

PALACIOS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the year ended August 31, 2025

PALACIOS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the year ended August 31, 2025

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Certificate of Board	1
	FINANCIAL SECTION	
	Independent Auditors' Report	2
	Management's Discussion and Analysis	5
	<u>Basic Financial Statements</u>	
	Government-Wide Statements	
A-1	Statement of Net Position	13
B-1	Statement of Activities	14
	Governmental Fund Financial Statements	
C-1	Balance Sheet	16
C-2	Reconciliation for C-1	18
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances	19
C-4	Reconciliation for C-3	21
	Proprietary Fund Financial Statements	
D-1	Statement of Net Position	22
D-2	Statement of Revenues, Expenses, and Changes in Fund Net Position	23
D-3	Statement of Cash Flows	24
	Fiduciary Fund Financial Statements	
E-1	Statement of Fiduciary Net Position	25
E-2	Statement of Changes in Fiduciary Net Position	26
	Notes to Financial Statements	27
	<u>Required Supplementary Information</u>	
G-1	Budgetary Comparison Schedule - General Fund	63
G-6	Schedule of the District's Proportionate Share of the Net Pension Liability (TRS)	64
G-7	Schedule of the District Contributions for Pensions (TRS)	66
G-8	Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS)	68
G-9	Schedule of the District Contributions for Other Post Employment Benefits (TRS)	70
	Notes to Required Supplementary Information	72

PALACIOS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

For the year ended August 31, 2025

TABLE OF CONTENTS

Exhibit

Page

FINANCIAL SECTION - (Continued)

Combining Statements

Nonmajor Governmental Funds

H-1	Combining Balance Sheet	74
H-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	78
H-6	Combining Statement of Net Position - Private Purpose Trust Funds	83
H-7	Combining Statement of Revenues, Expenses, and Changes in Fund Net Position Private Purpose Trust Funds	84

Other Supplementary Information

Compliance Schedules Required by the Texas Education Agency:

J-1	Schedule of Delinquent Taxes Receivable	85
J-2	Budgetary Comparison Schedule - Child Nutrition Program Fund	87
J-3	Budgetary Comparison Schedule - Debt Service Fund	88
J-4	Use of Funds Report - Select State Allotment Programs	89

FEDERAL PROGRAMS SECTION

	Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	90
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	Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance	92
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K-1	Schedule of Expenditures of Federal Awards	95
	Notes to Schedule of Expenditures of Federal Awards	97
	Schedule of Findings and Questioned Costs	98
	Schedule of Status of Prior Audit Findings	99

CERTIFICATE OF BOARD

Palacios Independent School District
Name of School District

Matagorda
County

158-905
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) (X) approved () disapproved for the year ended August 31, 2025, at a meeting of the Board of Trustees of such school district on the 9th day of February, 2026.

Carl Filip
Signature of Board Secretary

Becky Aguilera
Signature of Board President

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):
(attach a list if necessary):

FINANCIAL SECTION



CERTIFIED PUBLIC ACCOUNTANTS
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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Palacios Independent School District
Palacios, Texas 77465

Members of the Board:

Report on the Audit of the Financial Statements

Opinions

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

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

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District and to meet our 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 Note 19 to the financial statements, during the year ended August 31, 2025, the District adopted new accounting guidance, GASB Statement No. 101, Compensated Absences. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the 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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the Schedule of the District's Proportionate Share of the Net Pension Liability (TRS), the Schedule of the District Contributions for Pensions (TRS), the Schedule of the District's Proportionate Share of the Net OPEB Liability (TRS), and the Schedule of the District Contributions for Other Post Employment Benefits (TRS) as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for

consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2026 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

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

February 4, 2026

PALACIOS INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended August 31, 2025

In this section of the Annual Financial Report, we, the managers of Palacios Independent School District (the "District"), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2025. Please read it in conjunction with the independent auditors' report on pages 2 through 4 and the District's basic financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the fiscal year ended August 31, 2025, by \$22,095,026. Of this amount, \$477,455 of unrestricted net position is available to meet the District's ongoing obligations to students and creditors.
- The District's total net position decreased by \$1,212,058 as a result of this year's operations.
- At August 31, 2025, the District's governmental funds reported combined ending fund balances of \$19,580,572, a net decrease of \$7,194,660 in comparison with prior year. The net decrease in fund balance was made up of a decrease of \$3,108,549 in the General Fund, a decrease of \$704,698 in the Debt Service Fund, a net decrease in the Major Capital Projects Funds fund balances of \$2,550,795, and a decrease of \$830,618 in the Nonmajor Governmental Funds.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,987,154, or 25 percent of total General Fund expenditures.
- The District's capital assets, net of depreciation, had a net increase of \$4,604,851 or four percent from the prior year balance
- The District's total long-term debt had a net decrease of \$623,952 or one percent during the current fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 13 and 14-15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee for the benefit of those outside of the District.

The notes to the financial statements (starting on page 27) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by the Texas Education Agency (TEA). The sections labeled Supplemental Schedules and Overall Compliance and Internal Control Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

USING THIS ANNUAL REPORT - (Continued)

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 13. Its primary purpose is to show whether the District's financial condition improved or declined as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and deferred outflows and liabilities and deferred inflows) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we disclose the District's one type of activity:

Governmental activities - All of the District's basic services are reported here, including instruction, counseling, cocurricular/extracurricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 16 and provide detailed information about the most significant funds -not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

Governmental funds - Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

Proprietary fund - The District reports the activities for which it charges users (whether outside customers or other units of the District) in a proprietary fund using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's Internal Service Fund reports activities that provide supplies and services for the District's other programs and activities - such as the District's self-insurance program.

USING THIS ANNUAL REPORT - (Continued)

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for alumni scholarship programs. The District's fiduciary activities are reported in the Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages 25 and 26. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities.

With the implementation of GASB Statement No. 101 in the current year and GASB Statements No. 68 and 75 in previous years, the District's net position may not serve as the most accurate indicator of the District's net position. A better picture of the District's financial position may be gained from the Governmental Funds' Balance Sheet. Net position of the District's governmental activities decreased from \$23,307,084 to \$22,095,026. This decrease in total governmental net position was the result of one factor. The District's expenses exceeded the revenues by \$1,212,058. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - was \$477,455 at August 31, 2025. This represents a decrease of \$4,806,364 or 91 percent.

Table I			
Palacios Independent School District			
NET POSITION			
	<u>Governmental Activities</u>		<u>Total % Change</u>
	<u>2025</u>	<u>2024*</u>	
Assets			
Current and other assets	\$ 25,086,934	\$ 33,813,901	-25.81%
Capital assets, net	<u>136,075,152</u>	<u>131,470,301</u>	3.50%
Total assets	<u>161,162,086</u>	<u>165,284,202</u>	
Deferred outflows of resources	<u>2,659,153</u>	<u>3,111,789</u>	-14.55%
Liabilities			
Long-term liabilities	132,440,041	133,068,430	-0.47%
Other liabilities	<u>4,890,516</u>	<u>6,564,832</u>	-25.50%
Total liabilities	<u>137,330,557</u>	<u>139,633,262</u>	
Deferred inflows of resources	<u>4,395,656</u>	<u>5,455,645</u>	-19.43%
Net position			
Net investment in capital assets	20,533,360	16,379,274	25.36%
Restricted for state and federal programs	745,099	613,580	21.43%
Restricted for debt service	8,639	680,127	-98.73%
Restricted - other	330,473	350,284	-5.66%
Unrestricted	<u>477,455</u>	<u>5,283,819</u>	-90.96%
Total net position	<u>\$ 22,095,026</u>	<u>\$ 23,307,084</u>	

*2024 balances have been restated. See Note 19 for details.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Table II
Palacios Independent School District

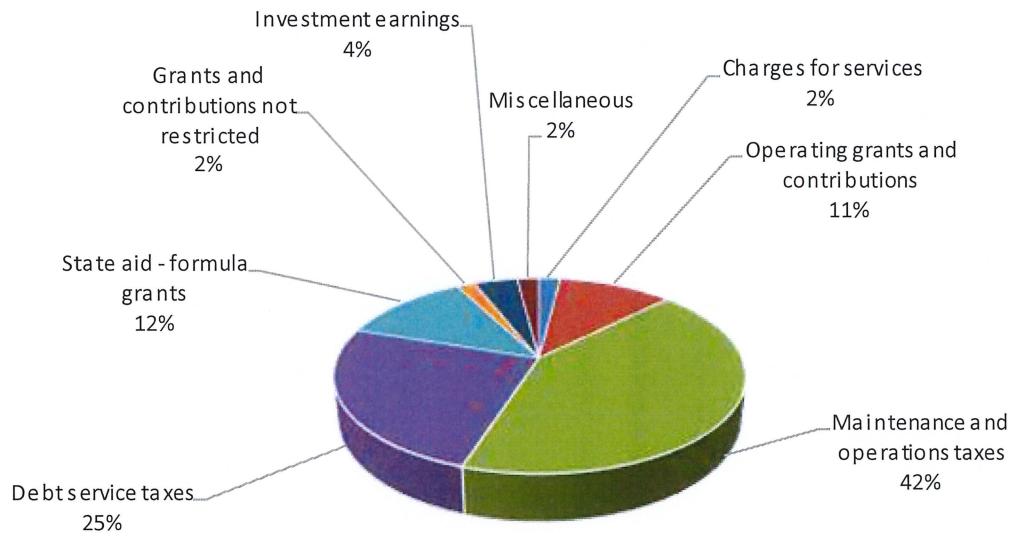
CHANGES IN NET POSITION

	<u>Governmental Activities</u>		<u>Total % Change</u>
	<u>2025</u>	<u>2024*</u>	
Revenues			
Program revenues			
Charges for services	\$ 532,896	\$ 492,324	8.24%
Operating grants and contributions	2,809,541	4,040,301	-30.46%
General revenues			
Maintenance and operations taxes	11,326,502	11,144,271	1.64%
Debt service taxes	6,642,407	6,244,457	6.37%
State aid - formula grants	3,221,444	2,947,928	9.28%
Grants and contributions not restricted	464,508	158,237	193.55%
Unrestricted investment earnings	1,083,841	3,138,260	-65.46%
Miscellaneous	536,248	434,851	23.32%
Total revenues	<u>26,617,387</u>	<u>28,600,629</u>	
Expenses			
Instruction, curriculum and media services	11,987,330	12,114,890	-1.05%
Instructional and school leadership	1,454,177	1,586,993	-8.37%
Student support services	1,414,343	1,214,163	16.49%
Food services	1,169,573	1,183,359	-1.16%
Extracurricular activities	1,787,721	1,491,470	19.86%
General administration	877,291	945,207	-7.19%
Maintenance, security, data processing, and community services	4,898,881	4,688,587	4.49%
Debt service	3,796,755	5,802,309	-34.56%
Capital outlay	-	7,423	-100.00%
Other intergovernmental charges	398,374	472,349	-15.66%
Total expenses	<u>27,784,445</u>	<u>29,506,750</u>	
Excess (deficiency) before special item	(1,167,058)	(906,121)	
Special item - (use)	<u>(45,000)</u>	<u>(10,433,783)</u>	-99.57%
Change in net position	(1,212,058)	(11,339,904)	
Net position at beginning of year, as restated	<u>23,307,084</u>	<u>34,646,988</u>	
Net position at end of year	<u>\$ 22,095,026</u>	<u>\$ 23,307,084</u>	

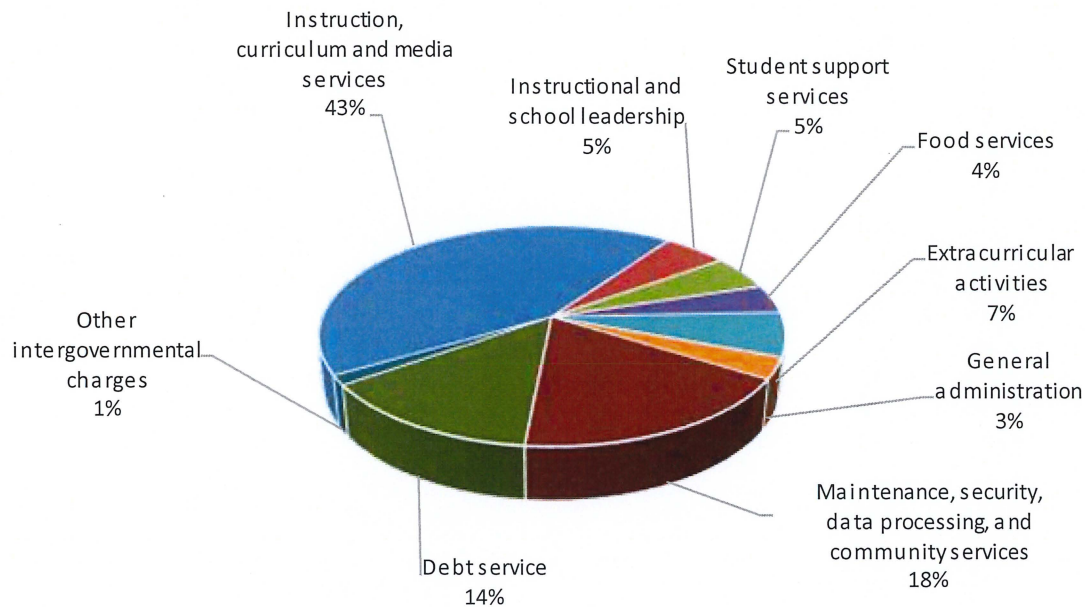
*2024 balances have been restated. See Note 19 for details.

GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

Revenues 2025



Expenses 2025



GOVERNMENT-WIDE FINANCIAL ANALYSIS - (Continued)

The District's total revenues for the year ended August 31, 2025 were \$26,617,387. This is a decrease of \$1,983,242 or seven percent from the prior year. The net decrease was mainly due to the decrease in operating grants and contributions received during fiscal year 2025 compared to the prior year in the amount of \$1,230,760 or 30 percent as well as a decrease in investment earnings of \$2,054,419 or 65 percent.

The cost of all governmental activities was \$27,784,445 compared to \$29,506,750 last year. As shown in the Statement of Activities on pages 13 and 14, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$17,968,909 because some of the costs were paid by those who directly benefited from the programs \$9,815,536 or by other governments and organizations that subsidized certain programs with grants and contributions.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$19,580,572, which is less than last year's total of \$26,775,232. Included in this year's total change in fund balance, is a decrease of \$3,108,549 or 24 percent in the District's General Fund which was a result of the expenditures exceeding the revenues by the same amount. In addition, the Debt Service Fund fund balance decreased \$704,698 and the two Major Capital Projects Funds fund balances had a net decrease of \$2,550,795. This net decrease was a result of the spending of the proceeds from the 2022 Unlimited Tax School Building Bonds as well as the issuance of \$3M in 2025 Unlimited Tax School Building Bonds during fiscal year 2025.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2024). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$9,973,268 reported on page 19 differs from the General Fund's budgetary fund balance of \$11,073,655 reported in the budgetary comparison schedule on page 63. This is mainly due to the revenues coming in less than expected in the amount of \$2,570,895 and expenditures coming in \$1,768,024 less than the final budgeted expenditures for fiscal year 2025.

GENERAL FUND BUDGETARY HIGHLIGHTS

In the 2024-2025 school year, the District's Board amended the General Fund expenditure budget to \$21,482,164. The difference between the General Fund's original expenditure budget and final amended expenditure budget was an increase of \$1,343,376. The District's Board also amended the original budget for a transfer to the Internal Service Fund of \$54,000 and for a \$45,000 payment to the former food service management company of \$45,000 which is recorded as a special item as of August 31, 2025. Of this increase, \$1,376,322 was a Board approved spending from fund balance for additional capital projects. The remaining increase in the budget was due to an increase in insurance costs, maintenance expenditures, and technology costs.

The original revenue budget had no amendments in fiscal year 2025. The current property tax collections were less than budget expectations by \$3,778,204. This is due to the ongoing property tax appeal by the District's significant taxpayer. The unpaid amount approximates the taxes on disputed taxable valuations by the taxpayer for the 2024 tax roll.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2025 the District had \$136,075,152 net of depreciation, invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$4,604,851 from last year.

This year's major additions included continued work on new school campuses, high school parking lot, fine arts building, and stadium, as well as the purchase of various equipment.

More detailed information about the District's capital assets is presented in Note 6 to the financial statements.

Debt

At the end of 2025, the District had \$120,692,647 in general obligation bonds outstanding (including bond premiums) versus \$121,688,426 last year. In addition, the District had \$2,303,964 in arbitrage liability outstanding. Due to the implementation of GASB 101, long-term debt now also includes \$918,404 in compensated absences.

More detailed information about the District's long-term liabilities is presented in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the 2026 budget and tax rates. The amount appropriated in the General Fund budget was \$19,352,194, which is a decrease from the amended 2025 budget of \$2,129,970. Palacios ISD was able to give a salary increase due to HB 2 for teachers and use local funds (recap refund) for support staff retention not addressed by state funding in HB 2. Palacios ISD is in year two of TIA to increase teacher salaries based on student growth and teacher effectiveness. The District will have an expanding number of TIA eligible teachers. The tax rates for the 2026 school year (2025 tax roll) are \$0.6669 for M & O and \$0.2817 for I & S, totaling \$0.9486.

The District has gone several years of not paying recapture which has been caused by increases in property values assessed by the Matagorda County Appraisal District. A majority of this increase was from the sale of a major shareholder of the nuclear plant, which caused the value to increase for the 2024 tax roll. However, these values are being contested and may come back to the District as a revenue change in the future.

In May of 2021, the District passed a bond election in the amount of \$125,000,000. All projects reached near final as of July 1, 2024, which allowed the students to move into the buildings for the 2024-2025 school year. Work and monitoring are still in progress to make sure all buildings are completed as required. The final application payment should be made by May 2026, for all construction projects related to the 2022 Unlimited Tax School Building Bonds.

The Palacios ISD District's Board and staff are working diligently to keep fund balance intact and if fund balance reduction is required, to keep it at a minimum.

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 show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Palacios Independent School District, 1209 Twelfth Street, Palacios, Texas 77465.

BASIC FINANCIAL STATEMENTS

PALACIOS INDEPENDENT SCHOOL DISTRICT

EXHIBIT A-1

STATEMENT OF NET POSITION

August 31, 2025

	1
	Primary Government
Data Control Codes	Governmental Activities
ASSETS	
1110	Cash and cash equivalents \$ 21,378,383
1220	Property taxes receivable (delinquent) 7,219,599
1230	Allowance for uncollectible taxes (6,472,204)
1240	Due from other governments 1,722,157
1250	Accrued interest 209,219
1290	Other receivables, net 2,080
1300	Inventories 61,966
1410	Prepayments 965,734
	Capital assets
1510	Land 926,631
1520	Buildings and improvements, net 132,993,220
1530	Furniture and equipment, net 2,137,176
1580	Construction in progress 18,125
1000	Total assets 161,162,086
DEFERRED OUTFLOWS OF RESOURCES	
1705	Deferred outflow related to TRS Pension 1,243,590
1706	Deferred outflow related to TRS OPEB 1,415,563
1700	Total outflows of resources 2,659,153
LIABILITIES	
2110	Accounts payable 3,460,750
2140	Accrued interest payable 171,816
2160	Accrued wages payable 1,063,082
2180	Due to other governments 15,478
2200	Accrued expenses 73,559
2300	Unearned revenue 105,831
	Noncurrent liabilities
	Due within one year:
2501	Bonds, notes, leases, etc. 4,197,603
	Due in more than one year:
2502	Bonds, notes, leases, etc. 119,717,412
2540	Net pension liability (District's share) 4,927,808
2545	Net OPEB liability (District's share) 3,597,218
2000	Total liabilities 137,330,557
DEFERRED INFLOWS OF RESOURCES	
2605	Deferred inflow related to TRS Pension 524,447
2606	Deferred inflow related to TRS OPEB 3,871,209
2600	Total inflows of resources 4,395,656
NET POSITION	
3200	Net investment in capital assets 20,533,360
3820	Restricted for state and federal programs 745,099
3850	Restricted for debt service 8,639
3870	Restricted - other 330,473
3900	Unrestricted net position 477,455
3000	Total net position \$ 22,095,026

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the year ended August 31, 2025

Data Control Codes		1	Program Revenues	
			2	3
		Expenses	Charges for Services	Operating Grants and Contributions
GOVERNMENTAL ACTIVITIES				
11	Instruction	\$ 11,344,278	\$ 71,785	\$ 1,166,111
12	Instructional resources and media services	307,929	-	74,487
13	Curriculum and instructional staff development	335,123	-	42,285
21	Instructional leadership	346,064	-	6,917
23	School leadership	1,108,113	-	24,355
31	Guidance, counseling and evaluation services	520,998	-	11,452
33	Health services	268,191	-	4,580
34	Student (pupil) transportation	625,154	-	12,961
35	Food services	1,169,573	52,440	1,096,656
36	Extracurricular activities	1,787,721	389,948	17,180
41	General administration	877,291	-	15,324
51	Facilities maintenance and operations	3,684,851	18,723	55,475
52	Security and monitoring services	582,323	-	275,175
53	Data processing services	575,533	-	6,583
61	Community services	56,174	-	-
72	Debt service - interest on long-term debt	3,724,127	-	-
73	Debt service - bond issuance cost and fees	72,628	-	-
99	Other intergovernmental charges	398,374	-	-
	Total primary government	\$ 27,784,445	\$ 532,896	\$ 2,809,541
	Data Control Codes			
		General revenues		
		Taxes		
MT	Property taxes, levied for general purposes			
DT	Property taxes, levied for debt service			
SF	State aid-formula grants			
GC	Grants and contributions not restricted			
IE	Unrestricted investment earnings			
MI	Miscellaneous local and intermediate revenues			
SI2	Special item - (use)			
TR	Total general revenues and special item			
CN	Change in net position			
NB	Net position - beginning as previously reported			
PA	Adjustments and restatements			
	Net position - beginning as restated and adjusted			
NE	Net position - ending			

The accompanying notes are an integral part of this statement.

<u>Program Revenues</u>	<u>Net (Expense) Revenue and Changes in Net Position</u>
<u>4</u>	<u>5</u>
Capital Grants and Contributions	Governmental Activities
\$ -	\$ (10,106,382)
-	(233,442)
-	(292,838)
-	(339,147)
-	(1,083,758)
-	(509,546)
-	(263,611)
-	(612,193)
-	(20,477)
-	(1,380,593)
-	(861,967)
-	(3,610,653)
-	(307,148)
-	(568,950)
-	(56,174)
-	(3,724,127)
-	(72,628)
-	(398,374)
<u>\$ -</u>	<u>(24,442,008)</u>

11,326,502
6,642,407
3,221,444
464,508
1,083,841
536,248
<u>(45,000)</u>
<u>23,229,950</u>
(1,212,058)
24,009,489
<u>(702,405)</u>
<u>23,307,084</u>
<u>\$ 22,095,026</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET****GOVERNMENTAL FUNDS***August 31, 2025*

Data Control Codes		10	50	60
		General Fund	Debt Service Fund	Capital Projects
ASSETS				
1110	Cash and cash equivalents	\$ 8,532,023	\$ 34,433	\$ 2,942,611
1220	Property taxes receivable (delinquent)	5,153,011	2,066,588	-
1230	Allowance for uncollectible taxes	(4,575,496)	(1,896,708)	-
1240	Due from other governments	1,372,498	11,773	-
1250	Accrued interest	-	-	-
1260	Due from other funds	225,580	-	-
1290	Other receivables	694	-	-
1300	Inventories	-	-	-
1410	Prepayments	963,360	-	-
1000	Total assets	<u>\$ 11,671,670</u>	<u>\$ 216,086</u>	<u>\$ 2,942,611</u>
LIABILITIES				
2110	Accounts payable	\$ 100,428	\$ -	\$ -
2160	Accrued wages payable	974,621	-	-
2170	Due to other funds	-	-	-
2180	Due to other governments	-	-	-
2200	Accrued expenditures	20,638	-	-
2300	Unearned revenue	25,200	35,631	-
2000	Total liabilities	<u>1,120,887</u>	<u>35,631</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable revenue - property taxes	577,515	169,880	-
2600	Total deferred inflows of resources	<u>577,515</u>	<u>169,880</u>	<u>-</u>
FUND BALANCES				
Nonspendable				
3410	Inventories	-	-	-
3430	Prepaid items	963,360	-	-
Restricted				
3450	Federal and state grant funds	-	-	-
3470	Capital acquisitions and contractual obligations	-	-	2,942,611
3480	Retirement of long-term debt	-	10,575	-
3490	Other	-	-	-
Committed				
3530	Capital expenditures for equipment	3,996,903	-	-
3545	Other	-	-	-
Assigned				
3590	Other	25,851	-	-
3600	Unassigned	4,987,154	-	-
3000	Total fund balances	<u>9,973,268</u>	<u>10,575</u>	<u>2,942,611</u>
4000	Total liabilities, deferred inflows and fund balances	<u>\$ 11,671,670</u>	<u>\$ 216,086</u>	<u>\$ 2,942,611</u>

The accompanying notes are an integral part of this statement.

60		
Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 8,782,193	\$ 1,002,767	\$ 21,294,027
-	-	7,219,599
-	-	(6,472,204)
-	337,886	1,722,157
209,219	-	209,219
-	-	225,580
-	1,386	2,080
-	61,966	61,966
-	2,374	965,734
<u>\$ 8,991,412</u>	<u>\$ 1,406,379</u>	<u>\$ 25,228,158</u>
\$ 3,353,074	\$ 7,248	\$ 3,460,750
-	88,461	1,063,082
77,020	148,560	225,580
-	15,478	15,478
-	8,832	29,470
-	45,000	105,831
<u>3,430,094</u>	<u>313,579</u>	<u>4,900,191</u>
-	-	747,395
-	-	747,395
-	61,966	61,966
-	2,374	965,734
-	680,759	680,759
5,561,318	17,228	8,521,157
-	-	10,575
-	6,124	6,124
-	-	3,996,903
-	324,349	324,349
-	-	25,851
-	-	4,987,154
<u>5,561,318</u>	<u>1,092,800</u>	<u>19,580,572</u>
<u>\$ 8,991,412</u>	<u>\$ 1,406,379</u>	<u>\$ 25,228,158</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT C-2**

*RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCE TO NET POSITION
OF GOVERNMENTAL ACTIVITIES
August 31, 2025*

Total governmental fund balances		\$ 19,580,572
<i>Amounts reported for governmental activities in the statement of net position are different because:</i>		
The internal service fund is used by the District to charge the costs of workers' compensation insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.		
		40,267
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:		
Governmental capital assets costs	\$ 146,305,835	
Accumulated depreciation of governmental capital assets	<u>(10,230,683)</u>	136,075,152
Property taxes receivable will be collected this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as "unavailable" in the funds.		
		747,395
Items required by GASB 68 and 75 and included in governmental activities in the statement of net position:		
Net pension liability (District's proportionate share)	(4,927,808)	
Net OPEB liability (District's proportionate share)	(3,597,218)	
Deferred resource outflows related to TRS	2,659,153	
Deferred resource inflows related to TRS	<u>(4,395,656)</u>	(10,261,529)
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Compensated absences	(918,404)	
Bonds payable	(106,215,000)	
Premium on bonds	(14,477,647)	
Arbitrage	(2,303,964)	
Accrued interest payable	<u>(171,816)</u>	<u>(124,086,831)</u>
Net position of governmental activities		\$ <u>22,095,026</u>

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****GOVERNMENTAL FUNDS***For the year ended August 31, 2025*

Data Control Codes		10	50	60
		General Fund	Debt Service Fund	Capital Projects
REVENUES				
5700	Local and intermediate sources	\$ 12,473,224	\$ 6,700,818	\$ 1,786
5800	State program revenues	3,870,125	174,458	-
5900	Federal program revenues	361,242	-	-
5020	Total revenues	<u>16,704,591</u>	<u>6,875,276</u>	<u>1,786</u>
EXPENDITURES				
Current				
0011	Instruction	8,853,505	-	-
0012	Instructional resources and media services	191,077	-	-
0013	Curriculum and instructional staff development	279,439	-	-
0021	Instructional leadership	301,361	-	-
0023	School leadership	974,088	-	-
0031	Guidance, counseling and evaluation services	455,786	-	-
0033	Health services	232,949	-	-
0034	Student (pupil) transportation	567,484	-	-
0035	Food services	-	-	-
0036	Extracurricular activities	1,281,453	-	-
0041	General administration	790,033	-	-
0051	Facilities maintenance and operations	3,511,543	-	-
0052	Security and monitoring services	284,094	-	-
0053	Data processing services	544,266	-	-
0061	Community services	46,843	-	-
Debt service				
0071	Principal on long-term debt	-	2,190,000	-
0072	Interest on long-term debt	-	4,136,032	-
0073	Bond issuance cost and fees	-	13,453	59,175
Capital outlay				
0081	Facilities acquisition and construction	1,001,845	-	-
Intergovernmental charges				
0099	Other intergovernmental charges	398,374	-	-
6030	Total expenditures	<u>19,714,140</u>	<u>6,339,485</u>	<u>59,175</u>
1100	Excess (deficiency) of revenues over expenditures	(3,009,549)	535,791	(57,389)
OTHER FINANCING SOURCES (USES)				
7911	Capital related debt issued	-	-	3,000,000
8911	Transfers out (use)	(54,000)	-	-
8949	Payment to escrow agent	-	(1,240,489)	-
7080	Total other financing sources (uses)	<u>(54,000)</u>	<u>(1,240,489)</u>	<u>3,000,000</u>
SPECIAL ITEMS				
8912	Special item (use)	(45,000)	-	-
1200	Net change in fund balances	(3,108,549)	(704,698)	2,942,611
0100	Fund balance - beginning	13,379,333	715,273	-
1300	Prior period adjustment	(297,516)	-	-
3000	Fund balance - ending	<u>\$ 9,973,268</u>	<u>\$ 10,575</u>	<u>\$ 2,942,611</u>

The accompanying notes are an integral part of this statement.

60		
Capital Projects	Other Governmental Funds	Total Governmental Funds
\$ 477,731	\$ 388,195	\$ 20,041,754
-	458,603	4,503,186
-	2,171,292	2,532,534
<u>477,731</u>	<u>3,018,090</u>	<u>27,077,474</u>
5,654	1,124,191	9,983,350
-	71,378	262,455
-	20,829	300,268
-	1,533	302,894
-	5,612	979,700
-	3,065	458,851
-	1,022	233,971
-	5,715	573,199
-	1,018,788	1,018,788
398,147	551,482	2,231,082
12,972	3,572	806,577
19,762	42,997	3,574,302
-	269,068	553,162
24,900	1,533	570,699
-	-	46,843
-	-	2,190,000
-	-	4,136,032
-	-	72,628
5,509,702	727,923	7,239,470
-	-	398,374
<u>5,971,137</u>	<u>3,848,708</u>	<u>35,932,645</u>
(5,493,406)	(830,618)	(8,855,171)
-	-	3,000,000
-	-	(54,000)
-	-	(1,240,489)
-	-	<u>1,705,511</u>
-	-	(45,000)
(5,493,406)	(830,618)	(7,194,660)
10,757,208	1,923,418	26,775,232
297,516	-	-
<u>\$ 5,561,318</u>	<u>\$ 1,092,800</u>	<u>\$ 19,580,572</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT C-4**

*RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
For the year ended August 31, 2025*

Total net change in fund balances - governmental funds **\$ (7,194,660)**

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

The internal service fund is used by the District to charge the costs of workers' compensation insurance to individual funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position.

60,331

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Increase in capital assets

\$ 8,028,602

Depreciation expense

(3,423,751)

4,604,851

Issuance of debt provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Bonds at par value

(3,000,000)

Current year payments or defeasance on long-term debt are expenditures in the fund financial statements, but they serve to reduce long-term liabilities in the government-wide financial statements. In the current year, these amounts consist of:

Bond principal retirement

3,425,000

Because some revenues will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are reported as "unavailable" in the governmental funds.

79,235

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

Increase in compensated absences

(215,999)

Decrease in bond premiums

570,779

Increase in arbitrage

(155,828)

Decrease in accrued interest

2,443

Net pension costs

(86,277)

Net OPEB costs

698,067

813,185

Change in net position of governmental activities

\$ (1,212,058)

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
August 31, 2025

EXHIBIT D-1

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
ASSETS	
Current assets	
Cash and cash equivalents	<u>\$ 84,356</u>
Total assets	<u>84,356</u>
LIABILITIES	
Current liabilities	
Accrued expenses	<u>44,089</u>
Total liabilities	<u>44,089</u>
NET POSITION	
Unrestricted	<u>40,267</u>
Total net position	<u><u>\$ 40,267</u></u>

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT D-2****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PROPRIETARY FUNDS***For the year ended August 31, 2025*

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
OPERATING REVENUES	
Charges for services	\$ 5,427
Total operating revenues	<u>5,427</u>
OPERATING EXPENSES	<u>-</u>
Operating income (loss) before nonoperating revenues (expenses)	5,427
NONOPERATING REVENUES (EXPENSES)	
Investment income	<u>904</u>
Income (loss) before transfers	6,331
Transfers	
Transfers in	<u>54,000</u>
Change in net position	60,331
Total net position - beginning	<u>(20,064)</u>
Total net position - ending	<u>\$ 40,267</u>

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT D-3****STATEMENT OF CASH FLOWS****PROPRIETARY FUNDS***For the year ended August 31, 2025*

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash payments for insurance claims	\$ (8,581)
Net cash provided by (used for) operating activities	<u>(8,581)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers in from other funds	<u>54,000</u>
Net cash provided by (used for) noncapital financing activities	<u>54,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment income	<u>904</u>
Net cash provided by investing activities	<u>904</u>
Net increase (decrease) in cash and cash equivalents	46,323
Cash and cash equivalents - beginning	<u>38,033</u>
Cash and cash equivalents - ending	<u>\$ 84,356</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:	
Operating income (loss)	\$ 5,427
Effect of increases and decreases in current assets and liabilities	
Increase (decrease) in accrued expenses	<u>(14,008)</u>
Net cash provided by (used for) operating activities	<u>\$ (8,581)</u>

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2025

EXHIBIT E-1

	Private Purpose Trust	Custodial Fund
ASSETS		
Current assets		
Cash and cash equivalents	\$ 120,295	\$ 33,198
Investments	681,193	-
Interest receivable	6,402	-
Prepaid expenses	15,450	-
Noncurrent assets		
Long-term investments	1,720,903	-
Total assets	<u>2,544,243</u>	<u>33,198</u>
LIABILITIES		
Current liabilities		
Accounts payable	1,799	-
Scholarships payable	74,248	-
Total liabilities	<u>76,047</u>	<u>-</u>
NET POSITION		
Restricted for scholarships and benefits	2,468,196	-
Restricted for other purposes	-	33,198
Total net position	<u>\$ 2,468,196</u>	<u>\$ 33,198</u>

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
For the year ended August 31, 2025

EXHIBIT E-2

	Private Purpose Trust	Custodial Fund
ADDITIONS		
Contributions, gifts and donations	\$ 210,226	\$ -
Investment income (loss)	150,347	934
Other	-	73,192
Total additions	<u>360,573</u>	<u>74,126</u>
DEDUCTIONS		
Scholarships and benefits paid	231,504	-
Miscellaneous	107,219	71,120
Total deductions	<u>338,723</u>	<u>71,120</u>
Change in fiduciary net position	21,850	3,006
Net position - beginning	<u>2,446,346</u>	<u>30,192</u>
Net position - ending	<u>\$ 2,468,196</u>	<u>\$ 33,198</u>

The accompanying notes are an integral part of this statement.

PALACIOS INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

August 31, 2025

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Palacios Independent School District (the "District") is an independent school district governed by the Board of Trustees (the "Board"), composed of seven members, all of whom are elected officials. The District is the basic level of government that has responsibility and control over all activities related to public education in the City of Palacios, Texas and those areas which lie within the District's boundaries. The District is not included in any other governmental "reporting entity", as defined in Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. In evaluating how to define the government, for financial reporting purposes, the District's management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GASB Statement No. 14, *The Financial Reporting Entity*, and as amended by GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*. Under these guidelines, the reporting entity consists of the primary government (all funds of the District), organizations for which the primary government is financially accountable, organizations for which the primary government is not financially accountable, organizations that raise and hold economic resources for the direct benefit of the primary government, and any other organization for which the nature and significance of their relationship with the primary government is such that exclusion could cause the District's financial statements to be misleading or incomplete. Entities other than the primary government that are included in the primary government's financial statements are called component units.

The component unit discussed in this note is included in the District's financial statements because of the significance of its financial relationship with the District. The financial data of the component unit is blended with the fiduciary funds of the District due to its fiduciary nature.

The Palacios ISD Education Foundation (the "Foundation") was created for the purpose of providing funds for educational programs and activities of 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 fiduciary fund type and the amounts reported are as of August 31, 2025.

This component unit is blended in the financial statements. Complete financial statements of the individual component unit can be obtained from the District's Business Office, 1209 Twelfth Street, Palacios, Texas 77465.

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

B. Government-wide and Fund Financial Statements Fund Accounting

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, state foundation funds and other intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The District had no business-type activities during the year ending August 31, 2025.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**B. Government-wide and Fund Financial Statements Fund Accounting - (Continued)**

The statement of activities demonstrates how other people or entities that participate in the programs in which the District operates have shared in the payment of the *direct expenses*. Direct expenses are those that are clearly identifiable with a specific function. *Program revenues* include: 1) charges to individuals who purchase, use, or directly benefit from goods, services, or privileges provided by a given function, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Receipts from the Foundation School Program, property 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 the latter are excluded from the government-wide financial statements. Major individual funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as 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 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. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments and arbitrage liabilities, are recorded only when payment is due. Issuance of long-term debt are reported as other financing sources.

Foundation School Program payments, property taxes and investment earnings 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. Other revenue items are considered to be measurable and available only when cash is received by the District. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the governing grant documents. Accordingly, when such funds are received, they are recorded as unearned revenues until earned.

The proprietary fund types and fiduciary funds are accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**D. Fund Accounting**

The District reports the following major governmental funds:

General Fund - is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds.

Debt Service Fund - accounts for all financial resources restricted, committed or assigned to expenditures for principal and interest.

Capital Projects Funds - are used to account for proceeds from sales of bonds and other revenues to be used for authorized construction projects. The District has three Capital Projects Funds, two of which are reported as major funds at August 31, 2025.

Additionally, the District reports the following fund types:

Special Revenue Funds - account for the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects.

In accordance with guidelines established by the Resource Guide, the District accounts for its food service operations in a special revenue fund because it has the following characteristics:

1. Students are charged for meals,
2. The District receives a National School Lunch Program (NSLP) reimbursement, and
3. The District's General Fund revenues subsidize the food service operations.

Proprietary Funds:

Internal Service Fund - revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in the internal service funds. The District's Internal Service Fund is the Workers' Compensation Insurance Fund.

Fiduciary Funds:

Private Purpose Trust Funds - account for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Funds are the High School Scholarships Fund, the Trull Scholarship Fund, and the Palacios ISD Education Foundation.

Custodial Fund - accounts for resources held for others in a custodial capacity. These funds are used to account for assets held by the District as a custodian for student and other organizations. These funds were previously reported in an agency fund. This change resulted in reporting the detail of additions to and deductions from custodial funds causing a change in fund net position whereas these details were not reported in agency funds. This change is a result of the implementation of GASB 84. The District's Custodial Fund is the Student Activities 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 result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are classified as nonoperating.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**E. Other Accounting Policies****Cash and Cash Equivalents**

For purposes of the statement of cash flows for proprietary fund types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

Investments

Investments are recorded at fair value. Fair value is determined by the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

The District may invest its excess funds in any instruments authorized by the Public Funds Investment Act of Texas. Investments authorized under this Act include, but are not limited to, the following: Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; 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; 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 of Texas or the United States or their respective agencies and instrumentalities; certificates of deposit issued by a state or financial institution domiciled in the State of Texas which is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or otherwise secured; and certain repurchase agreements.

The District has adopted a written investment policy regarding the investment of its funds as defined by the Public Funds Investment Act of 1995. The investments of the District are in compliance with the District's investment policies.

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 "due to/from other funds". Any residual balances outstanding between the governmental activities and fiduciary funds are reported in the government-wide financial statements as "internal balances".

Property tax receivables are shown net of an allowance for uncollectibles. Property tax receivables include unpaid property taxes at year-end along with penalties and interest assessed on these unpaid taxes. The allowance on the unpaid property taxes is equal to 10 percent of the outstanding property taxes and the allowance on the penalties and interest is equal to 60 percent of the assessed amount. The District's management and the management of the Foundation have evaluated the other receivables and believe they are all collectible. Therefore, the allowance for uncollectibles is \$0.

Inventories and Prepaid Items

Inventories of food commodities are recorded at market values supplied by the Texas Department of Agriculture. When received, these commodities are recorded as inventory and unearned revenue. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

Certain payments to vendors reflect costs applicable to future accounting periods. These payments are reported as prepaid items in both government wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**E. Other Accounting Policies - (Continued)****Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, vehicles, furniture and equipment, and infrastructure assets (e.g., roads, bridges, drainage systems, and similar items) are reported in the governmental column in the government-wide financial statements. The District's infrastructure includes parking lots and roads associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. These assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The District's capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-50
Vehicles	10-20
Furniture and equipment	
Maintenance equipment	7-20
Video/office equipment	7-20
Furniture	7-20
Computer equipment	7-20

Compensated Absences

All full-time employees of the District are granted state personal and local leave annually and some employees are granted compensatory as well.

Each employee of the District earns state personal leave at the rate of one-half a workday for each 18 workdays of employment, up to the statutory maximum of five workdays per year. State personal leave can be accumulated without limit and can be transferred among districts by the employees. District employees also earn an additional five equivalent workdays of local leave per school year, at a rate of one-half workday for each 18 workdays; local leave can be accumulated up to 60 days and can be taken with no loss of pay. State personal leave and local leave do not vest under the District's policy and accordingly, employees can only utilize state personal and local leave when sick, or for personal reasons when approved by their supervisor.

Twelve-month employees that work beyond the number of days accrue compensatory time. Compensatory time earned may not accrue beyond a maximum of 24 hours. If an employee has a balance of more than 24 hours of compensatory time, the District shall require the employee to use the compensatory time, or at the District's option, the District shall pay the employee for the compensatory time. An employee shall use compensatory time within the duty year in which it is earned. If an employee has any unused compensatory time remaining at the end of a duty year, the District shall pay the employee for the time.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**E. Other Accounting Policies - (Continued)****Compensated Absences - (Continued)**

The District recognizes a liability for compensated absences for leave time that (1) has been earned for services previously rendered by employees, (2) accumulates and is allowed to be carried over to subsequent years, and (3) is more likely than not to be used as time off or settled during or upon separation from employment. The liability for compensated absences is reported as incurred in the government-wide financial statements. A liability for compensated absences is recorded in the governmental funds only if the liability has matured because of employee resignations or retirements. The liability for compensated absences includes salary-related benefits, where applicable.

Long-term Obligations

In the government-wide financial statements, long-term debt is reported as a liability in the applicable governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the related bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Losses on refunding are capitalized and amortized over the shorter of the life of the new issuance or the life of existing debt.

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

Deferred Outflows/Inflows of Resources

The statement of net position reports a separate section for deferred outflows of resources which follows the asset section. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District has two items that qualify for reporting in this category. They are the deferred amounts calculated in the actuarial pension study required by Governmental Accounting Standards Board (GASB) Statement No. 68 "*Accounting and Financial Reporting for Pensions*" (GASB 68) and the current year pension payments reported in the government-wide statement of net position. They also include the deferred amounts calculated in the actuarial pension study required by Governmental Accounting Standards Board (GASB) Statement No. 75 "*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*" (GASB 75) and the current year payments reported in the government-wide statement of net position.

In addition to liabilities, the statement of net position also reports a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has three items that qualify for reporting in this category. One of the items arises only under a modified accrual basis of accounting and this item, *unavailable revenue*, is reported in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes and insurance proceeds. The second item that qualifies for reporting as a deferred inflow of resources is calculated in the actuarial pension study required by GASB 68. Finally, the third item is calculated in the actuarial study required by GASB 75. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**E. Other Accounting Policies - (Continued)****Pensions**

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

Other Post-Employment Benefits

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

Use of Unrestricted and Restricted Assets

When the District incurs an expense for which it may use either restricted or unrestricted assets, management has chosen to use available restricted assets first, unless unrestricted assets will have to be returned because they were not used.

Net Position Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted-net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted-net position to have been depleted before unrestricted-net position is applied.

Fund Equity

Fund balances of Governmental Funds classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Board through a resolution or by other formal action. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by the Superintendent or Director of Finance and do not require formal action by the Board.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)**E. Other Accounting Policies - (Continued)****Minimum Fund Balance Policy**

It is the desire of the District to maintain an unassigned fund balance in General Fund of not less than 10 percent of the total budgeted operating expenditures. Due to the volatile nature of a majority of the District's revenues, the Board has not deemed it excessive for the District to maintain an unassigned General Fund fund balance greater than 50 percent of the total budgeted operating expenditures. The margin of safety is to alleviate significant unanticipated budget shortfalls and to ensure the orderly provisions of services.

Contributions

Contributions received by the Foundation are recorded as unrestricted, temporarily restricted, or permanently restricted net position depending on the absence or existence and nature of any donor restrictions.

Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

Data Control Codes

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

Use of Estimates

The preparation of the government-wide and fund financial statements in conformity with generally accepted accounting principles requires the District to make estimates and assessments that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results could differ from those estimates.

Accounting System

In accordance with the Resource Guide, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses the code structure as presented in the Accounting Code Section of the Resource Guide. Mandatory codes are utilized in the form provided in that section.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Budgetary Information**

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General Fund, Debt Service Fund, and the National School Breakfast and Lunch Program special revenue fund for the fiscal year beginning September 1. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The District annually adopts legally authorized appropriated budgets for the General Fund, Debt Service Fund, and National School Breakfast and Lunch Program special revenue fund. The General Fund budget schedule appears in Exhibit G-1 and the other schedules are in Exhibits J-2 and J-3.

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

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.
4. Budget data is filed with the TEA as a part of the District's annual fall submission to the TEA Public Education Information Management System (PEIMS).

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board. The function level is the legal level of budgetary control and the object level is the administrative level of control. Amendments are presented to the Board at its regular meetings. Each amendment crossing the function level must have Board approval. Such amendments made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year-end, as dictated by law. The District made several supplemental budgetary appropriations throughout the year, primarily in the General Fund. These revisions are further detailed in the notes to the required supplementary information. All budget appropriations lapse at year-end.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**Excess of Expenditures Over Appropriations**

For the fiscal year ended August 31, 2025, the District complied with budgetary restrictions at all function levels except the following. The following table details these variances:

<u>Fund/Function</u>	<u>Expenditure Variance</u>
Debt Service Fund	
Bond issuance cost and fees	\$ 175
Payment to escrow agent	1,013

NOTE 3: DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the TEA and shall be 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 FDIC insurance.

As of August 31, 2025, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>	<u>Percent of Portfolio</u>
Public Funds Investment Pools			
TexPool	\$ 28,676	< 1	1%
Lone Star Investment Pool	4,024,247	< 1	99%
	<u>\$ 4,052,923</u>		

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool uses amortized cost and Lone Star uses the fair value method to value portfolio assets. The pools operate in a manner consistent with the Securities and Exchange Commission's (SEC) Rule 2(a)(7) of the Investment Company Act of 1940 but is not registered with the SEC as an investment company. Instead, the regulatory oversight for the pools is the State of Texas. The investment pools transact at a net asset value of \$1.00 per share and are classified as cash and cash equivalents for reporting purposes.

At August 31, 2025, the Foundation held investments in cash and sweep balances, certificates of deposit, annuities, unit investment trusts, corporate bonds, and mutual funds with a cost of \$2,264,707 and a fair value of \$2,402,096. The unrealized gain on the investments at year-end was \$137,389.

Interest Rate Risk

In accordance with the District's investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The TexPool investment pool's weighted average maturity cannot exceed 60 days and the Lone Star investment pools' weighted average maturity cannot exceed 120 days.

NOTE 3: DEPOSITS AND INVESTMENTS - (Continued)**Credit Risk**

Credit risk is the risk that an issuer or counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. The District's investments in the public funds investment pools include those with the TexPool Investment Pool and the Lone Star Investment Pool. The pools operate in full compliance with the Public Funds Investment Act. Both pools are rated AAAM by Standard and Poor's Global Ratings.

Concentration of Credit Risk

The District's investment policy requires that the investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific user. At year-end, the District was not exposed to concentration of credit risk.

Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires that deposits at financial institutions be insured by the FDIC and/or secured by eligible securities. During the fiscal year and at year-end, all deposits held in the depository bank were fully insured through an irrevocable letter of credit issued by a federal home loan bank.

The District had additional interest bearing on-demand deposits managed through IntraFi Cash Service in the amount of \$6,912,574 as of August 31, 2025. The IntraFi Cash Service divides the funds into amounts under the standard FDIC insurance maximum of \$250,000 and places in deposit accounts at banks that participate in the network. The funds are FDIC insured upon deposit at the participating institutions.

As of August 31, 2025, the District had \$5,000,000 in State and Local Government Series (SLGS) securities, which are special purpose securities that the US Treasury issues to local governments to assist with compliance of federal tax laws and IRS regulations governing the investment of cash proceeds generated from a tax-exempt bond issuance. These securities are one-day certificates of indebtedness that automatically roll over daily. The interest rate is reset daily based on the most recent 13-week Treasury bill auction, adjusted downward to reflect tax-exempt status. These funds are backed by the full faith and credit of the US government.

As of August 31, 2025, the Foundation had deposits in the bank in the amount of \$14,818. The Foundation was not exposed to custodial credit risk at August 31, 2025.

Custodial Credit Risk - Investments

For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All investments held by third parties were fully collateralized and held in the District's name. The investment pools have no custodial credit risk.

GASB Statement 72 regarding *Fair Value Measurement and Application* for financial reporting purposes categorizes financial instruments within three different levels of risk dependent upon the measure of their fair value and pricing. Because the investments are restricted by policy and state law to active secondary market, the *market approach* is being used for valuation. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities. The exit or fair market prices used for these fair market valuations of the portfolio are all Level 1 and represent unadjusted quoted prices in active markets for identical assets and liabilities that have been accessed at the measurement date. As of August 31, 2025, there were no securities to be priced in the portfolio.

NOTE 4: PROPERTY TAXES

Property taxes 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. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. 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 delinquent if not paid by February 1 of the year following the October 1 levy date. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The assessed value of the property tax roll on January 1, 2024, upon which the levy for the 2024-2025 fiscal year was based, was \$2,446,971,780.

Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2025, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$0.6669 and \$0.2817 per \$100 valuation, respectively, for a total of \$0.9486 per \$100 valuation.

Current tax collections for the year ended August 31, 2025, were 76 percent of the year-end adjusted tax levy. Allowance for uncollectible taxes within the General and Debt Service Fund are based on historical experience in collecting taxes. Because of the pending property tax appeal on the 2024 tax roll, it was estimated that 95 percent of the District's outstanding unpaid taxes will not be collected in the subsequent year. Approximately 10 percent of the remaining levy amounts are not expected to be collected in the subsequent year. 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 August 31, 2025, property taxes receivable (excluding assessed penalty and interest), net of estimated uncollectible taxes, totaled \$474,806, and \$146,532, for the General and Debt Service Fund, respectively.

NOTE 5: DUE FROM OTHER GOVERNMENTS AND OTHER RECEIVABLES

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 of Texas through the School Foundation and Per Capita Programs. Amounts due from federal, state, and local governments as of August 31, 2025, are summarized below:

<u>Fund</u>	<u>Federal Grants</u>	<u>State Grants and Entitlements</u>	<u>Local</u>	<u>Total</u>
General Fund	\$ 8,594	\$ 1,333,009	\$ 30,895	\$ 1,372,498
Debt Service Fund	-	-	11,773	11,773
Nonmajor Governmental Funds	289,551	48,335	-	337,886
Total	<u>\$ 298,145</u>	<u>\$ 1,381,344</u>	<u>\$ 42,668</u>	<u>\$ 1,722,157</u>

Other receivables at August 31, 2025, were as follows:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Reimbursements	\$ 694	\$ -	\$ 694
Other	-	1,386	1,386
Total	<u>\$ 694</u>	<u>\$ 1,386</u>	<u>\$ 2,080</u>

NOTE 6: CAPITAL ASSETS

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

	Balance 8/31/24	Increases	Decreases	Balance 8/31/25
Governmental activities				
Capital assets not being depreciated				
Land	\$ 926,631	\$ -	\$ -	\$ 926,631
Construction in progress	-	18,125	-	18,125
Total capital assets not being depreciated	926,631	18,125	-	944,756
Capital assets being depreciated				
Buildings	132,834,220	7,761,978	-	140,596,198
Furniture and equipment	1,772,242	248,499	-	2,020,741
Vehicles	2,744,140	-	-	2,744,140
Total capital assets being depreciated	137,350,602	8,010,477	-	145,361,079
Less accumulated depreciation for				
Buildings	(4,530,016)	(3,072,962)	-	(7,602,978)
Furniture and equipment	(776,673)	(192,955)	-	(969,628)
Vehicles	(1,500,243)	(157,834)	-	(1,658,077)
Total accumulated depreciation	(6,806,932)	(3,423,751)	-	(10,230,683)
Total capital assets being depreciated, net	130,543,670	4,586,726	-	135,130,396
Governmental activities capital assets, net	\$ 131,470,301	\$ 4,604,851	\$ -	\$ 136,075,152

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,983,548
Instructional resources and media services	54,258
Curriculum and instructional staff development	51,069
Instructional leadership	65,862
School leadership	214,263
Guidance, counseling and evaluation services	98,682
Health services	48,726
Student (pupil) transportation	86,051
Food services	111,589
Extracurricular activities	217,101
General administration	134,149
Facilities maintenance and operations	241,917
Security and monitoring services	59,996
Data processing services	47,763
Community services	8,777
Total depreciation expense	\$ 3,423,751

NOTE 7: DEFINED BENEFIT PENSION PLAN**Summary of Significant Accounting Policies**

Pensions. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes the 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 fiduciary net position. Benefit payments (including refunds to employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

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

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load 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 that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.texas.gov/learning-resources/publications>; by writing to TRS at attention Finance Division, PO Box 149676, Austin, TX, 78714-0185; or by calling 1-800-223-8778.

Benefits Provided

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

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**Benefits Provided - (Continued)****One-Time Stipends**

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

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

Cost-of-Living Adjustment

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

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

The 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.

Contributions

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. The TRS Pension Reform Bill (Senate Bill 12) of the 86th Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2019 thru 2025.

Contribution Rates and Contribution Amounts

Year	Member		Non-Employer Contributing Entity (State)		Employer (District)	
	Rate	Amount	Rate	Amount	Rate	Amount
2025	8.25%	\$ 945,172	8.25%	\$ 642,728	8.25%	\$ 469,714
2024	8.25%	927,032	8.25%	607,218	8.25%	424,787

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**Contributions - (Continued)**

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

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public 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 district, the employer shall contribute to the retirement system an amount equal to 50 percent of the state contribution rate for certain instructional or administrative employees and 100 percent of the state contribution rate for all other employees.

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

- All public schools, charter schools, and regional education service centers must contribute 1.9% of the member's salary beginning in fiscal year 2024, gradually increasing to 2.0% in fiscal year 2025. The surcharge amount is 1.9% for fiscal year 2023.
- When employing a retiree of the Teacher Retirement System, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**Actuarial Assumptions**

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

Valuation Date	August 31, 2023 rolled forward to August 31, 2024
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Fair Value
Single Discount Rate	7.00%
Long-term Expected Investment Rate of Return	7.00%
Municipal Bond Rate as of August 2024	3.87% - The source for the rate is the Bond Buyers 20 Index which represents the estimated yield of a portfolio of 20 general obligation bonds maturing in 20 years based on a survey of municipal bond traders.
Last year ending August 31 in Projection Period (100 years)	2123
Inflation	2.30%
Salary Increases including inflation	2.95% to 8.95% including inflation
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 21, 2023.

Discount Rate

The single discount rate of 7.00 percent was used to measure the total pension liability. The single discount rate was based on the expected rate of return on plan investments of 7.00 percent. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers, and the non-employer contributing entity are 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 percent of payroll in fiscal year 2025 and thereafter. This includes all employer and state contributions for active and rehired employees.

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.

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)

The long-term rate of return on pension plan investments is 7.00 percent. The long-term 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 asset allocation as of August 31, 2024 (see page 56 of the 2024 TRS ACFR) are summarized below:

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

* Absolute Return Includes Credit Sensitive Investments.

** Target allocations are based on the FY 2024 policy model.

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

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

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)**Discount Rate Sensitivity Analysis**

The following schedule shows the impact of the net pension liability if the discount rate used was 1 percentage point lower than and 1 percentage point higher than the discount rate that was used (7%) in measuring the Net pension liability.

	1.0% Decrease in Discount Rate (6.00%)	Current Single Discount Rate (7.00%)	1.0% Increase in Discount Rate (8.00%)
District's proportionate share of the net pension liability:	\$7,870,957	\$4,927,808	\$2,489,199

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

On August 31, 2025, the District reported a liability of \$4,927,808 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	\$ 4,927,808
State's proportionate share that is associated with the District	<u>6,966,825</u>
Total	<u>\$ 11,894,633</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 the measurement date of August 31, 2024 the employer's proportion of the collective net pension liability was 0.000080672 which was an increase (decrease) of (0.000005465) from its proportion measured as of August 31, 2023.

NOTE 7: DEFINED BENEFIT PENSION PLAN - (Continued)Changes In Assumptions and Benefits Since the Prior Actuarial Valuation

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

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

For the year ended August 31, 2025, the District recognized pension expense of \$832,652 and revenue of \$832,652 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 271,614	\$ 38,474
Changes in actuarial assumptions	254,433	34,111
Net difference between projected and actual investment earnings	29,954	-
Changes in proportion and difference between the employer contributions and proportionate share of contributions	217,875	451,862
Contributions paid to TRS subsequent to the measurement date Of the net pension liability	469,714	-
Total	\$ 1,243,590	\$ 524,447

The District recognized \$469,714 as deferred outflows of resources related to pensions resulting from the District's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year ended August 31:	Pension Expense Amount
2025	\$ (92,652)
2026	494,325
2027	45,351
2028	(181,614)
2029	(15,981)
Thereafter	-

NOTE 8: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN**Summary of Significant Accounting Policies**

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

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

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

OPEB Plan Fiduciary Net Position

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

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-employment benefits changes; including automatic COLAs.

NOTE 8: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN - (Continued)**Benefits Provided - (Continued)**

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

TRS-Care Plan 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 participating employers are based on active employee compensation. The TRS Board does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state's contribution rate which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate which is 0.65% of 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 employer. The actual public school contribution rate is prescribed by the Legislature in the General Appropriations Act, which is 0.75 percent of each employee's pay for fiscal year 2024. The following table shows contributions to the TRS-Care plan by the type of contributor.

Contribution Rates		
	2024	2025
Active Employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private Funding Remitted by Employers	1.25%	1.25%

NOTE 8: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN - (Continued)**Contributions - (Continued)**

District's 2025 FY Employer Contributions	\$ 96,731
District's 2025 FY Member Contributions	74,079
Measurement Year NECE On-Behalf Contributions	134,892

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to. 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 Disability
Rates of Retirement	General Inflation
Rates of Termination	Wage Inflation

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

NOTE 8: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN - (Continued)**Actuarial Assumptions - (Continued)**

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
Ad hoc Post Employment Benefit Changes	None

The initial medical trend rate was 6.75 percent for non-Medicare retirees. For Medicare retirees, trend rates are higher in the first two years due to anticipated growth but thereafter match those of non-Medicare retirees. The initial prescription drug trend rate was 7.25 percent for all retirees. The initial trend rates decrease to an ultimate trend rate of 4.25 percent over a period of 11 years.

Discount Rate

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

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

NOTE 8: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN - (Continued)**Sensitivity of the Net OPEB Liability:*****Discount Rate Sensitivity Analysis***

The following schedule shows the impact of the Net OPEB Liability if the discount rate used was one percentage point less than and one percentage point greater than the discount rate that was used (3.87%) in measuring the Net OPEB Liability.

	1.0% Decrease in Discount Rate (2.87%)	Current Single Discount Rate (3.87%)	1.0% Increase in Discount Rate (4.87%)
District's proportionate share of the Net OPEB Liability:	\$4,273,663	\$3,597,218	\$3,050,640

Healthcare Cost Trend Rates Sensitivity Analysis - The following schedule shows the impact of the net OPEB liability if a healthcare trend rate that is 1% less than and 1% greater than the health trend rates assumed.

	1.0% Decrease in Healthcare Trend Rate	Current Single Healthcare Cost Trend Rate	1.0% Increase in Healthcare Trend Rate
District's proportionate share of the Net OPEB Liability:	\$2,929,400	\$3,597,218	\$4,467,451

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

At August 31, 2025, the District reported a liability of \$3,597,218 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	\$ 3,597,218
State's proportionate share that is associated with the District	<u>4,507,265</u>
Total	<u>\$ 8,104,483</u>

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

At the measurement date of August 31, 2024 the employer's proportion of the collective net OPEB liability was 0.000118518, compared to 0.000118017 as of August 31, 2023.

NOTE 8: DEFINED OTHER POST-EMPLOYMENT BENEFIT PLAN - (Continued)

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

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

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

For the year ended August 31, 2025, the District recognized OPEB expense of \$(585,861) and revenue of \$(585,861) for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experience	\$ 689,466	\$ 1,795,207
Changes in actuarial assumptions	460,401	1,173,731
Net Difference between projected and actual investment earnings	-	10,074
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	168,965	892,197
Contributions paid to TRS subsequent to the measurement date on the net OPEB liability.	96,731	-
Total	\$ 1,415,563	\$ 3,871,209

The District recognized \$96,731 as deferred outflows of resources related to OPEB resulting from the District's contributions subsequent to the measurement date, which will be recognized as a reduction of the net pension liability in the measurement year ended August 31, 2025. The other amounts of the employer's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Measurement Year ended August 31:	OPEB Expense Amount
2025	\$ (679,564)
2026	(516,641)
2027	(560,709)
2028	(495,563)
2029	(251,978)
Thereafter	(47,922)

NOTE 9: RETIREE MEDICARE PART D COVERAGE

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Payments made on behalf of the District for the years ended August 31, 2025, 2024, and 2023 were \$83,154, \$60,450, and \$59,607, respectively.

NOTE 10: LONG-TERM DEBT

The following is a summary of transactions for the year ended August 31, 2025, involving general obligation bonds issued by the District:

	Balance 9/1/24	Transferred/ Issued	Transferred/ Retired	Balance 8/31/25	Due Within One Year
General obligation bonds	\$ 106,640,000	\$ 3,000,000	\$ 3,425,000	\$ 106,215,000	\$ 4,050,000
Premium on bonds	15,048,426	-	570,779	14,477,647	-
Arbitrage	2,148,136	155,828	-	2,303,964	-
Compensated absences*	702,405	215,999	-	918,404	147,603
Total	<u>\$ 124,538,967</u>	<u>\$ 3,371,827</u>	<u>\$ 3,995,779</u>	<u>\$ 123,915,015</u>	<u>\$ 4,197,603</u>

*Compensated absences liability recognized as of September 1, 2024, upon implementation of GASB 101. See Note 19 for details. The change in compensated absences is presented as a net amount.

General obligation bonds payable at August 31, 2025, is comprised of the following issues:

\$5,450,000 2016 Unlimited Tax School Building Bonds due in annual installments ranging from \$475,000 to \$500,000 through 2027; interest varying from 2.00% to 3.00%. \$ 965,000

\$9,210,000 2021 Unlimited Tax School Building Bonds due in annual installments ranging from \$150,000 to \$295,000 through 2051; interest varying from 2.00% to 4.00%. 5,880,000

\$100,585,000 2022 Unlimited Tax School Building Bonds due in annual installments ranging from \$1,440,000 to \$5,905,000 through 2051; interest varying from 4.00% to 5.00%. 96,370,000

\$3,000,000 2025 Unlimited Tax School Building Bonds due in annual installments ranging from \$610,000 to \$1,760,000 through 2028; interest varying from 3.10% to 3.15%. 3,000,000

Total \$ 106,215,000

NOTE 10: LONG-TERM DEBT - (Continued)

Year Ending August 31	General Obligations		
	Principal	Interest	Total
2026	\$ 4,050,000	\$ 4,099,417	\$ 8,149,417
2027	3,005,000	3,961,061	6,966,061
2028	3,140,000	3,825,398	6,965,398
2029	2,635,000	3,688,575	6,323,575
2030	2,770,000	3,555,225	6,325,225
2031-2035	15,915,000	15,713,575	31,628,575
2036-3040	19,290,000	12,334,825	31,624,825
2041-2045	22,820,000	8,804,355	31,624,355
2046-2050	27,625,000	3,998,253	31,623,253
2051	4,965,000	121,345	5,086,345
Total	<u>\$ 106,215,000</u>	<u>\$ 60,102,029</u>	<u>\$ 166,317,029</u>

There is \$10,575 available in the Debt Service Fund to service the general obligation bonds at August 31, 2025.

Defeased Debt

During the current fiscal year, the District used available Debt Service Fund cash to defease \$1,235,000 of outstanding Series 2022 Unlimited Tax School Building Bonds, which had an interest rate of 4.00% and were to mature in 2051. The District deposited \$1,240,489 in an irrevocable trust with an escrow agent to provide funds for the future debt service payment on the defeased bonds. As a result, a portion of the 2022 Unlimited Tax School Building Bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. The \$1,235,000 in defeased bonds were callable for redemption on September 25, 2025, and remained in escrow until they were redeemed by the escrow agent at that time.

Arbitrage Rebate

The Tax Reform Act of 1986 requires that governmental entities issuing tax-exempt debt subsequent to August 1986 calculate and rebate arbitrage earnings to the federal government. Specifically, the excess of the aggregated amount earned on investments purchased with bond proceeds over the amount that would have been earned if the proceeds were invested at a rate equal to the bond yield, is to be rebated to the federal government. As of August 31, 2025, a long-term liability for rebate and yield restrictions is currently estimated at \$2,303,964 and has been recognized on the Statement of Net Position for amounts due more than a year after August 31, 2025.

NOTE 11: INTERFUND BALANCES AND TRANSFERS**Receivables and Payables**

Individual interfund receivable and payable balances were as follows at August 31, 2025:

	<u>Receivable</u>	<u>Payable</u>
General Fund	\$ 225,580	\$ -
Capital Projects Fund	-	77,020
Nonmajor Governmental Funds	-	148,560
Total	<u>\$ 225,580</u>	<u>\$ 225,580</u>

The interfund receivables and payables pertain primarily to amounts loaned to cover cash deficits at August 31, 2025, in the District's pooled cash account due to the time lag between the dates of when reimbursable expenditures occur and payments are received from granting agencies.

Transfers

Transfers take place without an equivalent flow of assets back to the transferring fund with no expectation of repayment. Interfund transfers made during the year were as follows:

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund	\$ -	\$ 54,000
Internal Service Fund	54,000	-
Total	<u>\$ 54,000</u>	<u>\$ 54,000</u>

During the fiscal year ended August 31, 2025, the District made a transfer of \$54,000 from the General Fund to the Internal Service Fund to cover the fund's deficit position.

NOTE 12: 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; health care; and natural disasters. The District purchased commercial insurance to cover risks associated with potential claims during fiscal year 2025. 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.

Workers' Compensation Insurance

During fiscal year 2025, the District participated in a self-insured pool administered by Creative Risk Funding, Inc. The pool is comprised primarily of public school districts in the State of Texas. The District's maximum exposure per claim is \$17,103 and total maximum exposure is \$59,583.

Estimates of claims incurred and claims incurred but not reported (IBNR) at August 31, 2025, are reflected as accrued expenses on the balance sheet. Changes in the balance of claims liabilities during the past two years are as follows:

	Fiscal Year Ending	
	8/31/25	8/31/24
Unpaid claims, beginning of fiscal year	\$ 58,097	\$ 66,727
Incurred claims (including IBNR)	8,468	45,242
Claim payments (adj.)	(22,476)	(53,872)
Unpaid claims, end of fiscal year	<u>\$ 44,089</u>	<u>\$ 58,097</u>

Unemployment Compensation Pool

During the year ended August 31, 2025, the District provided unemployment compensation coverage to its employees through participation in the Texas Association of School Boards Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2025, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

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

NOTE 12: RISK MANAGEMENT - (Continued)**Auto, Liability, and/or Property Programs**

During the year ended August 31, 2025 the District participated in the following Texas Association of School Boards Risk Management Fund (the "Fund") programs: Auto liability, auto physical damage, legal liability, privacy & information security, and property. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability, and property programs. The terms of the limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2025, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

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

NOTE 13: COMMITMENTS AND CONTINGENCIES**Grant Programs**

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

Litigation

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgement of the District's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

NOTE 14: LOCAL, INTERMEDIATE, AND FEDERAL REVENUE SOURCES**Local and Intermediate Revenue Sources**

During the current year, revenues reported in the fund financial statements from local and intermediate sources consisted of the following:

	General Fund	Debt Service Fund	Capital Projects Fund	Capital Projects Fund	Other Governmental Funds	Total
Property taxes	\$ 11,267,044	\$ 6,613,862	\$ -	\$ -	\$ -	\$ 17,880,906
Penalties, interest, and other tax-related income	107,196	34,013	-	-	-	141,209
Investment earnings	517,161	52,943	1,786	477,731	33,316	1,082,937
Food service fees	-	-	-	-	52,440	52,440
Athletic receipts	62,927	-	-	-	-	62,927
Enterprising activities	-	-	-	-	292,439	292,439
Chapter 313 agreement	266,453	-	-	-	-	266,453
Rent	18,723	-	-	-	-	18,723
Gifts and bequests	90,000	-	-	-	10,000	100,000
Daycare fees	70,707	-	-	-	-	70,707
Other	73,013	-	-	-	-	73,013
Total	<u>\$ 12,473,224</u>	<u>\$ 6,700,818</u>	<u>\$ 1,786</u>	<u>\$ 477,731</u>	<u>\$ 388,195</u>	<u>\$ 20,041,754</u>

General Fund Federal Revenue Sources

Most federal revenue received by the District relates to grant programs accounted for in various Special Revenue Funds. However, during the current fiscal year the General Fund did receive some funds from federal sources. These revenues were as follows:

Program or Source	Federal Assistance Listing No.	Amount	Total Grant Or Entitlement
Disaster Grants-Public Assistance	97.036	\$ 8,594	\$ 25,822
SHARS reimbursement	93.778	206,848	206,848
Erate reimbursement	N/A	145,800	145,800
Total for General Fund		<u>\$ 361,242</u>	<u>\$ 378,470</u>

NOTE 15: UNEARNED REVENUE

The District's governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of unearned revenue in the statement of net position and unearned revenue reported in the governmental funds are as follows:

General Fund		
Advanced reimbursement		
from Education Foundation	\$	15,450
Donations		9,750
Debt Service Fund		
State revenue		35,631
Other Governmental Funds		
USDA commodities		<u>45,000</u>
Total	\$	<u>105,831</u>

NOTE 16: SIGNIFICANT TAXPAYER

The District's largest taxpayers accounted for approximately 65 percent of the total 2024 taxable appraised value. Delinquent amounts from this taxpayer existed as of August 31, 2025 which amounted to \$5,178,400. These unpaid amounts approximate the taxes on disputed taxable valuations by the taxpayer for the 2024 tax roll. The property tax appeal is set for trial on May 18, 2026. This unpaid amount has been included in the computation of the allowance for uncollectible taxes as of August 31, 2025.

NOTE 17: COMMITTED FUND BALANCES

Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the Board through a resolution or by other formal action. In order to modify or rescind commitments, the Board must take the same type of action as they did when the fund balance was committed. The following is a detail of the committed fund balances as of August 31, 2025:

	<u>Committed</u>
	<u>Fund Balances</u>
General Fund	
Capital expenditures for equipment	\$ 3,996,903
Nonmajor Governmental Funds	
Campus activity funds	<u>324,349</u>
Total	<u>\$ 4,321,252</u>

NOTE 18: TAX ABATEMENT

On May 3, 2017, the Palacios ISD Board of Trustees approved an Agreement with Formosa Plastics Corporation, Texas for a Limitation On Appraised Value of Property for School District Maintenance and Operations Taxes pursuant to Chapter 313 of the Texas Tax Code.

Value limitation agreements are a 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 project(s) under the Chapter 313 agreement must be consistent with the state's goal to "encourage large scale capital investments in this state." Chapter 313 grants eligibility to companies engaged in manufacturing, research and development, renewable electric energy production, clean coal projects, nuclear power generation and Texas Priority projects. Formosa Plastics Corporation, Texas qualified for a tax limitation agreement under Texas Tax Code §313.024(b)(1), as a manufacturing project.

The application, the agreements and state reporting requirement documentation can be viewed at the Texas Comptroller's website: <https://www.comptroller.texas.gov/economy/local/ch313/agreement-docs.php>. The agreement and all supporting documentation was assigned Texas Comptroller Application No. 1191.

Each applicant, including Formosa Plastics Corporation, Texas, has been required to meet a series of capital investment, job creation, and wage requirements specified by state law. At the time of the application's approval, it was determined by both the District's Board of Trustees and the Texas Comptroller's Office that the project would meet these standards. After approval, the applicant company 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 Formosa Plastics Corporation, Texas terminates this Agreement without the consent of the District, or in the event that the company or its successor-in-interest fails to comply in any material respect with the terms of this Agreement or to meet any material obligation under this Agreement, then the District shall be entitled to the recapture of all ad valorem tax revenue lost as a result of this Agreement together with the payment of penalty and interest, on that recapture ad valorem tax revenue. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Texas Tax Code §33.01(c), or its successor statute. The agreement provides an administrative procedure to determine any company liability. Ultimately, enforcement of any payment obligation is through the local state district court.

Project: Formosa Plastics Corporation, Texas (Application #1191)

First Year Value Limitation: 2021

Fiscal Year: 2025 Tax Year 2024

(A)	(B)	(C)	(D)	(E)	(F)	(G)
Project Value 2024	Project's Value Limitation Amount 2024	Amount of Applicant's M&O Taxes Paid 2024	Amount of Applicant's M&O Taxes Reduced 2024	Company Revenue Loss Payment to School District 2024	Company Supplemental Payment To School District 2024	Net Benefit (Loss) to the School District 2024 (C+E+F)
\$692,400,500	\$30,000,000	\$200,070	\$4,417,549	\$131,369	\$135,085	\$466,523

NOTE 19: ACCOUNTING CHANGES AND ERROR CORRECTIONS**Change in Accounting Principles**

The District adopted GASB Statement No. 101 (GASB 101), Compensated Absences, for the fiscal year ended August 31, 2025. The objective of this Statement was to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The effect of implementing this Statement is reflected in the table below, which lists the restatement of beginning balances.

Correction of Errors in Previously Issued Financial Statements

The District's General Fund and Capital Projects Funds fund balances at August 31, 2024 were restated to properly account for payment of construction costs. There was no effect on net position at August 31, 2025. The effects of these error corrections are reflected in the following table, which lists the restatements of beginning balances.

Restatement of Beginning Balances

The change in accounting principles and error corrections resulted in the restatement of beginning net position and fund balances, as follows:

	<u>8/31/24 As Previously Reported</u>	<u>Change in Accounting Principle</u>	<u>Error Correction</u>	<u>8/31/24 As Restated</u>
Governmental Activities				
Unrestricted net position	<u>\$ 24,009,489</u>	<u>\$ (702,405)</u>	<u>\$ -</u>	<u>\$ 23,307,084</u>
Governmental Funds				
General Fund				
Fund Balance	\$ 13,379,333	\$ -	\$ (297,516)	\$ 13,081,817
Capital Projects Fund				
Fund Balance	10,757,208	-	297,516	11,054,724
Other Governmental Funds				
Fund Balances	<u>2,638,691</u>	<u>-</u>	<u>-</u>	<u>2,638,691</u>
	<u>\$ 26,775,232</u>	<u>\$ (702,405)</u>	<u>\$ -</u>	<u>\$ 26,775,232</u>

Change in Major Funds

In fiscal year 2025, the District experienced a change in reporting of major funds when applying the quantitative threshold for such reporting under GASB 34, paragraph 76. In fiscal year 2024, the District reported the General Fund, the Debt Service Fund, and a Capital Projects Fund as major funds. In fiscal year 2025, the District reported another Capital Projects Fund as a major fund. The change in major funds has no effect on beginning fund balance as this fund did not carry a fund balance.

NOTE 20: SPECIAL ITEM

During fiscal year 2025, the District paid their prior food service management company an amount of \$45,000 as a settlement for prior contract. This amount has been reported on the District's financial statements as a special item since it was considered an infrequent transaction that was within the control of the District's management.

NOTE 21: SIGNIFICANT FORTHCOMING STANDARDS

Significant new accounting standards issued by the Governmental Accounting Standards Board (GASB) not yet implemented by the District include the following:

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

GASB Statement No. 104, Disclosure of Certain Capital Assets - The objective of the Statement is to provide users of government financial statements with essential information about certain types of capital assets. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025, and the impact has not yet been determined.

GASB Statement No. 105, Subsequent Events - The objective of the Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The requirements of this Statement are effective for fiscal years beginning after June 15, 2026, and the impact has not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-1**

*SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL
GENERAL FUND*

For the year ended August 31, 2025

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 16,090,655	\$ 16,090,655	\$ 12,473,224	\$ (3,617,431)
5800	State program revenues	2,936,931	2,936,931	3,870,125	933,194
5900	Federal program revenues	247,900	247,900	361,242	113,342
5020	Total revenues	19,275,486	19,275,486	16,704,591	(2,570,895)
EXPENDITURES					
Current					
0011	Instruction	8,999,882	8,999,882	8,853,505	146,377
0012	Instructional resources and media services	185,060	192,060	191,077	983
0013	Curriculum and instr. staff development	305,762	305,762	279,439	26,323
0021	Instructional leadership	215,617	302,617	301,361	1,256
0023	School leadership	980,664	980,664	974,088	6,576
0031	Guidance, counseling and evaluation svcs.	519,827	515,227	455,786	59,441
0033	Health services	221,007	233,007	232,949	58
0034	Student (pupil) transportation	545,453	578,453	567,484	10,969
0036	Extracurricular activities	1,016,696	1,286,696	1,281,453	5,243
0041	General administration	896,331	853,231	790,033	63,198
0051	Facilities maintenance and operations	3,839,952	4,134,952	3,511,543	623,409
0052	Security and monitoring services	256,219	284,219	284,094	125
0053	Data processing services	548,954	562,708	544,266	18,442
0061	Community services	45,965	51,965	46,843	5,122
Capital outlay					
0081	Facilities acquisition and construction	-	1,376,322	1,001,845	374,477
Intergovernmental charges					
0091	Contracted instructional services between schools	1,090,000	401,000	-	401,000
0099	Other intergovernmental charges	471,399	423,399	398,374	25,025
6030	Total expenditures	20,138,788	21,482,164	19,714,140	1,768,024
Excess (deficiency) of revenues over expenditures		(863,302)	(2,206,678)	(3,009,549)	(802,871)
OTHER FINANCING SOURCES (USES)					
8911	Transfers out (use)	-	(54,000)	(54,000)	-
SPECIAL ITEMS					
8912	Special item (use)	-	(45,000)	(45,000)	-
1200	Net change in fund balances	(863,302)	(2,305,678)	(3,108,549)	(802,871)
0100	Fund balance - beginning	13,379,333	13,379,333	13,379,333	-
1300	Prior period adjustment	-	-	(297,516)	(297,516)
3000	Fund balance - ending	\$ 12,516,031	\$ 11,073,655	\$ 9,973,268	\$ (1,100,387)

The accompanying notes to required supplementary information are an integral part of this schedule.

PALACIOS INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY****TEACHER RETIREMENT SYSTEM OF TEXAS***For the year ended August 31, 2025*

	FY2016 <u>Plan Year 2015</u>	FY2017 <u>Plan Year 2016</u>	FY2018 <u>Plan Year 2017</u>
District's proportion of the Net Pension Liability (Asset)	0.000108754	0.000101710	0.000094954
District's proportionate share of the Net Pension Liability (Asset)	\$ 3,844,309	\$ 3,843,465	\$ 3,036,119
State's proportionate share of the Net Pension Liability (Asset) associated with the District	<u>6,570,575</u>	<u>6,514,876</u>	<u>4,931,687</u>
Total	<u>\$ 10,414,884</u>	<u>\$ 10,358,341</u>	<u>\$ 7,967,806</u>
District's covered payroll	\$ 10,806,128	\$ 10,638,543	\$ 10,008,162
District's proportionate share of the Net Pension Liability (Asset) as a percentage of its covered payroll	35.58%	36.13%	30.34%
Plan Fiduciary Net Position as a percentage of the total pension liability	78.43%	78.00%	82.17%

NOTES:

GASB Codification, Vol. 2, P20.183 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2024 for year 2025, August 31, 2023 for year 2024, August 31, 2022 for year 2023, August 31, 2021 for year 2022, August 31, 2020 for year 2021, August 31, 2019 for year 2020, August 31, 2018 for year 2019, August 31, 2017 for year 2018, August 31, 2016 for year 2017, August 31, 2015 for year 2016, and August 31, 2014 for year 2015.

The accompanying notes to required supplementary information are an integral part of this schedule.

<u>FY2019</u> <u>Plan Year 2018</u>	<u>FY2020</u> <u>Plan Year 2019</u>	<u>FY2021</u> <u>Plan Year 2020</u>	<u>FY2022</u> <u>Plan Year 2021</u>	<u>FY2023</u> <u>Plan Year 2022</u>	<u>FY2024</u> <u>Plan Year 2023</u>	<u>FY2025</u> <u>Plan Year 2024</u>
0.000094027	0.000096660	0.000078321	0.000076731	0.000087004	0.000086137	0.000080672
\$ 5,175,455	\$ 5,024,694	\$ 4,194,731	\$ 1,954,079	\$ 5,165,178	\$ 5,916,761	\$ 4,927,808
<u>7,786,808</u>	<u>7,170,126</u>	<u>7,777,235</u>	<u>3,387,974</u>	<u>7,131,209</u>	<u>8,114,411</u>	<u>6,966,825</u>
<u>\$ 12,962,263</u>	<u>\$ 12,194,820</u>	<u>\$ 11,971,966</u>	<u>\$ 5,342,053</u>	<u>\$ 12,296,387</u>	<u>\$ 14,031,172</u>	<u>\$ 11,894,633</u>
\$ 9,840,134	\$ 10,261,487	\$ 10,424,731	\$ 10,026,069	\$ 10,582,295	\$ 11,221,211	\$ 11,236,745
52.60%	48.97%	40.24%	19.49%	48.81%	52.73%	43.85%
73.74%	75.24%	75.54%	88.79%	75.62%	73.15%	77.51%

PALACIOS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT CONTRIBUTIONS FOR PENSIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
For fiscal year 2025

	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 323,158	\$ 311,127	\$ 316,455
Contribution in relation to the contractually required contribution	<u>(323,158)</u>	<u>(311,127)</u>	<u>(316,455)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 10,638,543	\$ 10,008,162	\$ 9,840,134
Contributions as a percentage of covered payroll	3.04%	3.11%	3.22%

NOTES:

GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 for the respective fiscal years.

The accompanying notes to required supplementary information are an integral part of this schedule.

<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
\$ 369,744	\$ 360,793	\$ 315,314	\$ 363,568	\$ 430,064	\$ 425,787	\$ 469,714
<u>(369,744)</u>	<u>(360,793)</u>	<u>(315,314)</u>	<u>(363,568)</u>	<u>(430,064)</u>	<u>(425,787)</u>	<u>(469,714)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 10,261,487	\$ 10,424,731	\$ 10,026,069	\$ 10,582,295	\$ 11,221,211	\$ 11,236,745	\$ 11,456,623
3.60%	3.46%	3.14%	3.44%	3.83%	3.79%	4.10%

PALACIOS INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY****TEACHER RETIREMENT SYSTEM OF TEXAS***For the year ended August 31, 2025*

	<u>FY2018</u> <u>Plan Year 2017</u>	<u>FY2019</u> <u>Plan Year 2018</u>
District's proportion of the net liability (asset) for other post employment benefits	0.000142119	0.000141132
District's proportionate share of the net post employment benefit liability (asset)	\$ 6,180,237	\$ 7,046,857
State's proportionate share of the net post employment benefit liability (asset) associated with the District	<u>7,826,218</u>	<u>8,336,720</u>
Total	<u>\$ 14,006,455</u>	<u>\$ 15,383,577</u>
District's covered payroll	\$ 10,008,162	\$ 9,840,134
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	61.75%	71.61%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%	1.57%

NOTES:

GASB Codification, Vol. 2, P50.238 states that the information on this schedule should be determined as of the measurement date. Therefore the amounts reported for FY 2025 are for the measurement date August 31, 2024. The amounts for FY 2024 are for the measurement date August 31, 2023. The amounts for FY 2023 are for the measurement date August 31, 2022, the amounts for FY 2022 are based on the August 31, 2021 measurement date, the amounts for FY 2021 are based on the August 31, 2020 measurement date, the amounts for FY 2020 are based on the August 31, 2019 measurement date, the amounts for FY 2019 are based on August 31, 2018 measurement date and the amounts for FY 2018 are based on the August 31, 2017 measurement date.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

The accompanying notes to required supplementary information are an integral part of this schedule.

<u>FY2020</u> <u>Plan Year 2019</u>	<u>FY2021</u> <u>Plan Year 2020</u>	<u>FY2022</u> <u>Plan Year 2021</u>	<u>FY2023</u> <u>Plan Year 2022</u>	<u>FY2024</u> <u>Plan Year 2023</u>	<u>FY2025</u> <u>Plan Year 2024</u>
0.000142339	0.000126025	0.000118825	0.000121853	0.000118017	0.000118518
\$ 6,731,365	\$ 4,790,789	\$ 4,583,596	\$ 2,917,653	\$ 2,612,702	\$ 3,597,218
<u>8,944,480</u>	<u>6,437,672</u>	<u>6,140,997</u>	<u>3,559,079</u>	<u>3,152,627</u>	<u>4,507,265</u>
<u>\$ 15,675,845</u>	<u>\$ 11,228,461</u>	<u>\$ 10,724,593</u>	<u>\$ 6,476,732</u>	<u>\$ 5,765,329</u>	<u>\$ 8,104,483</u>
\$ 10,261,487	\$ 10,424,731	\$ 10,026,069	\$ 10,582,295	\$ 11,221,211	\$ 11,236,745
65.60%	45.96%	45.72%	27.57%	23.28%	32.01%
2.66%	4.99%	6.18%	11.52%	14.94%	13.70%

PALACIOS INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF THE DISTRICT CONTRIBUTIONS FOR OTHER POST EMPLOYMENT BENEFITS****TEACHER RETIREMENT SYSTEM OF TEXAS***For fiscal year 2025*

	<u>2018</u>	<u>2019</u>
Contractually required contribution	\$ 97,361	\$ 101,022
Contribution in relation to the contractually required contribution	<u>(97,361)</u>	<u>(101,022)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 9,840,134	\$ 10,261,487
Contributions as a percentage of covered payroll	0.99%	0.98%

NOTES:

GASB Codification, Vol. 2, P50.238 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 of the preceding year.

This schedule shows only the years for which this information is available. Additional information will be added until 10 years of data are available and reported.

The accompanying notes to required supplementary information are an integral part of this schedule.

<u>2020</u>	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>2025</u>
\$ 95,836	\$ 82,110	\$ 89,929	\$ 94,354	\$ 92,248	\$ 96,731
<u>(95,836)</u>	<u>(82,110)</u>	<u>(89,929)</u>	<u>(94,354)</u>	<u>(92,248)</u>	<u>(96,731)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 10,424,731	\$ 10,026,069	\$ 10,582,295	\$ 11,221,211	\$ 11,236,745	\$ 11,456,623
0.92%	0.82%	0.85%	0.84%	0.82%	0.84%

NOTE 1: BUDGETARY INFORMATION

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the General Fund, Debt Service Fund, and the National School Breakfast and Lunch Program special revenue fund for the fiscal year beginning September 1. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The District annually adopts legally authorized appropriated budgets for the General Fund, Debt Service Fund, and National School Breakfast and Lunch Program special revenue fund. The General Fund Budget schedule appears in Exhibit G-1 and the other schedules are in Exhibits J-2 and J-3. The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.
4. Budget data is filed with the Texas Education Agency (TEA) as a part of the District's annual fall submission to the TEA Public Education Information Management System.

Once a budget is approved, it can be amended at the function and fund level only by approval of a majority of the members of the Board. The function level is the legal level of budgetary control and the object level is the administrative level of control. Amendments are presented to the Board at its regular meetings. Each amendment crossing the function level must have Board approval. Such amendments made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year-end, as dictated by law. During the year, several amendments were necessary. Such amendments resulted in \$1,442,376 net change in budgeted expenditures, special items, and transfers for the District's General Fund. All budget appropriations lapse at year-end.

NOTE 2: TEACHER RETIREMENT SYSTEM - PENSION PLAN

Changes of benefit terms - The Texas 2023 Legislature passed Senate Bill 10 (SB 10), which provided a stipend payment to certain retirees and variable ad hoc cost-of-living adjustments (COLA) to certain retirees in early fiscal year 2024. Due to its timing, the legislation and payments were not reflected in the August 31, 2023 actuarial valuation. Under the roll forward method, an adjustment was made to reflect the legislation in the rolled forward liabilities for the current measurement year, August 31, 2024. SB 10 and House joint Resolution 2 (HJR 2) of the 88th Regular Legislative Session appropriated payments of \$1,645 billion for one-time stipends and \$3,355 billion for COLAs. This appropriation is treated as a supplemental contribution and included in other additions. Since the Legislature appropriated funds for this one-time stipend and COLA, there was no impact on the Net Pension Liability of TRS.

Changes of assumptions - There were no changes in assumptions.

NOTE 3: TEACHER RETIREMENT SYSTEM - OTHER POST-EMPLOYMENT BENEFIT PLAN

Changes of benefits - There were no changes of benefits.

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

COMBINING STATEMENTS

PALACIOS INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR GOVERNMENTAL FUNDS**

August 31, 2025

	Special Revenue Funds			
	211 ESEA Title I, A Improving Basic Program	224 IDEA Part B Formula	225 IDEA Part B Preschool	240 National Breakfast and Lunch Program
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 628,703
Due from other governments	91,473	53,271	789	113,149
Other receivables	-	-	-	1,386
Inventories	-	-	-	61,966
Prepayments	-	-	-	2,374
Total assets	<u>\$ 91,473</u>	<u>\$ 53,271</u>	<u>\$ 789</u>	<u>\$ 807,578</u>
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Accrued wages payable	26,136	25,933	706	35,686
Due to other funds	62,949	25,144	-	-
Due to other governments	-	-	-	-
Accrued expenditures	2,388	2,194	83	4,167
Unearned revenue	-	-	-	45,000
Total liabilities	<u>91,473</u>	<u>53,271</u>	<u>789</u>	<u>84,853</u>
FUND BALANCES				
Nonspendable				
Inventories	-	-	-	61,966
Prepaid items	-	-	-	2,374
Restricted				
Federal and state grant funds	-	-	-	658,385
Capital acquisitions and contractual obligations	-	-	-	-
Other	-	-	-	-
Committed				
Other	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>722,725</u>
Total liabilities and fund balances	<u>\$ 91,473</u>	<u>\$ 53,271</u>	<u>\$ 789</u>	<u>\$ 807,578</u>

Special Revenue Funds					
255 ESEA Title II, A Training and Recruiting	270 ESEA Title V Part B Rural & Low Income	289 Other Federal Special Revenue Funds	410 State Textbook Fund	426 Other State Special Revenue Funds	428 Other State Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,374
4,670	1,575	7,396	2,059	10,084	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 4,670</u>	<u>\$ 1,575</u>	<u>\$ 7,396</u>	<u>\$ 2,059</u>	<u>\$ 10,084</u>	<u>\$ 22,374</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
4,670	1,575	7,396	2,059	10,084	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>4,670</u>	<u>1,575</u>	<u>7,396</u>	<u>2,059</u>	<u>10,084</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	22,374
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>22,374</u>
<u>\$ 4,670</u>	<u>\$ 1,575</u>	<u>\$ 7,396</u>	<u>\$ 2,059</u>	<u>\$ 10,084</u>	<u>\$ 22,374</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR GOVERNMENTAL FUNDS**

August 31, 2025

	Special Revenue Funds			Total Nonmajor Special Revenue Funds
	429	461	499	
	Other State Special Revenue Funds	Campus Activity Funds	Other Local Special Revenue Funds	
ASSETS				
Cash and cash equivalents	\$ 15,449	\$ 330,117	\$ 6,124	\$ 1,002,767
Due from other governments	36,192	-	-	320,658
Other receivables	-	-	-	1,386
Inventories	-	-	-	61,966
Prepayments	-	-	-	2,374
Total assets	\$ 51,641	\$ 330,117	\$ 6,124	\$ 1,389,151
LIABILITIES				
Accounts payable	\$ 1,509	\$ 5,739	\$ -	\$ 7,248
Accrued wages payable	-	-	-	88,461
Due to other funds	34,683	-	-	148,560
Due to other governments	15,449	29	-	15,478
Accrued expenditures	-	-	-	8,832
Unearned revenue	-	-	-	45,000
Total liabilities	51,641	5,768	-	313,579
FUND BALANCES				
Nonspendable				
Inventories	-	-	-	61,966
Inventories	-	-	-	2,374
Restricted				
Federal and state grant funds	-	-	-	680,759
Capital acquisitions and contractual obligations	-	-	-	-
Other	-	-	6,124	6,124
Committed				
Other	-	324,349	-	324,349
Total fund balances	-	324,349	6,124	1,075,572
Total liabilities and fund balances	\$ 51,641	\$ 330,117	\$ 6,124	\$ 1,389,151

Capital Projects Fund	
690	
Capital Projects	Total Nonmajor Governmental Funds (See C-1)
\$ -	\$ 1,002,767
17,228	337,886
-	1,386
-	61,966
-	2,374
<u>\$ 17,228</u>	<u>\$ 1,406,379</u>
\$ -	\$ 7,248
-	88,461
-	148,560
-	15,478
-	8,832
-	45,000
-	313,579
-	61,966
-	2,374
-	680,759
17,228	17,228
-	6,124
-	324,349
<u>17,228</u>	<u>1,092,800</u>
<u>\$ 17,228</u>	<u>\$ 1,406,379</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS***For the year ended August 31, 2025*

	Special Revenue Funds			
	211 ESEA Title I, A Improving Basic Program	224 IDEA Part B Formula	225 IDEA Part B Preschool	226 IDEA Part B Discretionary
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
State program revenues	-	-	-	-
Federal program revenues	491,715	300,492	6,285	1,628
Total revenues	<u>491,715</u>	<u>300,492</u>	<u>6,285</u>	<u>1,628</u>
EXPENDITURES				
Current				
Instruction	421,870	300,492	6,285	-
Instructional resources and media svcs.	69,845	-	-	-
Curriculum and instructional staff dev.	-	-	-	-
Instructional leadership	-	-	-	-
School leadership	-	-	-	-
Guidance, counseling and evaluation svcs.	-	-	-	-
Health services	-	-	-	-
Student (pupil) transportation	-	-	-	1,628
Food services	-	-	-	-
Extracurricular activities	-	-	-	-
General administration	-	-	-	-
Facilities maintenance and operations	-	-	-	-
Security and monitoring services	-	-	-	-
Data processing services	-	-	-	-
Capital outlay				
Facilities acquisition and construction	-	-	-	-
Total expenditures	<u>491,715</u>	<u>300,492</u>	<u>6,285</u>	<u>1,628</u>
Excess (deficiency) of revenues over expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES)	-	-	-	-
Net change in fund balances	-	-	-	-
Fund balance - beginning	-	-	-	-
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds

240 National Breakfast and Lunch Program	242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA Title II, A Training and Recruiting	263 ESEA Title III, A English Language Acquisition	270 ESEA Title V Part B Rural & Low Income	282 ESSER III ARP Act
\$ 52,440	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8,957	-	-	-	-	-	-
1,080,198	6,990	21,270	79,791	3,946	51,575	96,533
1,141,595	6,990	21,270	79,791	3,946	51,575	96,533
-	-	21,270	79,791	3,946	51,575	60,275
-	-	-	-	-	-	1,533
-	-	-	-	-	-	511
-	-	-	-	-	-	1,533
-	-	-	-	-	-	5,612
-	-	-	-	-	-	3,065
-	-	-	-	-	-	1,022
-	-	-	-	-	-	4,087
1,011,287	6,990	-	-	-	-	511
-	-	-	-	-	-	2,554
-	-	-	-	-	-	3,572
-	-	-	-	-	-	9,192
-	-	-	-	-	-	1,533
-	-	-	-	-	-	1,533
-	-	-	-	-	-	-
1,011,287	6,990	21,270	79,791	3,946	51,575	96,533
130,308	-	-	-	-	-	-
-	-	-	-	-	-	-
130,308	-	-	-	-	-	-
592,417	-	-	-	-	-	-
\$ 722,725	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

PALACIOS INDEPENDENT SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****NONMAJOR GOVERNMENTAL FUNDS***For the year ended August 31, 2025*

	Special Revenue Funds			
	289	385	410	426
	<u>Other Federal Special Revenue Funds</u>	<u>State Supplemental Visually Impaired (SSVI)</u>	<u>State Textbook Fund</u>	<u>Other State Special Revenue Funds</u>
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
State program revenues	-	2,800	45,739	101,978
Federal program revenues	13,641	-	-	-
Total revenues	<u>13,641</u>	<u>2,800</u>	<u>45,739</u>	<u>101,978</u>
EXPENDITURES				
Current				
Instruction	6,245	6,217	58,489	101,978
Instructional resources and media svcs.	-	-	-	-
Curriculum and instructional staff dev.	7,396	-	-	-
Instructional leadership	-	-	-	-
School leadership	-	-	-	-
Guidance, counseling and evaluation svcs.	-	-	-	-
Health services	-	-	-	-
Student (pupil) transportation	-	-	-	-
Food services	-	-	-	-
Extracurricular activities	-	-	-	-
General administration	-	-	-	-
Facilities maintenance and operations	-	-	-	-
Security and monitoring services	-	-	-	-
Data processing services	-	-	-	-
Capital outlay				
Facilities acquisition and construction	-	-	-	-
Total expenditures	<u>13,641</u>	<u>6,217</u>	<u>58,489</u>	<u>101,978</u>
Excess (deficiency) of revenues over expenditures	-	(3,417)	(12,750)	-
OTHER FINANCING SOURCES (USES)	-	-	-	-
Net change in fund balances	-	(3,417)	(12,750)	-
Fund balance - beginning	-	3,417	12,750	-
Fund balance - ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds				
428	429	461	499	
Other State Special Revenue Funds	Other State Special Revenue Funds	Campus Activity Funds	Other Local Special Revenue Funds	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ 292,439	\$ 10,000	\$ 354,879
30,000	267,835	1,294	-	560,581
-	-	-	-	2,154,064
<u>30,000</u>	<u>267,835</u>	<u>293,733</u>	<u>10,000</u>	<u>3,069,524</u>
-	-	-	5,758	1,226,169
-	-	-	-	71,378
12,622	300	-	-	20,829
-	-	-	-	1,533
-	-	-	-	5,612
-	-	-	-	3,065
-	-	-	-	1,022
-	-	-	-	5,715
-	-	-	-	1,018,788
-	-	319,668	-	322,222
-	-	-	-	3,572
-	-	-	-	9,192
-	267,535	-	-	269,068
-	-	-	-	1,533
-	-	-	-	-
<u>12,622</u>	<u>267,835</u>	<u>319,668</u>	<u>5,758</u>	<u>2,959,698</u>
17,378	-	(25,935)	4,242	109,826
-	-	-	-	-
17,378	-	(25,935)	4,242	109,826
4,996	-	350,284	1,882	965,746
<u>\$ 22,374</u>	<u>\$ -</u>	<u>\$ 324,349</u>	<u>\$ 6,124</u>	<u>\$ 1,075,572</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND****NONMAJOR GOVERNMENTAL FUNDS***For the year ended August 31, 2025***EXHIBIT H-2**

(concluded)

	Capital Projects Fund	
	690	Total Nonmajor Governmental Funds (See C-3)
REVENUES		
Local and intermediate sources	\$ 33,316	\$ 388,195
State program revenues	-	560,581
Federal program revenues	17,228	2,171,292
Total revenues	<u>50,544</u>	<u>3,120,068</u>
EXPENDITURES		
Current		
Instruction	-	1,226,169
Instructional resources and media svcs.	-	71,378
Curriculum and instructional staff dev.	-	20,829
Instructional leadership	-	1,533
School leadership	-	5,612
Guidance, counseling and evaluation svcs.	-	3,065
Health services	-	1,022
Student (pupil) transportation	-	5,715
Food services	-	1,018,788
Extracurricular activities	229,260	551,482
General administration	-	3,572
Facilities maintenance and operations	33,805	42,997
Security and monitoring services	-	269,068
Data processing services	-	1,533
Capital outlay		
Facilities acquisition and construction	727,923	727,923
Total expenditures	<u>990,988</u>	<u>3,950,686</u>
Excess (deficiency) of revenues over expenditures	(940,444)	(830,618)
OTHER FINANCING SOURCES (USES)	-	-
Net change in fund balances	(940,444)	(830,618)
Fund balance - beginning	957,672	1,923,418
Fund balance - ending	<u>\$ 17,228</u>	<u>\$ 1,092,800</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT H-6****COMBINING STATEMENT OF NET POSITION****PRIVATE PURPOSE TRUST FUNDS***August 31, 2025*

	810	811		
	High School Scholarships Fund	Trull Scholarship Fund	Palacios ISD Education Foundation	Total Private Purpose Trust Funds (See E-1)
ASSETS				
Current assets				
Cash and cash equivalents	\$ 83,176	\$ 27,351	\$ 9,768	\$ 120,295
Investments	-	-	681,193	681,193
Interest receivable	-	-	6,402	6,402
Prepaid expenses	-	-	15,450	15,450
Noncurrent assets				
Long-term investments	-	-	1,720,903	1,720,903
Total assets	<u>83,176</u>	<u>27,351</u>	<u>2,433,716</u>	<u>2,544,243</u>
LIABILITIES				
Current liabilities				
Accounts payable	-	-	1,799	1,799
Scholarships payable	<u>30,000</u>	<u>19,748</u>	<u>24,500</u>	<u>74,248</u>
Total liabilities	<u>30,000</u>	<u>19,748</u>	<u>26,299</u>	<u>76,047</u>
NET POSITION				
Held in trust for scholarships and benefits	<u>\$ 53,176</u>	<u>\$ 7,603</u>	<u>\$ 2,407,417</u>	<u>\$ 2,468,196</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT H-7****COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION****PRIVATE PURPOSE TRUST FUNDS***For the year ended August 31, 2025*

	810	811		Total Private Purpose Trust Funds (See E-2)
	<u>High School Scholarships Fund</u>	<u>Trull Scholarship Fund</u>	<u>Palacios ISD Education Foundation</u>	
ADDITIONS				
Contributions, gifts and donations	\$ 125,000	\$ 23,513	\$ 61,713	\$ 210,226
Investment income (loss)	<u>1,365</u>	<u>552</u>	<u>148,430</u>	<u>150,347</u>
Total additions	<u>126,365</u>	<u>24,065</u>	<u>210,143</u>	<u>360,573</u>
DEDUCTIONS				
Scholarships and benefits paid	126,400	33,612	71,492	231,504
Other	<u>97</u>	<u>-</u>	<u>107,122</u>	<u>107,219</u>
Total deductions	<u>126,497</u>	<u>33,612</u>	<u>178,614</u>	<u>338,723</u>
Change in net position	(132)	(9,547)	31,529	21,850
Net position - beginning	<u>53,308</u>	<u>17,150</u>	<u>2,375,888</u>	<u>2,446,346</u>
Net position - ending	<u>\$ 53,176</u>	<u>\$ 7,603</u>	<u>\$ 2,407,417</u>	<u>\$ 2,468,196</u>

OTHER SUPPLEMENTARY INFORMATION

PALACIOS INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE***For the year ended August 31, 2025*

<u>Last Ten Years Ended August 31</u>	1	2	3
	<u>Tax Rates</u>		<u>Assessed/Appraised Value for School Tax Purposes</u>
	<u>Maintenance</u>	<u>Debt Service</u>	
2016 and prior years	Various	Various	Various
2017	\$ 1.0400	\$ 0.0950	\$ 1,259,775,595
2018	1.0400	0.0950	1,250,635,283
2019	1.0400	0.0950	1,291,649,173
2020	0.9700	0.1650	1,197,704,232
2021	0.9664	0.1350	1,247,235,882
2022	0.9634	0.2108	1,429,554,420
2023	0.9441	0.3426	1,542,762,882
2024	0.7078	0.2817	1,771,799,477
2025 (School year under audit)	0.6669	0.2817	2,446,971,780
1000 TOTALS			

8000 Total Taxes Refunded Under Section 26.1115 Tax Code

10	20	31	32	40	50	99
Beginning Balance 9/1/24	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 8/31/25	Taxes Refunded Under Section 26.1115c
\$ 43,703	\$ -	\$ 4,644	\$ 371	\$ (262)	\$ 38,426	
14,609	-	1,295	118	(1)	13,195	
22,559	-	1,598	146	(1)	20,814	
24,255	-	1,808	165	-	22,282	
30,838	-	2,668	454	(1,710)	26,006	
44,484	-	5,517	770	(1,661)	36,536	
59,855	-	8,230	1,801	(1,768)	48,056	
133,633	-	25,638	9,300	(875)	97,820	
246,345	-	68,850	27,367	(21,323)	128,805	
-	23,212,219	11,146,796	6,573,370	(55,218)	5,436,835	
<u>\$ 620,281</u>	<u>\$ 23,212,219</u>	<u>\$ 11,267,044</u>	<u>\$ 6,613,862</u>	<u>\$ (82,819)</u>	<u>\$ 5,868,775</u>	
						<u>\$ 58,724</u>

Reconciliation of Ending Balance to Exhibit C-1:

Ending Balance at 8/31/25	\$ 5,868,775
Add: Penalties & Interest Accrued on Receivable Balance	<u>1,350,824</u>
Property Taxes Receivable (Delinquent) per Exhibit C-1	<u>\$ 7,219,599</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - NONMAJOR FUND
CHILD NUTRITION PROGRAM FUND
For the year ended August 31, 2025

EXHIBIT J-2

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 52,000	\$ 52,000	\$ 52,440	\$ 440
5800	State program revenues	6,500	6,500	8,957	2,457
5900	Federal program revenues	1,055,000	1,062,910	1,080,198	17,288
5020	Total revenues	1,113,500	1,121,410	1,141,595	20,185
EXPENDITURES					
	Current				
0035	Food services	1,113,500	1,121,410	1,011,287	110,123
6030	Total expenditures	1,113,500	1,121,410	1,011,287	110,123
1100	Excess (deficiency) of revenues over expenditures	-	-	130,308	130,308
OTHER FINANCING SOURCES (USES)					
		-	-	-	-
1200	Net change in fund balances	-	-	130,308	130,308
0100	Fund balance - beginning	592,417	592,417	592,417	-
3000	Fund balance - ending	\$ 592,417	\$ 592,417	\$ 722,725	\$ 130,308

PALACIOS INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - MAJOR FUND
DEBT SERVICE FUND
For the year ended August 31, 2025

EXHIBIT J-3

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 6,332,718	\$ 6,332,718	\$ 6,700,818	\$ 368,100
5800	State program revenues	-	-	174,458	174,458
5020	Total revenues	<u>6,332,718</u>	<u>6,332,718</u>	<u>6,875,276</u>	<u>542,558</u>
	EXPENDITURES				
	Debt service				
0071	Principal on long-term debt	2,190,000	2,190,000	2,190,000	-
0072	Interest on long-term debt	4,134,475	4,139,964	4,136,032	3,932
0073	Bond issuance cost and fees	<u>8,243</u>	<u>13,278</u>	<u>13,453</u>	<u>(175)</u>
6030	Total expenditures	<u>6,332,718</u>	<u>6,343,242</u>	<u>6,339,485</u>	<u>3,757</u>
1100	Excess (deficiency) of revenues over expenditures	-	(10,524)	535,791	546,315
	OTHER FINANCING SOURCES (USES)				
8949	Payment to escrow agent	-	(1,239,476)	(1,240,489)	(1,013)
1200	Net change in fund balances	-	(1,250,000)	(704,698)	545,302
0100	Fund balance - beginning	<u>715,273</u>	<u>715,273</u>	<u>715,273</u>	-
3000	Fund balance - ending	\$ 715,273	\$ (534,727)	\$ 10,575	\$ 545,302

PALACIOS INDEPENDENT SCHOOL DISTRICT**EXHIBIT J-4****USE OF FUNDS REPORT - SELECT STATE ALLOTMENT PROGRAMS***For the year ended August 31, 2025*

Section A: Compensatory Education Programs

AP1	Did your LEA expend any state compensatory education program state allotment funds during the district's fiscal year?	<u>Yes</u>
AP2	Does the LEA have written policies and procedures for its state compensatory education program?	<u>Yes</u>
AP3	List the total state allotment funds received for state compensatory education programs during the district's fiscal year.	<u>\$ 1,321,149</u>
AP4	List the actual direct program expenditures for state compensatory education programs during the LEA's fiscal year. (PICs 24,26,28,29,30)	<u>\$ 2,828,570</u>

Section B: Bilingual Education Programs

AP5	Did your LEA expend any bilingual education program state allotment funds during the LEA's fiscal year?	<u>Yes</u>
AP6	Does the LEA have written policies and procedures for its bilingual education program?	<u>Yes</u>
AP7	List the total state allotment funds received for bilingual education programs during the LEA's fiscal year.	<u>\$ 136,719</u>
AP8	List the actual direct program expenditures for bilingual education programs during the LEA's fiscal year. (PIC 25)	<u>\$ 101,176</u>

FEDERAL PROGRAMS SECTION



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS***

Board of Trustees
Palacios Independent School District
Palacios, Texas 77465

Members of the Board:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Palacios Independent School District (the "District") as of and for the year ended August 31, 2025, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 4, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

February 4, 2026



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees
Palacios Independent School District
Palacios, Texas 77465

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Palacios Independent School District's (the "District") compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2025. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District 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 opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditor's Responsibility for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. 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, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Board of Trustees
Palacios Independent School District

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

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

February 4, 2026

PALACIOS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended August 31, 2025

Federal Grantor/Pass-Through Grantor/Program Title	Federal Assistance Listing No.	Other Award Number
FEDERAL EXPENDITURES		
U. S. Department of Education		
<i>Passed Through the Texas Education Agency</i>		
Title I Grants to Local Educational Agencies	84.010A	26610101158905
Title I Grants to Local Educational Agencies	84.010A	25610101158905
IDEA, Part B - Formula	84.027A	266610011589056600
IDEA, Part B - Formula	84.027A	256610011589056600
IDEA, Part B - High Cost	84.027A	66002506
IDEA, Part B - Preschool	84.173A	266610011589056610
IDEA, Part B - Preschool	84.173A	256610011589056610
<i>Passed Through the Education Service Center Region 10</i>		
IDEA, Part B - Preschool	84.173A	246610047110001
Total for Special Education Cluster		
<i>Passed Through the Texas Education Agency</i>		
Carl D. Perkins Basic Formula Grant	84.048A	25420006158905
Improving Teacher Quality State Grants	84.367A	25694501158905
English Language Acquisition State Grants	84.365A	25671001158905
Rural Education	84.358B	25696001158905
ESSA Title IV, Part A, Subpart 1	84.424A	25680101158905
LEP Summer School	84.369A	69552402
COVID 19 - ESSER III ARP School Emergency Relief	84.425U	21528001158905
Total U.S. Department of Education		
U. S. Department of Agriculture		
<i>Passed Through the Texas Education Agency</i>		
School Breakfast Program - Cash	10.553	71402401
National School Lunch Program - Cash	10.555	71402401
Total Texas Education Agency		
<i>Passed Through the Texas Department of Agriculture</i>		
Summer Food Service Program for Children	10.559	NT4XL1YGLGC5
National School Lunch Program - Non-Cash	10.555	NT4XL1YGLGC5
Total for Child Nutrition Cluster		
Total Texas Department of Agriculture		
Total U.S. Department of Agriculture		
U. S. Department of Homeland Security		
<i>Passed Through the Texas A&M University System - Texas Division of Emergency Management</i>		
Disaster Grants - Public Assistance	97.036	4798DR-TX
Total U.S. Department of Homeland Security		
TOTAL FEDERAL EXPENDITURES		

See accompanying notes to schedule of expenditures of federal awards.

Expenditures			Passed through to Subrecipients	Name of Cluster (if applicable)	Note
From Pass-Through Awards	From Direct Awards	Total			
\$ 28,524	\$ -	\$ 28,524	\$ -		
463,191	-	463,191	-		
491,715	-	491,715	-		
28,127	-	28,127	-	Special Education Cluster	
272,365	-	272,365	-	Special Education Cluster	
1,628	-	1,628	-	Special Education Cluster	
302,120	-	302,120	-		
789	-	789	-	Special Education Cluster	
5,496	-	5,496	-	Special Education Cluster	
6,285	-	6,285	-		
7,396	-	7,396	-	Special Education Cluster	
315,801	-	315,801	-		
21,270	-	21,270	-		
79,791	-	79,791	-		
3,946	-	3,946	-		
51,575	-	51,575	-		
4,882	-	4,882	-		
1,363	-	1,363	-		
96,533	-	96,533	-		
1,066,876	-	1,066,876	-		
260,625	-	260,625	-	Child Nutrition Cluster	
780,632	-	780,632	-	Child Nutrition Cluster	
1,041,257	-	1,041,257	-		
6,990	-	6,990	-	Child Nutrition Cluster	
38,941	-	38,941	-	Child Nutrition Cluster	4
1,087,188	-	1,087,188	-		
45,931	-	45,931	-		
1,087,188	-	1,087,188	-		
25,822	-	25,822	-		
25,822	-	25,822	-		
\$ 2,179,886	\$ -	\$ 2,179,886	\$ -		

PALACIOS INDEPENDENT SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended August 31, 2025

NOTE 1: BASIS OF ACCOUNTING

The District accounts for all awards under federal programs in the General Fund and certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a 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 position.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable; except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

NOTE 2: PROGRAM COSTS

The accompanying schedule of expenditures of federal awards includes only the federal grant portion of the program costs. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE 3: INDIRECT COST RATE

The District has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4: NONCASH AWARDS

The amount of commodities reported on the schedule is the value of the commodities received by the District during the fiscal year and priced as prescribed by the Department of Agriculture, Food and Nutrition Service.

NOTE 5: RECONCILIATION TO FEDERAL REVENUES REPORTED IN FINANCIAL STATEMENTS

Total expenditures of federal awards - Exhibit K-1	\$	2,179,886
Plus: Other federal revenues		
Erate reimbursement		145,800
SHARS reimbursement		<u>206,848</u>
Total federal program revenues - Exhibit C-3	\$	<u>2,532,534</u>

PALACIOS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended August 31, 2025

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Noncompliance material to financial statements noted?

☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiency(ies) identified that are not considered to be material weakness(es)? ☐ yes ☒ none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?

☐ yes ☒ no

Identification of major programs:

Federal Assistance

<i>Listing No.(s)</i>	<i>Name of Federal Program or Cluster</i>
84.027, 84.173	Special Education Cluster
10.553, 10.555, 10.559	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? ☒ yes ☐ no

Section II - Financial Statement Findings

None noted.

Section III - Federal Award Findings and Questioned Costs

None noted.

PALACIOS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
For the year ended August 31, 2025

None were reported.