

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

Deferred Outflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net assets that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense) until that time.

The District has three types of items that qualify for reporting in this category. The first and second items are deferred outflows related to pension and OPEB plans as a result of various estimate differences that will be recognized as expenses in future years, reported in the government-wide statement of net position. The third item is deferred outflows related to deferred charges on previous bond refundings and is reported in the government-wide statement of net position and will be recognized as expense in future years.

Deferred Inflows of Resources

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net assets that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

The District has four types of items that qualify for reporting in this category. The first item, unavailable revenue from property taxes, arises under a modified accrual basis of accounting and is reported only in the Governmental Funds Balance Sheet. Delinquent property taxes not collected within 60 days of year-end are deferred and recognized as an inflow of resources in the governmental funds in the period the amounts become available. The second item is deferred inflows related to pension and OPEB plans as a result of various estimate differences that will be recognized as expenses in future years, reported in the government-wide statement of net position. The third item is deferred inflows related to leases where the District is the lessor and is reported in the governmental funds balance sheet and statement of net position. The deferred inflows of resources related to leases are recognized as an inflow of resources (revenue) on the straight-line basis over the term of the lease. The fourth item is deferred inflows related to deferred gains on previous bond refundings and is reported in the government-wide statement of net position and will be recognized as income in future years.

Property Tax

In the governmental fund financial statements, property tax revenues are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by January 31 of the year following the October 1 levy date. The assessed value of the property tax roll (net of exemptions), upon which the levy for the June 30, 2025 fiscal year was based, was \$51,983,118,069. Taxes are delinquent if not paid by February 1. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

Current tax collections for the year ended June 30, 2025 were 98% of the year-end adjusted tax levy. Allowances for uncollectible taxes within the General Fund are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2025, property taxes receivable, net of estimated uncollectible taxes, totaled \$8,571,887.

The tax rate to finance general governmental services was \$0.6669 per \$100 and the tax rate to finance the payment of principal and interest on long-term obligations was \$0.2101 per \$100 for the year ended June 30, 2025.

Net Position

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

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

Net carrying value of capital assets	\$ 468,278,402
Less:	
Outstanding principal of capital debt and other capital borrowings	(854,613,815)
Unamortized balance of original issue premiums	(43,139,380)
Outstanding balance of capital related liabilities, including accounts payable	(10,670,177)
Plus:	
Unamortized balance of capital related deferred outflows	526,410
Unspent bond proceeds from capital related debt	863,900,220
Net investment in capital assets	<u><u>\$ 424,281,660</u></u>

Restricted for Grants is 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, Health and Human Services, Defense, Agriculture or TEA.

Restricted for Debt Service is the component of net position that reports the difference between assets and liabilities of the Debt Service Fund, net of accrued interest, at June 30, 2025, that consists of assets with constraints placed on their use by the bond covenants.

Restricted for Other Purposes is the component of net position that reports the difference between assets and liabilities that are restricted for other purposes at June 30, 2025, that consists of assets with constraints placed on their use by external parties.

Unrestricted is the difference between the assets and liabilities that are not reported in net position invested in capital assets, net position restricted for debt service, net position restricted for federal and state programs, net position restricted for capital projects, and net position restricted for other purposes.

Fund Balance

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

Nonspendable fund balance includes fund balance that cannot be spent either because it is not in spendable form or because of legal or contractual constraints. At June 30, 2025, the District had nonspendable fund balance of \$1,267,570 for amounts held in inventory and \$991,610 for prepayments.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation. At June 30, 2025, the District had restricted fund balance for grant funding of \$11,128,582, debt service of \$53,420,496, construction of \$853,200,246, and amounts related to its partnerships with an institution of higher education, nonprofits, and open-enrollment charter schools operating and managing specific District campus locations of \$1,347,435.

Committed fund balance is established and modified by a resolution from the District's Board, the District's highest level of decision-making authority, and can be used only for the specific purposes determined by the Board's resolution. At June 30, 2025, the capital projects fund had a remaining fund balance of \$4,042,089 transferred from the General Fund for construction projects. At June 30, 2025, the District had \$1,018,001 committed for campus activity funds.

Assigned fund balance is intended to be used by the District for specific purposes but does not meet the criteria to be classified as restricted or committed. The Board has delegated the authority to assign fund balance to the Superintendent or the Chief Financial Officer. At June 30, 2025, the District had \$35,000,000 assigned for future capital projects; \$12,038,752 assigned for future technology replacements and projects; \$2,000,000 assigned for the District's self-insurance fund; and \$48,912,143 assigned to cover anticipated revenue reduction due to capping and eventual expiration of certain state allotments.

Unassigned fund balance is the residual classification for the District's general fund and includes all spendable amounts not contained in the other classifications. The general fund is the only fund that reports a positive unassigned fund balance. However, in other governmental funds, 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.

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

Data Control Codes

In accordance with the Financial Accountability System Resource Guide published by the TEA, the District has adopted and installed an accounting system which meets the minimum requirements prescribed by the State Board of Education and has been approved by the state auditor. The TEA requires the display of these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

Pensions

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

OPEB

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

Use of Estimates

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

Adoption of New Accounting Standards

As of July 1, 2024, the District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensated absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. The effect of the implementation of this standard on beginning net position is disclosed in Note 16.

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

New Accounting Pronouncements

GASB issued Statement No. 103, Financial Reporting Model Improvements. Statement 103 was issued in April 2024. The objective of this statement is to improve the financial reporting model's effectiveness in providing information for decision-making and assessing a government's accountability. The statement was issued in April 2024 and is the result of a reexamination project that began in 2013. The statement's requirements are intended to improve transparency, comparability and quality; address application issues and increase consistency. This statement will be effective for fiscal years beginning after June 15, 2025, and all reporting periods thereafter. Earlier application is encouraged. The District has not yet determined the impact of this Statement.

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

Note 2 - Stewardship, Compliance and Accountability

Budgetary Information

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

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

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

Fair Value Measurements

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

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

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

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

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

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

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

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

Note 3 - Detailed Notes on All Funds

Deposits and Investments

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

At June 30, 2025, the bank balance of \$44,964,553 was on deposit with the contracted depository bank. District funds are insured up to \$250,000 for the combined amount of all time and savings accounts, and up to an additional \$250,000 for the combined total of all Demand Deposit Accounts (DDA's). Interest-bearing accounts were collateralized by pledged United States government securities with a fair value of \$69,045,803 at June 30, 2025, held by Wells Fargo. Because Wells Fargo holds the pledged securities in trust on behalf of the District, the deposits were deemed collateralized under Texas law. All campus activity funds were centralized and were on deposit with the contracted depository.

Investments

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

- Obligations of the United States or its agencies and instrumentalities,
- Obligations of the State of Texas or its agencies, and instrumentalities,
- Other obligations guaranteed by the United States or the State of Texas or their agencies and instrumentalities,
- Public funds investment pools,
- No load money market funds with a weighted average maturity of 90 days or less,

Midland Independent School District

Notes to Financial Statements

June 30, 2025

- Fully collateralized repurchase agreements
- Obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality not less than an “A”, or its equivalent, by a nationally recognized investment rating firm,
- Commercial paper having a stated maturity of 365 days or fewer from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies or one nationally recognized credit agency and is fully secured by an irrevocable letter of credit,
- Guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds,
- Guaranteed or secured certificates of deposit, issued by state and national banks domiciled in Texas, and insured by federal depository insurance or secured by the obligations mentioned above,
- Bonds issued, assumed or guaranteed by the State of Israel, and
- Secured corporate bonds rated not lower than “AA—” or the equivalent.

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

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

Type of Investment	Book Value	Percent	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-10 Years	Credit Rating
Cash	\$ 46,326,146	3.7%	\$ 46,326,146	3.7%	\$ 46,326,146	\$ -	N/A
Money markets	46,261,748	3.7%	46,261,748	3.7%	46,261,748	-	N/A
Investment Pools							
TexPool	252,688,836	20.2%	252,688,836	20.2%	252,688,836	-	AAAm
Texas FIT	20,086,711	1.6%	20,086,711	1.6%	20,086,711	-	AAAmmf
Lonestar/First Public	638,131	0.1%	638,131	0.1%	638,131	-	Aam
Texas Class	20,030,065	1.6%	20,030,065	1.6%	20,030,065	-	AAAm
Texas Term - TexasDAILY	26,958,224	2.2%	26,958,224	2.2%	26,958,224	-	AAAm
LOGIC	98,745,252	7.9%	98,745,252	7.9%	98,745,252	-	AAA
US treasury notes	740,200,000	59.1%	740,040,204	59.1%	681,742,137	58,298,067	AA+
Total investments	1,205,608,967	96.3%	1,205,449,171	96.3%	1,147,151,104	58,298,067	
Total cash and investments	\$ 1,251,935,113	100.0%	\$ 1,251,775,317	100.0%	\$ 1,193,477,250	\$ 58,298,067	

Investment Pools are measured at amortized cost or net asset value, i.e. fair value. As such, these investments are not required to be reported in the fair value hierarchy. U.S. treasury notes are valued using Level 1 inputs that are based on quoted market prices in active markets.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares. Audited financial statements of the pool are available at First Public, 12008 Research Blvd., Austin, Texas 78759. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

Texas Fixed Income Trust (Texas FIT) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. Deep Blue Investment Advisors serves as investment advisor and the Bank of New York Mellon is custodian. Texas FIT seeks the preservation of principal, a competitive yield, and a stable NAV, while also providing liquidity. It invests in mortgage backed securities, municipal bonds, treasury and agency securities. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. Texas FIT uses amortized cost rather than market value to report net assets to compute share prices.

Lone Star Investment Pool is governed by an 11-member board and is a AAA rated investment program tailored to the investment needs of local governments within the state of Texas. Lone Star Investment Pool assists governments across Texas make the most of taxpayer dollars. Local officials can improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund in full compliance with the Texas Public Funds Investment Act. Lone Star Investment Pool is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. Lone Star uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Lone Star is the same as the value of Lone Star Shares. Lone Star is administered by First Public LLC, who also serves as the investment advisor. The reported value of the pool is the same as the fair value of the pool shares.

Texas CLASS is a local government investment pool emphasizing safety, liquidity, convenience and competitive yield. Since 1996, Texas CLASS has provided Texas public entities a safe and competitive investment alternative. Texas CLASS invests only in securities allowed by the Texas Public Funds Investment Act. Texas CLASS carries a letter of credit that ensures the integrity of the fund, making it the only investment pool in Texas backed by a letter of credit. The pool is governed by a board of trustees, elected annually by its participants. Texas CLASS is rated 'AAAm' by Standard and Poor's Ratings Services. The 'AAAm' principal stability fund rating is the highest assigned to principal stability government investment pools and is a direct reflection of Texas CLASS's outstanding credit quality and management. Texas CLASS uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in Texas CLASS is the same as the value of Texas CLASS Shares.

The TexasTERM Local Government Investment Pool was created by and for Texas local governments to provide investment programs tailored to the needs of Texas cities, counties, school districts and other public investors. TexasTERM portfolios seek to provide these investors with safety, flexibility and competitive yields. Shares are distributed by PFM Fund Distributors, Inc., member Financial Industry Regulatory Authority (FINRA) and Securities Investor Protection Corporation (SIPC). PFM Fund Distributors, Inc. is a wholly owned subsidiary of PFM Asset Management LLC. The District currently utilizes Texas DAILY, a money market portfolio with daily liquidity that is rated AAAM by Standard & Poor's. TexasTERM uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexasTERM is the same as the value of TexasTERM Shares.

Local Government Investment Cooperative (LOGIC) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. J.P. Morgan Investment Management Inc. serves as investment advisor and co-administrator with First Southwest. LOGIC invests in treasury and agency securities and repurchase agreements as well as prime commercial paper. The pool maintains a weighted average maturity of 60 days or less. The pool seeks to maintain a constant dollar objective. LOGIC uses amortized cost rather than market value to report net assets to compute share prices.

Interest Rate Risk

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

Credit Risk

The District's investments in Local Government Investment Pools (LGIP's) include: TexPool, Lonestar, Texas Class, Texas Term, LOGIC, and TexStar. These are public funds investment pools operating in full compliance with the Public Funds Investment Act. All are rated AAAM, AAA, or Aam by Standard and Poor's.

Concentration of Credit Risk

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

Custodial Credit Risk – Deposits

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

Foreign Currency Risk

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

Due from Other Governments

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

Governmental Activities	Local	State Grants/ Entitlements	Federal Grants	Total
General Fund	\$ 1,833,968	\$ 4,514,467	\$ -	\$ 6,348,435
Debt Service Fund	569,272	-	-	569,272
Nonmajor Governmental Funds	-	449,789	5,746,812	6,196,601
	<u>\$ 2,403,240</u>	<u>\$ 4,964,256</u>	<u>\$ 5,746,812</u>	<u>\$ 13,114,308</u>

Interfund Receivables/Payable

In the fund financial statements, interfund balances are the results of normal transactions between funds and will be liquidated in the subsequent fiscal year. Interfund balances at June 30, 2025, resulting from payroll and accumulated fund charges, consisted of the following individual fund balances:

Due From/To Other Funds	Interfund Receivables	Interfund Payables
General fund	\$ 18,728,881	\$ 5,612,201
Debt service fund	-	30,594
Capital projects fund	5,515,854	-
Nonmajor governmental funds	60,750	18,643,855
Private purpose trust fund	-	18,835
Totals	<u>\$ 24,305,485</u>	<u>\$ 24,305,485</u>

Note 4 - Capital Asset Activity

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

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities				
Capital assets, not being depreciated				
Land and improvements	\$ 24,761,916	\$ -	\$ -	\$ 24,761,916
Construction in progress	47,929,902	86,330,725	(19,177,786)	115,082,841
Total capital assets, not being depreciated	72,691,818	86,330,725	(19,177,786)	139,844,757
Capital assets, being depreciated				
Buildings and improvements	491,332,092	5,128,594	-	496,460,686
Furniture and equipment	46,652,580	19,878,454	(67,040)	66,463,994
Right-to-use leased assets				
Equipment	8,983,603	37,644	-	9,021,247
Right-to-use subscription IT assets	4,592,018	4,110,205	-	8,702,223
Total capital assets, being depreciated/amortized	551,560,293	29,154,897	(67,040)	580,648,150
Less accumulated depreciation/amortization for				
Buildings and improvements	(196,284,321)	(11,562,555)	-	(207,846,876)
Furniture and equipment	(27,658,405)	(5,280,093)	67,040	(32,871,458)
Right-to-use leased assets				
Equipment	(5,552,964)	(1,816,234)	-	(7,369,198)
Right-to-use subscription IT assets	(1,183,586)	(2,943,387)	-	(4,126,973)
Total accumulated depreciation/amortization	(230,679,276)	(21,602,269)	67,040	(252,214,505)
Total capital assets, being depreciated/amortized, net	320,881,017	7,552,628	-	328,433,645
Total capital assets, net	\$ 393,572,835	\$ 93,883,353	\$ (19,177,786)	\$ 468,278,402

Estimated costs to complete current projects that are included in construction in progress as of June 30, 2025 are \$688,477,805.

Midland Independent School District

Notes to Financial Statements

June 30, 2025

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

Governmental Activities		
11	Instruction	\$ 9,842,083
12	Instructional resources and media services	2,563
23	School leadership	949
31	Guidance, counseling, and evaluation services	-
33	Health services	21,978
34	Student transportation	1,448,339
35	Food service	186,031
36	Extracurricular activities	320,320
41	General administration	37,169
51	Plant maintenance and operations	4,340,107
52	Security and monitoring services	351,239
53	Data processing services	291,870
Total depreciation expense-governmental activities		<u>\$ 16,842,648</u>

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

Governmental Activities		
11	Instruction	\$ 2,523,778
36	Extracurricular activities	12,306
41	General administration	747,209
51	Plant maintenance and operations	1,363,789
52	Security and monitoring services	109,338
53	Data processing services	3,201
Total amortization expense-governmental activities		<u>\$ 4,759,621</u>

Note 5 - Long-Term Debt

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

On August 15, 2024, the District established a defeasance escrow to defease a portion of the District's outstanding Unlimited Tax Refunding Bonds (Series 2015), Unlimited Tax Refunding Bonds (Series 2016), Unlimited Tax Refunding Bonds (Series 2017), and the Unlimited Tax Refunding Bonds (Series 2020). The District deposited existing resources with a paying agent for the defeased bonds in the amount of \$105,116,820, sufficient to provide the final payment and redemption of the defeased bonds. The defeased bonds are no longer regarded as being outstanding, except for the purpose of being paid from funds on deposit in the escrow fund. The payment to the escrow was recorded as principal on long-term debt from the Debt Service Fund as it was paid from existing resources. The defeasance resulted in cash flow savings of approximately \$39.8 million and an economic gain of approximately \$10.8 million for the District.

As of June 30, 2025, the remaining outstanding principal of previously defeased bonds was \$206,119,972.

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

Bond Issuances	Amounts Original Issued	Interest Rate Payable	Maturities
Unlimited Tax Refunding Bonds, Series 2015	\$ 38,495,000	1.30-5.00%	8.15.24 - 2.15.32
Unlimited Tax Refunding Bonds, Series 2016	26,000,000	0.80-4.00%	8.15.24 - 2.15.38
Unlimited Tax Refunding Bonds, Series 2017	54,335,996	3.50-5.00%	8.15.24 - 2.15.35
Unlimited Tax Refunding Bonds, Series 2020	39,344,986	1.70-5.00%	8.15.24 - 2.15.40
Unlimited Tax School Building Bonds, Series 2024	860,640,000	4.00-5.00%	2.15.25 - 2.15.54
Other Long-Term Debt			
Notes payable	\$ 1,154,403	3.12% - 9.04%	7.1.24 - 6.30.29
Leases payable	4,931,155	3.5% - 12.5%	7.1.24 - 6.30.29
Subscription IT liabilities	8,787,083	3.5% - 7.5%	7.1.24 - 6.30.29

Midland Independent School District
Notes to Financial Statements
June 30, 2025

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

Bond Series Name	Beginning Balance	Debt Issued	Principal Retired	Ending Balance	Due Within One Year
Unlimited Tax Refunding Bonds, Series 2015	\$ 12,100,000	\$ -	\$ (12,100,000)	\$ -	\$ -
Unlimited Tax Refunding Bonds, Series 2016	25,455,000	-	(25,455,000)	-	-
Unlimited Tax Refunding Bonds, Series 2017	48,780,000	-	(38,555,000)	10,225,000	2,045,000
Unlimited Tax Refunding Bonds, Series 2020	38,724,986	-	(37,029,986)	1,695,000	180,000
Unlimited Tax School Building Bonds, Series 2024	860,640,000	-	(25,000,000)	835,640,000	43,030,000
Total bonds payable	985,699,986	-	(138,139,986)	847,560,000	45,255,000
Other Long-Term Debt					
Notes payable	656,630	-	(278,320)	378,310	209,614
Leases payable	2,574,376	38,059	(885,735)	1,726,700	567,380
Subscription IT liabilities	3,029,917	4,111,348	(2,192,460)	4,948,805	2,223,496
Total other long-term debt	6,260,923	4,149,407	(3,356,515)	7,053,815	3,000,490
Total general long-term debt	\$ 991,960,909	\$ 4,149,407	\$ (141,496,501)	\$ 854,613,815	\$ 48,255,490

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

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 45,255,000	\$ 38,578,042	\$ 83,833,042
2027	16,310,000	36,072,792	52,382,792
2028	17,095,000	35,257,292	52,352,292
2029	17,465,000	34,402,542	51,867,542
2030	18,045,000	33,529,292	51,574,292
2031-2035	94,580,000	154,316,752	248,896,752
2036-2040	120,035,000	128,543,300	248,578,300
2041-2045	148,005,000	100,943,350	248,948,350
2046-2050	187,210,000	63,303,500	250,513,500
2051-2054	183,560,000	18,723,000	202,283,000
Totals	\$ 847,560,000	\$ 643,669,862	\$ 1,491,229,862

Midland Independent School District

Notes to Financial Statements

June 30, 2025

Payment requirements for the District's other long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 3,000,490	\$ 236,277	\$ 3,236,767
2027	2,372,810	112,362	2,485,172
2028	1,319,552	48,479	1,368,031
2029	360,963	4,362	365,325
2030	-	-	-
Totals	<u>\$ 7,053,815</u>	<u>\$ 401,480</u>	<u>\$ 7,455,295</u>

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

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities					
Bonds payable					
General obligation bonds	\$ 985,699,986	\$ -	\$(138,139,986)	\$ 847,560,000	\$45,255,000
Deferred amounts					
For issuance premium/ discounts (CIB's)	51,566,344	-	(8,426,964)	43,139,380	-
Total bonds payable, net	1,037,266,330	-	(146,566,950)	890,699,380	45,255,000
Other long-term debt	6,260,923	4,149,407	(3,356,515)	7,053,815	3,000,490
Compensated absences	2,550,000	41,000	-	2,591,000	1,295,000
Arbitrage rebate liabilities	3,401,246	9,496,095	-	12,897,341	-
Accretion on CAB	364,497	-	(364,497)	-	-
Governmental activities long-term liabilities	<u>\$1,049,842,996</u>	<u>\$ 13,686,502</u>	<u>\$(150,287,962)</u>	<u>\$ 913,241,536</u>	<u>\$49,550,490</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures.

Management has indicated that the District is in compliance with all significant limitations and restrictions as of June 30, 2025.

Note 6 - Leases

The District entered a master lease agreement to lease vehicles for District-wide use. Under the terms of the lease, the District pays various monthly rental fees that range between \$668 and \$2,283. The lease terminates in fiscal year 2029.

The District entered an agreement to lease dark fiber infrastructure beginning June 30, 2020. Under the terms of the lease, the District pays a monthly base fee of \$22,294 and paid an initial installation fee of \$4,358,000. The agreement can be extended upon mutual agreement by the District and the lessor; therefore, no additional periods are included as both parties must agree to extend the lease.

The District has entered into various office equipment leases beginning in fiscal year 2023. Under the terms of the leases, the District pays various monthly rental fees that range between \$269 and \$11,470. The leases terminated in fiscal year 2024.

At June 30, 2025, the District has recognized a right to use asset of \$1,652,049 and a lease liability of \$1,726,700 related to these agreements. During the fiscal year, the District recorded \$1,816,234 in amortization expense and \$112,883 in interest expense. The District used discount rates that ranged between 3.5% and 12.5%. The discount rates were based the stated rates in the agreements, if available. If no stated rates were available, the discount rates were based on the estimated incremental borrowing rate of the District.

Remaining obligations associated with these leases are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 567,380	\$ 76,552	\$ 643,932
2027	512,279	50,274	562,553
2028	505,450	23,262	528,712
2029	141,591	2,647	144,238
2030	-	-	-
Totals	<u>\$ 1,726,700</u>	<u>\$ 152,735</u>	<u>\$ 1,879,435</u>

Note 7 - Subscription-Based Information Technology Arrangement (SBITAs)

The District has entered into twenty-two SBITA contracts for educational and productivity software. As of June 30, 2025, the value of the subscription liabilities was \$4,575,250. The District is required to make annual principal and interest payments ranging from \$750 to \$767,580 through September 2028. The subscriptions have an interest rate of 3.50%.

Remaining obligations associated with these subscription agreements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2026	\$ 2,223,496	\$ 142,191	\$ 2,365,687
2027	1,783,355	53,519	1,836,874
2028	748,831	21,265	770,096
2029	193,123	1,287	194,410
2030	-	-	-
Totals	<u>\$ 4,948,805</u>	<u>\$ 218,262</u>	<u>\$ 5,167,067</u>

Note 8 - Contingencies

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

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

Note 9 - Defined Benefit Pension Plan

Defined Benefit Pension Plan

Plan Description

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

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

Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately issued Annual Comprehensive Financial Report (ACFR) that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/Pages/about_publications.aspx ; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698, or by calling (512) 542-6592.

Benefits Provided

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

One-Time Stipends

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

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

Cost-of-Living Adjustment

A cost-of-living adjustment (COLA) was dependent on Texas voters approving a constitutional amendment (Proposition 9) to authorize the COLA. Voters approved the amendment in the November 2023 election and the following COLA was applied to eligible annuitants' payments beginning with their January 2024 payment:

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

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

Contribution

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 thru 2025.

	Contribution Rates	
	2024	2025
Member	8.25%	8.25%
Non-Employer Contributing Entity (State)	8.25%	8.25%
Employers	8.25%	8.25%
	2024	2025
Member Contributions	\$ 15,391,657	\$ 15,946,290
NECE On-Behalf Contributions	10,189,756	10,512,740
Employer Contributions	7,862,079	8,228,108

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

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

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

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

- All public schools, charter schools, and regional educational service centers must contribute 1.6% of the member's salary beginning in fiscal year 2021, gradually increasing to 2% in fiscal year 2025.
- When employing a retiree of the TRS the employer shall pay both the member contribution and State contribution as an employment after retirement surcharge.

Actuarial Assumptions

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

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

The actuarial methods and assumptions used in the determination of the total pension liability are the same assumptions used in the actuarial valuation as of August 31, 2023. For a full description of these assumptions, please see the actuarial valuation report dated November 22, 2023.

Discount Rate

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

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

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

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

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

¹Target Allocation based on the FY2024 policy manual.

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

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

⁴ Absolute Return includes Credit Sensitive instruments.

Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (6.00%)	Discount Rate (7.00%)	1% Increase Discount Rate (8.00%)
Total TRS net pension liability	\$ 97,566,906,778	\$ 61,084,175,799	\$ 30,855,639,673
District's proportionate share of the net pension liability	\$ 146,050,590	\$ 91,438,585	\$ 46,188,657

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

At June 30, 2025, the District reported a liability of \$91,438,585 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	\$ 91,438,585
State's proportionate share that is associated with the District	109,665,949
Total	<u>\$ 201,104,534</u>

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

At August 31, 2024, the employer's proportion of the collective net pension liability was 0.1496927542% which was an increase of .003694% from its proportion measured as of August 31, 2023.

Changes since the Prior Actuarial Valuation

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

Midland Independent School District

Notes to Financial Statements

June 30, 2025

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.

For the year ended June 30, 2025, the District recognized pension expense of \$13,106,914 and revenue of \$10,117,292 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actuarial economic experience	\$ 5,039,970	\$ 713,908
Changes in actuarial assumptions	4,721,170	632,948
Difference between projected and actual investment earnings	555,824	-
Changes in proportion and differences between District contributions and the proportionate share of contributions	5,249,643	940,454
Contributions paid to TRS subsequent to the measurement date	6,999,565	-
Total	<u>\$ 22,566,172</u>	<u>\$ 2,287,310</u>

\$6,999,565 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended June 30, 2026.

The net amount of employee'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	\$ 2,084,679
2027	11,246,486
2028	1,548,367
2029	(2,128,496)
2030	528,261
Thereafter	-
Totals	<u>\$ 13,279,297</u>

Note 10 - Postemployment Health Benefits**Plan Description**

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

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

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately issued TRS Annual Comprehensive Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet https://www.trs.texas.gov/Pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

Benefits Provided

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

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

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

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

Contributions

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

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

Contributions Rates		
	2024	2025
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding remitted by Employers	1.25%	1.25%
	2024	2025
Employer Contributions	\$ 1,566,771	\$ 1,585,732
Member Contributions	1,218,439	1,256,375
NECE On-behalf Contributions	2,182,265	2,280,037

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

Actuarial Assumptions

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

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

Rates of Mortality
Rates of Retirement
Rates of Termination

General Inflation
Wage Inflation
Expected Payroll Growth

The active mortality rates were based on PUB(201), 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 Rates. The rates were projected on a fully generational basis using the ultimate improvement rates from mortality projection scale MP-2021.

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.30%
Single Discount Rate	3.87% as of August 31, 2024
Aging Factors	Based on the Society of Actuaries' 2013 Study "Health Care Costs - 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.
Projected Salary Increases	2.95% to 8.95%, including inflation
Healthcare Trend Rates	4.25% to 7.75% The initial medical trend rates were 6.75% for Medicare retirees and 6.75% for non-Medicare retirees. There was an initial prescription drug trend rate of 7.25% for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25% over a period of 11 years.
Election Rates	Normal Retirement: 62% participation prior to age 65 and 25% participation after age 65; 30% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc post-employment benefit changes	None

Discount Rate

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

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

Discount Rate Sensitivity Analysis

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

	<u>1% Decrease in Discount Rate (2.87%)</u>	<u>Discount Rate (3.87%)</u>	<u>1% Increase Discount Rate (4.87%)</u>
Total TRS net OPEB liability	\$ 36,059,038,653	\$ 30,351,532,252	\$ 25,739,781,222
District's proportionate share of the Net OPEB liability	\$ 67,508,756	\$ 56,823,317	\$ 48,189,322

Healthcare Cost Trend Rate Sensitivity Analysis

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

	<u>1% Decrease in Healthcare Trend Rate</u>	<u>Current Single Healthcare Trend Rate</u>	<u>1% Increase in Healthcare Trend Rate</u>
Total TRS net OPEB liability	\$ 24,716,816,909	\$ 30,351,532,252	\$ 37,694,128,071
District's proportionate share of the Net OPEB liability	\$ 46,274,155	\$ 56,823,317	\$ 70,569,926

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

At June 30, 2025, the District reported a liability of \$56,823,317 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	\$ 56,823,317
State's proportionate share that is associated with the District	<u>71,198,845</u>
Total	<u>\$ 128,022,162</u>

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

At June 30, 2025, the District's proportion of the collective Net OPEB Liability was 0.1872172929% compared to .1745597793% as of June 30, 2024.

Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 4.13% 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.

Change of Benefit Terms Since the Prior Measurement Date

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

For the year ending June 30, 2025, the District recognized OPEB benefit of \$9,254,536 and revenue of \$2,130,809 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 other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actuarial economic experience	\$ 10,891,122	\$ 28,357,916
Changes in actuarial assumptions	7,272,713	18,540,791
Difference between projected and actual investment earnings	-	159,123
Changes in proportion and differences between District contributions and the proportionate share of contributions	10,189,502	5,080,683
Contributions paid to TRS subsequent to the measurement date	1,334,046	-
	<u>\$ 29,687,383</u>	<u>\$ 52,138,513</u>
Totals	<u>\$ 29,687,383</u>	<u>\$ 52,138,513</u>

\$1,334,046 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability for the year ended June 30, 2026.

Midland Independent School District

Notes to Financial Statements

June 30, 2025

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

<u>Year Ended June 30</u>	<u>OPEB Expense Amount</u>
2026	\$ (7,824,617)
2027	(5,251,034)
2028	(6,115,416)
2029	(4,119,845)
2030	(1,867,436)
Thereafter	1,393,172
Totals	<u><u>\$ (23,785,176)</u></u>

Medicare Part D

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from federal governments to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments have been recognized as equal revenues and expenditures by the District in the amounts of \$1,310,926, 1,045,060, and \$864,133 for the years ended June 30, 2025, 2024 and 2023, respectively.

Note 11 - Revenues from Local and Intermediate Sources

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Property taxes	\$ 331,471,629	\$ 104,384,928	\$ -	\$ -	\$ 435,856,557
Penalties, interest, and other tax-related	2,575,410	484,420	-	-	3,059,830
Investment income	11,571,737	1,931,834	38,941,099	137,667	52,582,337
Food sales	-	-	-	3,139,729	3,139,729
Co-curricular/extra- curricular student activities	674,374	-	-	333,210	1,007,584
Gifts and bequests	155,150	-	-	1,073,139	1,228,289
Insurance recoveries	1,435,303	-	-	-	1,435,303
Oil and gas revenue	5,421,775	-	-	-	5,421,775
Other	1,806,041	-	23,853	158,380	1,988,274
Total	<u><u>\$ 355,111,419</u></u>	<u><u>\$ 106,801,182</u></u>	<u><u>\$ 38,964,952</u></u>	<u><u>\$ 4,842,125</u></u>	<u><u>\$ 505,719,678</u></u>

Note 12 - Employee Defined Contribution Plan

The District sponsors a 401 (a) plan for the benefit of its employees. The plan provides for discretionary monthly contributions up to the maximum of 3.0%. The percentage contributed by the District is determined annually by the Board of Trustees. Participants begin to vest in benefits after 3 years and become fully vested after 5 years. Participants are 100% vested in their personal contributions at all times. The Board of Trustees did not authorize a discretionary contribution for the year ended June 30, 2025.

Note 13 - General Fund Federal Source Revenues

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

School of Health and Related Services	N/A	\$ 255,030
Air Force JROTC	12.000	92,734
Indirect costs:		
ESEA Title I, Part A	84.010A	272,792
Title I, Transformation Zone	84.010A	1,977
Title I, Priority & Focus	84.010A	4,830
Title IV, Part A	84.424A	18,077
IDEA - Part B	84.027A	233,421
IDEA - Part B Preschool	84.173A	4,207
Title III, Part A - Immigrant	84.365A	27,710
Career & Technical Basic	84.048A	13,752
ESEA Title II, Part A	84.367A	57,316
ARP Homeless III	84.425W	4,439
ARP Homeless I	84.425W	7,073
ARP ESSER III	84.425U	34
LEP Summer School	84.369	93
National School Lunch Program	10.555	500,000
		<u>\$ 1,493,485</u>

Note 14 - Risk Management

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

Worker's Compensation

GASB 10 requires that state and local governmental entities other than public entity risk pools are required to report an estimated loss from a claim as an expenditure/expense and as a liability if both of these conditions are met: a) Information available before the financial statements are issued indicates that it is probable that an asset had been impaired or a liability had been incurred at the date of the financial statements. It is implicit in this condition that it must be probable that one or more future events will also occur, confirming the fact of the loss. b) The amount of the loss can be reasonably estimated.

Beginning in 1997, the District changed from a self-funded worker's compensation plan to an outside provider for their worker's compensation coverage. The District remains liable for claims incurred prior to August 31, 1997 under the self-funded plan. These run-off claims are not significant and are included in the total accrued liabilities. The District remained fully-insured until March of 2001, at which time the District established its current self-funded program. The District has since maintained a self-insured retention of \$200,000 per occurrence. The District currently purchases excess coverage to statutory limits from the Texas Association of School Boards. The District does not purchase aggregate excess insurance. Claims administration is provided by the Texas Association of School Boards.

At June 30, 2025, the accrued liabilities for worker's compensation self-insurance of \$867,213 includes estimated incurred but not reported claims and is included in accrued expense liability.

	Year Ended June 30, 2025	Year Ended June 30, 2024
Unpaid claims, beginning of fiscal year	\$ 1,028,716	\$ 1,204,563
Incurred claims (including IBNR's and changes in provisions)	488,302	416,356
Claim payments	(649,805)	(592,203)
Unpaid claims, end of fiscal year	<u>\$ 867,213</u>	<u>\$ 1,028,716</u>

Health Care Coverage

The District sponsors a modified self-insurance plan to provide health care benefits to staff members and their dependents. Transactions related to the plan are accounted for in the Health Insurance Fund (the "Fund"), an internal service fund of the District. Partial staff member contributions are required for personal coverage and total staff member contributions are required for coverage of dependents. The District obtained excess loss insurance, which limited annual claims paid from the Fund for the year ended June 30, 2025, to \$290,000 for any individual participant and an aggregate limit equal to \$2,000,000. Estimates of claims payable and of claims incurred, but not reported at June 30, 2025, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due. The District does not provide any post-retirement health benefits to its employees. Unpaid claims are included in the internal service fund as accrued liabilities.

Changes in the balances of claims liabilities during the year are as follows:

	Year Ended June 30, 2025	Year Ended June 30, 2024
Unpaid claims, beginning of fiscal year	\$ 1,700,635	\$ 1,289,804
Incurred claims (including IBNR's and changes in provisions)	24,832,008	22,991,578
Claim payments	<u>(24,513,403)</u>	<u>(22,580,747)</u>
Unpaid claims, end of fiscal year	<u>\$ 2,019,240</u>	<u>\$ 1,700,635</u>

Note 15 - Tax Abatements

The District has approved a property tax abatement agreement with Pioneer Hutt Wind Energy, LLC for limitations on appraised value of property for school district maintenance and operations taxes pursuant to Chapter 313 of the Texas Tax Code. The qualified tax limitation agreements are for renewable energy electric generation projects.

Value limitation agreements are part of a state program, originally created in 2001 which allows school districts to limit the taxable value of an approved project for Maintenance and Operations (M&O) for a period of years specified in statute. The projects under the Chapter 313 agreement must be consistent with the state's goals to "encourage large scale capital investments in the state." Chapter 313 of the Tax Code grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and data centers.

In order to qualify for a value limitation agreement, each applicant, is required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the applicant's approval, the agreements were found to have done so by both the District's Board of Trustees and the Texas Comptroller's Office, which recommended approval of the projects. The applications, the agreements and state reporting requirement documentation can be viewed at the Texas Comptroller's website. The agreements and all supporting documentation were assigned Texas Comptroller Application No. 1718.

Midland Independent School District

Notes to Financial Statements

June 30, 2025

After approval, the applicant companies must maintain a viable presence in the District for the entire period of the value limitation plus a period of years thereafter. In addition, there are specific reporting requirements, which are monitored on an annual and biennial basis in order to ensure relevant job, wage, and operational requirements are being met.

In the event that the applicant terminates the agreement without the consent of the District, or in the event that the applicant fails to comply in any material respect with the terms of the agreement or to meet any material obligation under the agreement, then the District shall be entitled to recapture of all ad valorem tax revenue lost as a result of the agreements together with the payment of penalty and interest, on that recaptured ad valorem tax revenue. Penalties and interest on said amounts shall be calculated in accordance with the methodology set forth in the Texas Tax Code. The agreements provide an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligations is through the local state district court.

A summary of the history of the project's value limitations, tax reductions and supplemental payments follows:

Fiscal Year	Project Value	Project's Value Limitation	Amount of Applicant's M&O Taxes Paid	Amount of Applicant's M&O Taxes Reduced	Company Revenue Loss Payment to District	Company Supplemental Payment to District	Net Benefit (Loss) to the District
2025	\$187,118,340	\$100,000,000	\$ 666,900	\$ 580,992	\$ -	\$ 581,695	\$ 703

Note 16 - Restatement

As of June 30, 2025, the District adopted GASB Statement No. 101, *Compensated Absences*. The provisions of this standard modernize the types of leave that are considered a compensate absence and provides guidance for a consistent recognition and measurement of the compensated absence liability. Therefore, compensated absences current portion and compensated absences noncurrent portion were increased by \$1,275,000 and \$1,275,000, respectively, as of July 1, 2024. The effect of this change in accounting principle is described in the table below.

	July 1, 2024, As Previously Reported	Change in Accounting Principle	July 1, 2024, As Restated
Government-Wide			
Governmental Activities	\$ 462,666,808	\$ (2,550,000)	\$ 460,116,808
Total Primary Government	<u>\$ 462,666,808</u>	<u>\$ (2,550,000)</u>	<u>\$ 460,116,808</u>

Note 17 - Subsequent Events

On July 31, 2025, the District established a defeasance escrow to defease a portion of the District's outstanding Unlimited Tax Refunding Bonds (Series 2017), Unlimited Tax Refunding Bonds (Series 2020), and Unlimited Tax School Building Bonds (Series 2024). The District deposited existing resources with a paying agent for the defeased bonds in the approximate amount of \$22,218,907, sufficient to provide the final payment and redemption of the defeased bonds.

On September 15, 2025, the District issued \$40,905,000 in Unlimited Tax Refunding Bonds (Series 2025). The bond proceeds will be used to refund a portion of the Unlimited Tax School Building Bonds (Series 2024).

APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS



FORM OF OPINION

Orrick, Herrington & Sutcliffe LLP
200 West 6th Street
Suite 2250
Austin, Texas 78701
orrick.com

_____, 2026

Midland Independent School District Unlimited Tax School Building Bonds, Series 2026A

We have acted as Bond Counsel to the Midland Independent School District (the “Issuer”) in connection with the issuance of \$_____ aggregate principal amount of bonds designated as “Midland Independent School District Unlimited Tax School Building Bonds, Series 2026A” (the “Bonds”). The Bonds are authorized by an order adopted by the Board of Trustees of the Issuer on August 25, 2026, authorizing the issuance of the Bonds and the pricing certificate executed on the date of the sale of the Bonds finalizing the terms thereof (together, the “Bond Order”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Order.

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed that each document and each signature thereon provided to us is genuine and that each such document has been duly and legally executed by, and constitutes a valid and binding agreement of, each party thereto other than the Issuer. We have assumed, without undertaking to

verify, the accuracy of the factual matters represented, warranted, or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Order and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Bond Order and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against entities such as the Issuer in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. 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. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no view with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Bonds constitute valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law;
- (2) The Bonds are payable from, and secured by, the proceeds of an annual ad valorem tax levied, without legal limit as to rate or amount, upon all taxable property located within the Issuer, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds; and
- (3) Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual alternative minimum tax. We observe that interest on the Bonds included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. We express no opinion regarding

Midland Independent School District

_____, 2026

Page 3

other tax consequences related to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP



FORM OF OPINION

Orrick, Herrington & Sutcliffe LLP
200 West 6th Street
Suite 2250
Austin, Texas 78701
orrick.com

_____, 2026

Midland Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2026B

We have acted as Bond Counsel to the Midland Independent School District (the “Issuer”) in connection with the issuance of \$_____ aggregate principal amount of bonds designated as “Midland Independent School District Unlimited Tax Refunding Bonds, Taxable Series 2026B” (the “Bonds”). The Bonds are authorized by an order adopted by the Board of Trustees of the Issuer on July 21, 2026, authorizing the issuance of the Bonds and the pricing certificate executed on the date of the sale of the Bonds finalizing the terms thereof (together, the “Bond Order”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Bond Order.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. In such capacity, we have examined the Constitution and laws of the State of Texas; the Bond Order; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the bonds that are being refunded (the “Refunded Bonds”) with the proceeds of the Bonds as described in the Bond Order. The transcript contains certified copies of certain proceedings of the Issuer and U.S. Bank Trust Company, National Association (the “Escrow Agent”); the report (the “Report”) of Public Finance Partners LLC, which verifies the sufficiency of the deposit made with the Escrow Agent and certain other matters related to the defeasance of the Refunded Bonds and the mathematical accuracy of certain computations of the yield on the Bonds and the obligations acquired with the proceeds of the Bonds; certain certifications and representations and other material facts within the knowledge and control of the Issuer, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed Bond No. R-1 of this issue.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Bonds

has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed that each document and each signature thereon provided to us is genuine and that each such document has been duly and legally executed by, and constitutes a valid and binding agreement of, each party thereto other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Bond Order. We call attention to the fact that the rights and obligations under the Bonds and the Bond Order and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. 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. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no view with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect. The Bonds constitute valid and legally binding obligations of the Issuer, and the Bonds have been authorized and delivered in accordance with law.
2. The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, without legal limit as to rate or amount, upon taxable property located within the Issuer, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.
3. The escrow agreement between the Issuer and the Escrow Agent (the "Escrow Agreement") has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Escrow Fund pursuant to the Escrow Agreement and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds; in reliance upon the accuracy of the calculations contained in the Report, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues, if any, as set forth in the order(s) authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Bonds may

obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Bonds only out of the funds provided therefor now held in escrow for that purpose by the Escrow Agent pursuant to the terms of the Escrow Agreement; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Escrow Agreement.

4. Interest on the Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended. We express no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the Bonds.

Very truly yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

APPENDIX D

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

THE PERMANENT SCHOOL FUND GUARANTEE PROGRAM

The information below concerning the Texas Permanent School Fund and the Guarantee Program for School District Bonds has been provided by the Texas Education Agency and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the District or the Underwriter.

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

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

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

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

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

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

THE TOTAL RETURN CONSTITUTIONAL AMENDMENT

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

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

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

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

ANNUAL DISTRIBUTIONS TO THE AVAILABLE SCHOOL FUND¹

<u>Fiscal Year Ending</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023²</u>	<u>2024</u>	<u>2025</u>
PSF(CORP) Distribution	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,076	\$ 2,156	\$ 2,156
PSF(SBOE) Distribution	1,056	1,056	1,236	1,236	1,102	1,102	1,731	-	-	-
PSF(SLB) Distribution	-	-	-	300	600	600 ³	415	415	-	-
Per Student Distribution	215	212	247	306	347	347	341	432	430	428

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

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

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

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

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

<u>State Fiscal Biennium</u>	<u>2010-11</u>	<u>2012-13</u>	<u>2014-15</u>	<u>2016-17</u>	<u>2018-19</u>	<u>2020-21</u>	<u>2022-23</u>	<u>2024-25</u>	<u>2026-27</u>
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 made to the ASF by the SBOE; see the immediately preceding table for amounts of direct SLB distributions to the ASF. In addition, the SLB 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%

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

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

COMPARATIVE INVESTMENT SCHEDULE – PSF(CORP)

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

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

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

INVESTMENT SCHEDULE - PSF(SLB)¹

	Fair Value (in millions) August 31, 2025
	As of 8-31-25
Investment Type Investments in	
Real Assets	
Sovereign Lands	\$ 279.84
Discretionary Internal Investments	989.22
Other Lands	153.17
Minerals ^{(2), (3)}	<u>4,872.77⁽⁶⁾</u>
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, 264 of such campuses are not currently serving students for various reasons; therefore, there are 958 charter school campuses actively serving students in Texas. Section 12.101, Texas Education Code, limits the number of charters that the Education Commissioner may grant to a total number of 305 charters. While legislation limits the number of charters that may be granted, it does not limit the number of campuses that may operate under a particular charter. For information regarding the capacity of the Guarantee Program, see "Capacity Limits for the Guarantee Program." The Act provides that the Education Commissioner may not approve the guarantee of refunding or refinanced bonds under the Charter District Bond Guarantee Program in a total amount that exceeds one-half of the total amount available for the guarantee of charter district bonds under the Charter District Bond Guarantee Program.

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

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

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

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

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

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

CAPACITY LIMITS FOR THE GUARANTEE PROGRAM

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

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

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

Changes in SBOE-determined multiplier for State Capacity Limit

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

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

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

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

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

at <https://texaspsf.org/monthly-disclosures/>, which are also filed with the MSRB.

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

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

2017 LEGISLATIVE CHANGES TO THE CHARTER DISTRICT BOND GUARANTEE PROGRAM

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

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

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

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

CHARTER DISTRICT RISK FACTORS

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

Other than credit support for charter district bonds that is provided to qualifying charter districts by the Charter District Bond Guarantee Program, State funding for charter district facilities construction is limited to a program established by the Legislature in 2017, which provides \$60 million per year for eligible charter districts with an acceptable performance rating for a variety of

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

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

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

RATINGS OF BONDS GUARANTEED UNDER THE GUARANTEE PROGRAM

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

VALUATION OF THE PSF AND GUARANTEED BONDS

Permanent School Fund Valuations		
Fiscal Year Ended 8/31	Book Value ⁽¹⁾	Market Value ⁽¹⁾
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 \$4,872.7million, \$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.

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Permanent School Fund Guaranteed Bonds by Category⁽¹⁾

Fiscal Year Ended	<u>School District Bonds</u>		<u>Charter District Bonds</u>		<u>Totals</u>	
	No. of <u>8/31</u> <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>	No. of <u>Issues</u>	Principal <u>Amount (\$)</u>
2021	3,346	91,951,175,922	83	3,307,986,000	3,429	95,259,161,922
2022	3,348	99,528,099,929	94	3,711,396,000	3,442	103,239,495,929
2023	3,339	111,647,914,682	102	4,082,912,000	3,441	115,730,826,682
2024	3,330	121,046,871,603	103	4,769,110,000	3433	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 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, absolute return, private equity, real estate, natural resources, and infrastructure. For a description of the accrual basis of accounting and more information about performance, including comparisons to established benchmarks for certain periods, please see the 2025 Annual Report which is included by reference herein.

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PSF Returns Fiscal Year Ended 8-31-2025¹

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

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

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

The SLB is responsible for the investment of money in the Real Estate Special Fund Account (RESFA) of the PSF (also referred to herein as the PSF(SLB)). Pursuant to applicable law, money in the PSF(SLB) may be invested in land, interest in real estate, 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 municipal advisors and other service providers who advise certain State governmental entities, including the PSF. The SBOE code of ethics provides ethical standards for SBOE members, the Education Commissioner, TEA staff, and persons who provide services to the SBOE relating to the Fund. The PSF Corporation developed its own ethics policy that provides basic ethical principles, guidelines, and standards of conduct relating to the management and investment of the Fund in accordance with the requirements of §43.058 of the Texas Education Code, as amended. The SBOE code of ethics is codified in the Texas Administrative Code at 19 TAC sections 33.4 et seq. and is available on the TEA web site at <https://tea.texas.gov/sites/default/files/ch033a.pdf>. The PSF Corporation's ethics policy is posted to the PSF Corporation's website at texaspsf.org.

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

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

PSF CONTINUING DISCLOSURE UNDERTAKING

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

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

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

ANNUAL REPORTS

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

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

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

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

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

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

EVENT NOTICES

The TEA and the PSF Corporation will also provide timely notices of certain events to the MSRB. Such notices will be provided not more than ten business days after the occurrence of the event. The TEA or the PSF Corporation will provide notice of any of the following events with respect to the Guarantee Program: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if such event is material within the meaning of the federal securities laws; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Guarantee Program, or other material events affecting the tax status of the Guarantee Program; (7) modifications to rights of holders of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (8) bond calls, if such event is material within the meaning of the federal securities laws, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of bonds guaranteed by the Guarantee Program, if such event is material within the meaning of the federal securities laws; (11) rating changes of the Guarantee Program; (12) bankruptcy, insolvency, receivership, or similar event of the Guarantee Program (which is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Guarantee Program in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Guarantee Program, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Guarantee Program); (13) the consummation of a merger, consolidation, or acquisition involving the Guarantee Program or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if such event is material within the meaning of the federal securities laws; (14) the appointment of a successor or additional trustee with respect to the Guarantee Program or the change of name of a trustee, if such event is material within the meaning of the federal securities laws; (15) the incurrence of a financial obligation of the Guarantee Program, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Guarantee Program, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Guarantee Program, any of which reflect financial difficulties. (Neither the Act nor any other law, regulation or instrument pertaining to the Guarantee Program make any provision with respect to the Guarantee Program for bond calls, debt service reserves, credit enhancement, liquidity enhancement, early redemption, or the appointment of a trustee with respect to the Guarantee Program.) In addition, the TEA or the PSF Corporation will provide timely notice of any failure by the TEA or the PSF Corporation to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

AVAILABILITY OF INFORMATION

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

LIMITATIONS AND AMENDMENTS

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

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

This continuing disclosure agreement may be amended by the TEA or the PSF Corporation from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the TEA or the PSF Corporation, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell guaranteed bonds in the primary offering of such bonds in compliance with Rule 15c2-12, taking into account

any amendments or interpretations of Rule 15c2-12 since such offering as well as such changed circumstances and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding bonds guaranteed by the Guarantee Program consent to such amendment or (b) a person that is unaffiliated with the TEA or the PSF Corporation (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the bonds guaranteed by the Guarantee Program. The TEA or the PSF Corporation may also amend or repeal the provisions of its continuing disclosure agreement if the SEC amends or repeals the applicable provision of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling bonds guaranteed by the Guarantee Program in the primary offering of such bonds.

COMPLIANCE WITH PRIOR UNDERTAKINGS

Except as stated below, during the last five years, the TEA and the PSF Corporation have not failed to substantially comply with their previous continuing disclosure agreements in accordance with Rule 15c2-12. On April 28, 2022, TEA became aware that it had not timely filed its 2021 Annual Report with EMMA due to an administrative oversight. TEA took corrective action and filed the 2021 Annual Report with EMMA on April 28, 2022, followed by a notice of late filing made with EMMA on April 29, 2022. TEA notes that the 2021 Annual Report was timely filed on the TEA website by the required filing date and that website posting has been incorporated by reference into TEA's Bond Guarantee Program disclosures that are included in school district and charter district offering documents. On March 31, 2025, the TEA and the PSF Corporation became aware that the 2022 operating data was not timely filed with EMMA due to an administrative oversight. TEA and PSF Corporation took corrective action and filed a notice of late filing with EMMA on April 4, 2025. The annual operating data was previously posted to EMMA on March 31, 2023.

SEC EXEMPTIVE RELIEF

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

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