PALACIOS ISD EDUCATION FOUNDATION, INC.

A Component Unit of Palacios Independent School District

ANNUAL FINANCIAL REPORT

For the fiscal year ended August 31, 2024

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A Component Unit of Palacios Independent School District
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For the year ended August 31, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Palacios ISD Education Foundation, Inc.
Palacios, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying modified cash basis financial statements of the Palacios ISD Education Foundation, Inc. (a nonprofit Texas Corporation) (the "Foundation"), a component unit of Palacios Independent School District, as of and for the year ended August 31, 2024, and the related notes to the financial statements, which collectively comprise the Foundation's financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective modified cash basis financial position of the Foundation as of August 31, 2024 and the respective changes in modified cash basis financial position thereof for the year then ended in accordance with the modified cash basis of accounting as described in Note 2.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 Foundation and to meet our 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible 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 Foundation'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.

Board of Directors
Palacios ISD Education Foundation, Inc.

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

In performing an audit in accordance with generally accepted auditing standards, 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 Foundation'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 Foundation'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.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Harrison, Waldrop & Uherek, LLP

HARRISON, WALDROP & UHEREK, L.L.P.
Certified Public Accountants

December 13, 2024

PALACIOS ISD EDUCATION FOUNDATION, INC.
A Component Unit of Palacios Independent School District
STATEMENT OF ASSETS, LIABILITIES, AND NET POSITION - MODIFIED CASH BASIS
August 31, 2024

ASSETS	
Current assets	
Cash	$ 19,968
Investments	1,082,242
Interest receivable	8,824
Prepaid expenses	22,500
Noncurrent assets	
Long-term investments	1,277,043
Total assets	2,410,577
LIABILITIES	
Accounts payable	681
Scholarships payable	34,008
Total liabilities	34,689
NET POSITION	
Held in trust for educational programs and activities	$ 2,375,888

The accompanying notes are an integral part of this statement.

PALACIOS ISD EDUCATION FOUNDATION, INC.
A Component Unit of Palacios Independent School District
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION - MODIFIED CASH BASIS
For the year ended August 31, 2024

ADDITIONS		
Contributions	$	95,843
Interest income		67,668
Dividend income		8,435
Net realized and unrealized gains (losses) on investments		106,823
Total additions		278,769
DEDUCTIONS		
Administrative		1,259
Bank charges		40
Director salary		18,588
Dual credit scholarships		21,905
Dues and subscriptions		60
Fundraising		26,049
Insurance		587
Investment fees		9,019
Professional		10,520
School supplies		21,441
Senior scholarships		55,850
Student spirit shirts		2,400
Teacher appreciation		44
Total deductions		167,762
Change in net position		111,007
Net position - beginning		2,264,881
Net position - ending	$	2,375,888

The accompanying notes are an integral part of this statement.

NOTE 1: ORGANIZATION

The Palacios ISD Education Foundation, Inc. (the "Foundation") was created in 2007 for the purpose of providing funds for educational programs and activities of the Palacios Independent School District (the "District") which either have not been funded or have been under-funded by the District's normal operating budget. The Foundation was formed as a tax-exempt organization under Code Section 509(a)(3) of the Internal Revenue Code. The Foundation raises and holds economic resources for the direct benefit of the District. All powers of the Foundation are vested in the Board of Directors (the "Directors") consisting of a minimum of seven and maximum of fifteen Directors.

The Foundation is reported as a component unit of the District in accordance with Governmental Accounting Standards Board Statement No. 14. The Foundation prepares annual financial statements as of August 31 of each year and reports its financial results as a governmental type of entity.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The Foundation prepares its financial statements on the modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. This basis differs from generally accepted accounting principles primarily because the Foundation has not recognized noncash contributions (services and materials), accounts receivable from contributors, and their related effects on the change in net position. The Foundation has however adjusted investments to fair value at year end and has recognized accounts and scholarships payable, both of which are consistent with generally accepted accounting principles.

Cash and Cash Equivalents

The Foundation'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

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the statement of asset, liabilities, and net position. Fair values for investments of the Foundation are determined by reference to quoted market prices and other relevant information generated by market transactions. Realized and unrealized gains and losses are included in the change in net position. Investment income and gains are reported as increases in unrestricted net position in the reporting period in which the income and gains are recognized.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid expenses in the financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Contributions

The Foundation records contributions and grants when they are received. Funds restricted by donors, grantors, or other outside parties for specific operating purposes are recognized as revenue upon the Foundation's compliance with the specific restrictions. Amounts received but not yet recognized are recorded as unearned revenue in the accompanying statement of assets, liabilities, and net position.

Federal Income Taxes

The Foundation is exempt from Federal income taxes as an organization described in Section 509(a)(3) of the Internal Revenue Code.

Other Information

The Foundation has performed an evaluation of subsequent events through December 13, 2024, the date on which the financial statements were available to be issued, and has determined that there were no events that required adjustment to, or disclosure in, the financial statements.

NOTE 3: DEPOSITS

Custodial credit risk on deposits is the risk that in the event of a bank failure, the Foundation's deposits may not be returned to it. The Foundation had deposits in the bank in the amount of $36,765 as of August 31, 2024. The Foundation was not exposed to custodial credit risk at August 31, 2024.

NOTE 4: INVESTMENTS

Fair values of assets measured on a recurring basis and unrealized appreciation (depreciation) at August 31, 2024, are summarized as follows:

	Cost	Fair Value	Unrealized Appreciation (Depreciation)
Current investments			
Cash and sweep balances	$ 162,287	$ 162,287	$ -
Certificates of deposit	919,955	919,955	-
Long-term investments			
Annuities	550,000	572,853	22,853
Unit investment trusts	50,016	51,912	1,896
Corporate bonds	149,210	154,921	5,711
Mutual funds	422,044	497,357	75,313
Total investments	$ 2,253,512	$ 2,359,285	$ 105,773

As of August 31, 2024, the Foundation has unit investment trusts and mutual funds valued using quoted prices in active markets for identical assets (Level 1 inputs), as well as certificates of deposit, annuities, and corporate bonds valued using quoted prices for similar assets in active markets (Level 2 inputs).

NOTE 4: INVESTMENTS - (Continued)

As of August 31, 2024, the cash and sweep balances are fully insured by the Federal Deposit Insurance Corporation (FDIC). Funds held in certificates of deposit were above the FDIC insurance limit by $14,950 as of August 31, 2024.

The weighted average maturity of certificates of deposit was 433 days as of August 31, 2024.

The Foundation has invested in four fixed annuity contracts as of August 31, 2024, issued by American National Insurance Company, in which interest is continually added to the contract value. The annuities will mature in July 2055, with guarantee period end dates ranging from August 2027 through August 2030. Surrender charges of approximately $40,000 would be paid if the annuities are surrendered prior to the guarantee period end dates. These surrender charges are not reflected in the fair value of the annuities as of August 31, 2024.